# Paper 5- Financial Accounting

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

| | Learning objectives | Verbs used | Definition |
|---|---|---|---|
| LEVEL B | KNOWLEDGE<br><br>What you are expected to know | List | Make a list of |
| | | State | Express, fully or clearly, the details/facts |
| | | Define | Give the exact meaning of |
| | COMPREHENSION<br><br>What you are expected to understand | Describe | Communicate the key features of |
| | | Distinguish | Highlight the differences between |
| | | Explain | Make clear or intelligible/ state the meaning or purpose of |
| | | Identity | Recognize, establish or select after consideration |
| | | Illustrate | Use an example to describe or explain something |
| | APPLICATION<br><br>How you are expected to apply your knowledge | Apply | Put to practical use |
| | | Calculate | Ascertain or reckon mathematically |
| | | Demonstrate | Prove with certainty or exhibit by practical means |
| | | Prepare | Make or get ready for use |
| | | Reconcile | Make or prove consistent/ compatible |
| | | Solve | Find an answer to |
| | | Tabulate | Arrange in a table |
| | ANALYSIS<br><br>How you are expected to analyse the detail of what you have learned | Analyse | Examine in detail the structure of |
| | | Categorise | Place into a defined class or division |
| | | Compare and contrast | Show the similarities and/or differences between |
| | | Construct | Build up or compile |
| | | Prioritise | Place in order of priority or sequence for action |
| | | Produce | Create or bring into existence |

# Paper 5- Financial Accounting

**Full Marks:100** **Time allowed: 3 hours**

**[This paper contains 7 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]**

**1. Answer All questions (give workings)** **[2 ×10=20]**

**(i) The firm of M/s L and B had the following balances in their ledger accounts on April 1, 2014:**

| | ₹ |
|---|---|
| **Cash** | **38,000** |
| **Stock** | **42,000** |
| **Machinery** | **1,19,000** |
| **Debtors** | **49,000** |
| **Creditors** | **30,000** |
| **Capital** | **2,18,000** |

**You are required to pass the opening Journal Entry.**

**Answer:**

**Journal Proper** Dr. Cr.

| Date | Particular | | L. F | Amount ₹ | Amount ₹ |
|---|---|---|---|---|---|
| 01.04.01 | Cash A/c | Dr. | | 38,000 | |
| | Stock A/c | Dr. | | 42,000 | |
| | Machinery A/c | Dr. | | 1,19,000 | |
| | Debtors A/c | Dr. | | 49,000 | |
| | To Creditors A/c | | | | 30,000 |
| | To Capital A/c<br>[Balances of last year brought forward] | | | | 2,18,000 |

**(ii) On 01.01.2012, M/s. Three Star Ltd. purchased machinery for ₹2,00,000. Subsequently, ₹1,00,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, determine the Closing Book Value of the Machine as at 31.12.2014.**

**Answer:**

Closing Book Value of the Machine as at 31.12.2014 ₹ 2,18,700.

| Year | Opening Book Value – ₹ | Rate | Depreciation | Closing Book Value – ₹ |
|---|---|---|---|---|
| 2012 | 3,00,000 | 10% | 30,000 | 2,70,000 |
| 2013 | 2,70,000 | 10% | 27,000 | 2,43,000 |
| 2014 | 2,43,000 | 10% | 24,300 | 2,18,700 |

**(iii) Salary debited to Income and Expenditure Account for the year was ₹96,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year**

**were ₹12,000 and ₹15,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.**

**Answer:**

| | ₹ |
|---|---:|
| Salary debited to Income & Expenditure A/c | 96,000 |
| **Add:** Outstanding Salary at beginning | 12,000 |
| | 1,08,000 |
| **Less:** Outstanding salary at end of the year | 15,000 |
| Amount of salary paid during the year to be shown in Receipts & Payments A/c | 93,000 |

**(iv) Safety Insurance Ltd. received ₹ 1,18,000 as Premium on New Policies and ₹24,000 as Renewal Premium. The Company received ₹18,000 towards Re-insurance Accepted and paid ₹16,000 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?**

**Answer:**

| Particulars | Amount (₹) |
|---|---:|
| Premium on Direct Business (First Year Premium 1,18,000 + Renewal Premium 24,000) | 1,42,000 |
| Add: Premium on Re-Insurance Accepted | 18,000 |
| Less: Premium on Re-Insurance Ceded | (16,000) |
| Amount to be credited to Revenue A/c towards Premium | 1,44,000 |

**(v) Mr. A sent goods at ₹30,000 on sale on approval or return basis**

— If the customer accepts the goods on 15th March,2015 at ₹30,400 i.e. at premium. Give the journal entry.

**Answer:**

**Jounrnal Entries**

| Date | Particulars | | L.F. | Dr. Amount (₹) | Cr. Amount (₹) |
|---|---|---|---|---:|---:|
| 15.03.2015 | **Goods are accepted at a premium** | | | | |
| (i) | Debtors A/c | Dr. | | 400 | |
| | To, Sales A/c (Premium amount) | | | | 400 |

**(vi) If Cost Price = ₹10,000**
**Invoice Price = ₹15,000**
**Selling Price = ₹18,000**
**Ordinary Commission is 10% on Selling Price**
**Special Commission is 25% .**
**Compute the Special Commission.**

**Answer:**

Special Commission is (₹18,000 - ₹15,000) × 25% =₹750.

**(vii)Discuss the treatment of Tread Discount and Quantity Rebates under AS – 9.**

**Answer:**

Trade Discount and Volume Rebates received do not fall within the definition of revenue, since they represent a reduction of cost.

Hence, these discounts and volume rebates given should be deducted to determine revenue.

**(viii) Indian Insurance Co. Ltd. Furnishes you with the following information:**
**During 2013, the following business was conducted:**

**[₹ in crores]**

| Particulars | Marine | Fire | Misc |
|---|---|---|---|
| **Premia Collected From:**<br>**(a) Insureds in respect of policies issued**<br>**(b) Other insurance companies in respect of risks undertaken** | <br>**36.0**<br>**14.0** | <br>**86.0**<br>**10.0** | <br>**24.0**<br>**8.0** |
| **Premia paid/ payable to other insurance companies on business ceded** | **13.4** | **8.6** | **14.0** |

**Calculate the Net premium Income.**

**Answer:**

**Calculation of Net Premium Income** **[₹ in crores]**

| Particulars | Marine | Fire | Misc |
|---|---|---|---|
| Premia collected from Policy holders | 36.00 | 86.00 | 24.00 |
| Premia collected from other insurance companies | 14.00 | 10.00 | 8.00 |
| | 50.00 | 96.00 | 32.00 |
| Less: Premia Paid/ Payable to other Insurance companies | 13.40 | 8.60 | 14.00 |
| | 36.60 | 87.40 | 18.00 |

**(ix) Arpit Ltd. furnished the following particulars:**
**Debtors ledger include ₹48,000 due from Kalpit Ltd. whereas creditors ledger include ₹ 28,800 due to Kalpit Ltd.**

**Journalise the above.**

**Answer:**

**In the books of Arpit Ltd.**
**Journal (without narration)**

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Creditors Ledger Adjustment A/c Dr.<br>To Debtors ledger Adjustment A/c | | 28,800 | <br>28,800 |

**(x) ₹ 2,40,000 is the annual instalment to be paid for three years (given Present Value of an annuity of ₹ 1 p.a. @ 7% interest is ₹ 2.6243). Ascertain the Cash Price in case of Hire-Purchase .**

**Answer:**

| Amount of Instalment | Present Value |
|---|---|
| 1 | 2.6243 |
| ₹60,000 | $\frac{2.6243 \times ₹2,40,000}{1}$ |
| Cash price is | =₹6,29,832 |

**2. (Answer any two)**

**(a) X who was closing his books on 31.03.2014 failed to take the actual stock which he did only on 9th April 2014 when it was ascertained by him to be worth ₹35,000.**
**It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchase day book once the invoices are received.**
**It was found that sales between 31.03.2014 and 09.04.2014 as per the sales book are ₹1,720. Purchases between 31.03.2014 and 09.04.2014 as per Purchase Day book are ₹120, out of these goods amounting to ₹50 were not received until after the stock was taken.**
**Goods invoiced during the month of March, 2014 but goods received only on 4th April, 2014 amounted to ₹100. Rate of Gross Profit is $33\frac{1}{3}\%$ on cost.**
**Ascertain the value of stock as on 31.3.2014. [4]**

**Answer:**

**Mr. X**
**Statement showing Value of Stock on 31.03.2014**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Stock as on 09.04.2014 | | 35,000 |
| **Add:** Cost of Goods Sold between 31.03.2014 and 09.04.2014 [Sales at Selling Price - Gross Profit on Sales or ₹1,720 - 1/4th of 1,720] | | 1,290 |
| | | 36,290 |
| **Less:** | | |
| **(a)**Purchases made and goods actually received between 31.03.2014 and 09.04.2014:<br>Purchase between these dates 120<br>Less: Goods not received till 09.04.2012 50 | 70 | |
| **(b)** Purchase related to March, 2014 but received on 04.04.2014 | 100 | 170 |
| **Stock on 31.03.2014** | | **36,120** |

**(b) On March 31, 2015, Winn Company traded in an old machine having a carrying amount of ₹ 1,68,000, and paid cash difference of ₹ 60,000 for a new machine having a total cash price of ₹ 2,05,000. On March 31, 2015, what amount of loss should Winn Company recognize on this exchange? [4]**

**Answer:**

As per AS-10, When a fixed asset is acquired in exchange or in part exchange for another asset, the cost of the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. The cash price of the new machine represents its fair market value (FMV). The FMV of the old machine can be determined by subtracting the cash portion of the purchase price (₹ 60,000) from the total cost of the new machine. ₹ 2,05,000 - ₹ 60,000 = ₹ 1,45,000. Since the book value of the machine ₹ 1,68,000 exceeds its FMV on the date of the trade in ₹ 1,45,000, the difference of ₹ 23,000 must be recognized as a loss, however, if the FMV of the old machine had exceeded its book value, the gain would not be recognized.

**(c) The following errors were discovered in the books of a trader for the year ended December 31, 2015:**

**(i) The total of the Purchase Day Book had been under cast by ₹200.**

**(ii) The discount column of the debit side of the Cash Book had been posted to the credit of the Discount Received Account ₹40.**

**(iii) ₹ 760 paid for Repairs of Motor Van had been taken to Motor Van Account.**

**(iv) A cheque received from B ₹ 39 had been debited in Cash Book but the double entry had not been completed.**

**Show the Rectification entries considering that the Final Accounts had already been prepared and the net profit arrived at amounted ₹ 24,320 (before corrections). Show the calculation of the net profit for the year. [4]**

**Answer:**

**Books of ….**
**Journal**

| Date | Particulars | L.F. | Dr. Amount (₹) | Cr. Amount (₹) |
|---|---|---|---|---|
| | (i) Profit & Loss Adjustment A/c Dr.<br>To Suspense A/c<br>[Purchase day book under cast, now rectified] | | 200 | 200 |
| | (ii) Profit & Loss Adjustment A/c (Disc. Allowed and Disc. Received) Dr.<br>To Suspense A/c<br>[Discount received credited instead of Disc. Allowed debited, now rectified] | | 80 | 80 |
| | (iii) Profit & Loss Adjustment Dr.<br>To Motor Van A/c<br>[Repairs of Motor Van debited to Motor Van Account, now rectified] | | 760 | 760 |
| | (iv) Suspense A/c Dr.<br>To B A/c<br>[Cash Received from B not credited to his account, now rectified] | | 39 | 39 |

**Profit & Loss Adjustment Account**

**Dr.** **Cr.**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| To Suspense A/c<br>To Suspense A/c<br>To Motor Van A/c<br>To Capital A/c (Adjusted Net Profit) | 200<br>80<br>760<br>23,280 | By Net Profit b/d | 24,320 |
| | 24,320 | | 24,320 |

**3. (Answer any Two)**

**(a) ABC Ltd. has 3 departments, A, B, C. The following information is provided:**

| | A ₹ | B ₹ | C ₹ |
|---|---|---|---|
| **Opening Stock** | **6,000** | **8,000** | **12,000** |
| **Consumption of direct materials** | **16,000** | **24,000** | **-** |
| **Wages** | **10,000** | **20,000** | **-** |
| **Closing Stock** | **8,000** | **28,000** | **16,000** |
| **Sales** | **-** | | **68,000** |

**Stock of each department is valued at cost to the department concerned. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were: Salaries ₹4,000, Printing & Stationery ₹2,000, Rent ₹12,000, Interest paid ₹ 8,000, Depreciation ₹ 6,000, Allocate expenses in the ratio of departmental gross profit. Opening figures of reserves for unrealised profits on departmental stocks were; Department B ₹2,000; Department C ₹ 4,000.**

**Prepare Departmental Trading and Profit & Loss Account for the year ended on March 31, 2015. [12]**

**Answer:**

**Departmental Trading and Profit & Loss Account**
**for the year ended on 31st March, 2015**

**Dr.** **Cr.**

| Particulars | A ₹ | B ₹ | C ₹ | Total ₹ | Particulars | A ₹ | B ₹ | C ₹ | Total ₹ |
|---|---|---|---|---|---|---|---|---|---|
| To Opening Stock | 6,000 | 8,000 | 12,000 | 26,000 | By internal t/f | 36,000 | 66,000 | - | 1,02,000 |
| To Direct — | | | | | By Sales | - | - | 68,000 | 68,000 |
| | | | | | By Closing Stock | 8,000 | 28,000 | 16,000 | 52,000 |
| Material consumed | 16,000 | 24,000 | - | 40,000 | | | | | |
| To Wages | 10,000 | 20,000 | - | 30,000 | | | | | |
| To Internal Transfer | - | 36,000 | 66,000 | 1,02,000 | | | | | |
| To gross Profit c/d | 12,000 | 6,000 | 6,000 | 24,000 | | | | | |
| | 44,000 | 94,000 | 84,000 | 2,22,000 | | 44,000 | 94,000 | 84,000 | 2,22,000 |
| To Salaries | 2,000 | 1,000 | 1,000 | 4,000 | By Gross Profit b/d | 12,000 | 6,000 | 6,000 | 24,000 |
| To Printing & Stationery | 1,000 | 500 | 500 | 2,000 | By Net Loss c/d | 4,000 | 2,000 | 2,000 | 8,000 |
| To Rent | 6,000 | 3,000 | 3,000 | 12,000 | | | | | |
| To Depreciation | 3,000 | 1,500 | 1,500 | 6,000 | | | | | |
| To Interest paid | 4,000 | 2,000 | 2,000 | 8,000 | | | | | |
| | 16,000 | 8,000 | 8,000 | 32,000 | | 16,000 | 8,000 | 8,000 | 32,000 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| To Net Loss b/d | | | | 8,000 | | | | | | |
| To Provision for unrealized profit on Closing Stock | | | | 7,836 | | By Provision for unrealised profit on opening Stock | | | | 6,000 |
| | | | | | | By Balance transferred to Profit & Loss A/c | | | | 9,836 |
| | | | | 15,836 | | | | | | 15,836 |

**Working Notes:**

(i) FIFO method for stock issue has been assumed.

(ii) Calculation of unrealized profit on Closing Stock of Deptt B

| | | ₹ |
|---|---|---|
| (A) | Current cost incurred by Dept. B (₹24,000 + ₹20,000 + ₹36,000) | 80,000 |
| (B) | Profit included in Above (₹36,000 × 50/150) | 12,000 |
| (C) | Profit included in closing Stock of ₹28,000 (₹12,000 × ₹28,000/₹80,000) | 4,200 |

(iii) Calculation of unrealised profit on Closing Stock of Dept C

| | | ₹ |
|---|---|---|
| (A) | Current cost incurred by Dept. C | 66,000 |
| (B) | Profit of Dept. B included in Above (₹66,000 × 10/110) | 6,000 |
| (C) | Cost element of Dept. B included in current cost (₹66,000 – 6,000) | 60,000 |
| (D) | Profit of Dept, A included in above cost (₹12,000 × ₹60,000/ ₹80,000) | 9,000 |
| (E) | Total Profit included in current cost of Dept. C (₹6,000 + ₹9,000) | 15,000 |
| (F) | Unrealised profit included in closing stock of ₹16,000 (₹15,000 × ₹16,000/₹66,000) | 3,636 |

(iv) Total unrealized profit (₹4,200 + ₹3,636) 7,836

**(b) The Income and Expenditure Account of the Enjoy Club for the year 2014 is as follows:**

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| **To Salaries** | **1,20,000** | **By Subscriptions** | **1,70,000** |
| **To Printing & Stationery** | **6,000** | **By Entrance Fee** | **4,000** |
| **To Postage & Telephone** | **2,000** | **By Contribution for Dinner** | **36,000** |
| **To General Expenses** | **12,000** | | |
| **To Interest and Bank Charges** | **5,500** | | |
| **To Audit Fees** | **2,500** | | |
| **To Annual Dinner Expenses** | **25,000** | | |
| **To Depreciation** | **7,000** | | |
| **To Surplus** | **30,000** | | |
| | **2,10,000** | | **2,10,000** |

**The account has been prepared after the following adjustments:**

| | | | |
|---|---|---|---|
| **Subscriptions outstanding on 31.12.2013** | **16,000** | **The club owned a building since 2013** | **1,90,000** |
| **Subscriptions outstanding on** | **18,000** | **The club had sports equipments on** | **52,000** |

| | | | |
|---|---|---|---|
| 31.12.2014 | | 31.12.2013 valued at | |
| Subscriptions received in advance on 31.12.2013 | 13,000 | At the end of the year after depreciation of ₹ 7,000 | |
| Subscriptions received in advance on 31.12.2014 | 8,400 | equipments amounted to | 63,000 |
| | | In 2013, the club had raised a | |
| Salary outstanding on 31.12.2013 | 6,000 | bank loan which is still unpaid | 30,000 |
| Salary outstanding on 31.12.2014 | 8,000 | Cash in hand on 31.12.2014 | 28,500 |
| Audit fees for 2013 paid during 2014 | 2,000 | Audit fees for 2014 not paid | 2,500 |

**Prepare the Receipts and Payments Account of the Club for 2014 and the Balance Sheet as on 31st December, 2014. All workings should form part of your answer. [12]**

**Answer:**

**Enjoy Club**
**Receipts and Payments Account for the year ended 31.12 2014**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d (balancing figure) | 13,600 | By Salaries (WN) | 1,18,000 |
| | | By Printing and Stationery | 6,000 |
| | 1,63,400 | By Postage & Telephone | 2,000 |
| To subscriptions (WN) | 4,000 | By General Expenses | 12,000 |
| To Entrance Fees | 36,000 | By Audit Fees | 2,000 |
| To Contribution for Dinner | | By Annual Dinner Expenses | 25,000 |
| | | BY Interest and Bank Charges | 5,500 |
| | | By Sports Equipment (WN) | 18,000 |
| | | By Balance c/d | 28,500 |
| | 2,17,000 | | 2,17,000 |

**Balance Sheet of Bombay Club as at 31.12 2014**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| **Capital Fund** | | | **Fixed Assets** | | |
| Opening Balance | 2,20,600 | | Building | | 1,90,000 |
| Add: Surplus | 30,000 | 2,50,600 | Sports Equipment | | |
| Bank Loan | | 30,000 | Opening Balance | 52,000 | |
| **Current Liabilities** | | | Addition | 18,000 | |
| Creditors for expenses | | | | 70,000 | |
| Salaries | 8,000 | | Less: Depreciation | 7,000 | 63,000 |
| Audit Fees | 2,500 | 10,500 | **Current Assets** | | |
| Subscription received in advance | | 8,400 | Cash in Hand | | 28,500 |
| | | | Subscriptions Due | | 18,000 |
| | | 2,99,500 | | | 2,99,500 |

**Working Notes:**

**Balance Sheet as at 31.12 2014**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Fund (balancing Figure) | 2,20,600 | Building | 1,90,000 |
| Bank Loan | 30,000 | Sports Equipment | 52,000 |
| Creditors for expenses: | | Cash in Hand | 13,600 |
| Salaries | 6,000 | Subscriptions Due | 16,000 |
| Audit Fees | 2,000 | | |
| Subscription received in advance | 13,000 | | |

| | | | |
|---|---|---|---|
| | 2,71,600 | | 2,71,600 |

**Subscriptions Accounts**

**Dr.** **Cr.**

| **Particulars** | **Amount (₹)** | **Particulars** | **Amount (₹)** |
|---|---|---|---|
| To, Balance b/d(31.12.13)<br>- Opening Outstanding | <br>16,000 | To, Balance b/d (31.12.13)<br>- Opening Received in Advance | 13,000 |
| To, Income and Expenditure | 1,70,000 | To, Receipts and Payments (b.f) | 1,63,400 |
| To, Balance c/d (31.12.14)<br>- Received for 2015 | 8,400 | By , Balance c/d<br>- Closing Outstanding | 18,000 |
| | 1,94,400 | | 1,94,400 |

**Salaries**

| | |
|---|---|
| As per Income and Expenditure A/c | 1,20,000 |
| Add: outstanding of 2013 | 6,000 |
| | 1,26,000 |
| Less: outstanding of 2014 | 8,000 |
| | 1,18,000 |

**Sports Equipment**

| | |
|---|---|
| Closing Balance | 63,000 |
| Add: Depreciation | 7,000 |
| | 70,000 |
| Less: Opening balance | 52,000 |
| Purchases | 18,000 |

**(c) The following information and particulars relate to New Delhi Branch for the year 2013 – 2014:**

| | **Opening** | **Closing** |
|---|---|---|
| **Stock** | **₹50,000** | **₹75,000** |
| **Debtors** | **₹70,000** | **₹95,000** |
| **Petty cash** | **₹250** | **₹120** |

**Goods costing ₹5,50,000 were sold by the Branch @ 25% on cost. Cash sales amounted to ₹1,50,000 and the rest were credit sales. Branch spent ₹ 30,000 for Salaries, ₹12,000 for Rent and ₹ 8,000 for Petty expenses.**

**All expenses were remitted by H.O. Branch receives all goods from H.O. The Branch Manager is entitled to a commission of 5% of the profit of the Branch before charging such commission.**

**Prepare New Delhi Branch Account.** **[12]**

**Answer:**

**New Delhi Branch Account in the Books of H. O.**

**Dr.** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d: | | By Bank (Remittances by Branch) | 6,62,500 |
| Stock | 50,000 | By Balance c/d: | |
| Debtors | 70,000 | Stock | 75,000 |
| Petty Cash | 250 | Debtors | 95,000 |
| To Goods sent to Branch A/c | 5,75,000 | Petty Cash | 120 |
| To Bank (Remittances by H.O.): | | | |
| Salaries | 30,000 | | |
| Rent | 12,000 | | |
| Petty Expenses | 7,870 | | |
| To Branch Manager's Commission [5% of ₹ 87,500] | 4,375 | | |
| To Net Profit t/f to General P& LA/c | 83,125 | | |
| | 8,32,620 | | 8,32,620 |

**Working Notes:**

(a) Total sales = ₹5,50,000 + 25% of ₹5,50,000 = ₹6,87,500,

(ii) Credit Sales = ₹ 6,87,500 - ₹ 1,50,000 = ₹ 5,37,500

(iii)

Dr. **Memorandum Branch Debtors Account** Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 70,000 | By Cash A/c (b.f.) | 5,12,500 |
| To Credit Sales | 5,37,500 | By Balance c/d | 95,000 |
| | 6,07,500 | | 6,07,500 |

(iv)

Dr. **Memorandum Branch Stock Account** Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 50,000 | By Expenses | 5,50,000 |
| To Goods sent to Branch A/c (b.f.) | 5,75,000 | By Balance c/d | 75,000 |
| | 6,25,000 | | 6,25,500 |

(v)

Dr. **Memorandum Branch Petty Cash Account** Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 250 | By Petty Expenses | 8,000 |
| To H. O. (b.f.) | 7,870 | By Balance c/d | 120 |
| | 8,120 | | 8,120 |

(vi) Remittance by Branch = Collection from Debtors + Cash Sales
= ₹5,12,500 + ₹1,50,000 = ₹6,62,500

**4. (Answer any two)**

**(a) The following information is available from the books of the trader for the period 1st Jan. to 31st March 2015:**

**I. Total Sales amounted to ₹76,000 including the sale of old furniture for ₹10,000 (book value is ₹ 12,300). The total cash sales were 80% less than total credit sales.**

**II. Cash collection from Debtors amounted to 60% of the aggregate of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹2,600.**

**III. Cheques received from customer of ₹5,000 were dishonoured; a sum of ₹ 500 is irrecoverable.**

**IV. Bad Debts written-off in the earlier year realized ₹ 2,500.**

**V. Sundry debtors on 1st January stood at ₹ 40,000.**

**You are required to show the Debtors Ledger Adjustment Account in the General Ledger.** **[4]**

**Answer:**

**In the General Ledger**

**Debtors Ledger Adjustment Account**

**Dr.** **Cr.**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---|---|---|---|---|---|
| 2015<br>Jan1<br>March.31 | To Balance b/d<br>" General Ledger Adjustment A/c :<br>- Sales<br><br>Dishonoured<br>- Cheque Dishonoured | <br>40,000<br><br><br>55,000<br><br><br>5,000 | 2015<br>Jan1<br>March.31 | By, General Ledger Adjustment A/c :<br>Cash<br>Discount Allowed<br>Bad Debts<br><br>" Balance c/d | <br><br><br>57,000<br>2,600<br>500<br><br>39,900 |
| | | 1,00,000 | | | 1,00,000 |
| April 1 | To Balance b/d | 39,900 | | | |

**Workings:**

**i.** Computation of Credit Sales

Cash Sales were 80% less than Credit Sales. So, if credit sales are ₹ 100 Cash Sales will be ₹ 20; Total Sales (Cash + Credit) will be ₹120. Total Sales (₹ 76,000 - ₹ 10,000) = ₹ 66,000

Amount of Credit sales will be ₹ $\frac{66{,}000 \times 100}{120}$ = ₹ 55,000.

**ii.** Cash received

Cash received is 60% of opening Debtors plus Credit sales i.e. ₹40,000 + ₹55,000 = ₹95,000

Cash received $95{,}000 \times \frac{60}{100}$ = ₹57,000.

**(b) Discuss the term "Self Balancing System". [4]**

**Answer:**

Self Balancing Ledger System implies a system of ledger keeping which classifies ledgers as per nature of transaction, like, Purchase Ledger, Sales Ledger, General Ledger etc. and also makes them to balance independently.

The objective of this system is to make each of the ledgers self - balancing.

Under Self Balancing Ledger System each ledger is prepared under double entry system and a complete trial balance can also be prepared by taking up the balances of ledger accounts. Within the ledger itself principles of double entry is computed. Under this method three ledger accounts are prepared, viz, General Ledger Adjustment Account which is maintained under Debtors Ledger and Creditors Ledger and Debtors or Sales Ledger Adjustment Account and Creditors or Purchase Ledger Adjustments Accounts which are maintained under General Ledger.

**(c) Discuss the advantages of Self Balancing System. [4]**

**Answer:**

The advantages of Self-Balancing System are:

**(i)** If ledgers are maintained under self-balancing system it becomes very easy to locate errors.

**(ii)** This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the abstruction of individual personal ledger balances.

**(iii)** Various works can be done quickly as this system provides sub-division of work among the different employees.

**(iv)** This system is particularly useful -

- where there are a large number of customers or suppliers and
- where it is desired to prepare periodical accounts.

**(v)** Committing fraud is minimized as different ledgers are prepared by different clerks.

**(vi)** Internal check system can be strengthened as it becomes possible to check the accuracy of each ledger independently.

**5. (Answer any two)**

**(a) Calculate the contract revenue from the following details**

**(₹ In Crores)**

| Particulars | Years I | Years II | Years III |
|---|---|---|---|
| **1. Initial contract revenue** | **4000** | **4000** | **4000** |
| **2. Revenue increase due to escalation in II$^{nd}$ year** | **---** | **800** | **---** |
| **3. Claim** | | | **400** |
| **4. Incentive Payment** | | | **600** |
| **5. Penalties** | | **200** | |

**[4]**

**Answer:**

**Calculation of contract revenue**

| Particulars | I | II | III |
|---|---|---|---|
| Initial contract value | 4000 | 4000 | 4000 |
| Increase in revenue due to escalation | --- | 800 | 800 |
| Claims | --- | --- | 400 |
| Incentive | --- | --- | 600 |
| Penalties | --- | (200) | (200) |
| Contract revenue | 4000 | 4,600 | 5,600 |

**(b) XYZ Ltd. purchased goods on credit from ABC Ltd. for ₹250 Crores for export. The export order was cancelled. XYZ Ltd. decided to sell the same goods in the local market with a price discount. ABC Ltd. was requested to offer a price discount of 15 %. The directors of ABC Ltd. want to adjust the sales figure to the extent of the discount requested by XYZ Ltd. Comment. [4]**

**Answer:**

As per AS 9 trade discounts and volume rebates are not encompassed within the definition of revenue. Trade discounts and volume rebates given should be deducted in determining the revenue.
However, the price discount of 15 % in the instant case, is not the discount given during the ordinary course of the trade. Hence, it cannot be treated in the nature of discount eligible for deduction from sales price, the better alternate is to treat the amount as bad debt, therefore the contentions of directors of XYZ Ltd. are not correct.

**(c) Discuss the Development Stage of an Internally Generated Software. [4]**

**Answer:**

Internally generated software arising at the development stage should be recognized as an asset if, and only if, an enterprise can find out all of the following:

The intention of the enterprise to complete the internally generated software and use it to perform the functions needed.

The intention to complete the internally generated software can be demonstrated if the enterprise commits to the funding of the software project:

(i) The technical feasibility of installing the internally generated software.

(ii) The ability of the enterprise to use the software;

(iii) The probable usefulness of and economic benefits from the software.

(iv)The availability of adequate technical, financial and other resources to complete the development and to use the software; and

(v) The capacity to measure the expenditure attributable to the software during its development.

Examples of development activities in respect of internally generated software include:

Detailed programme design for the software considering product function, feature, and technical requirements to their most detailed, logical form and is ready for coding.

**6. (Answer any two)**

**(a) On 1st June 2013, P and Q entered into a Joint Venture to consign goods to R to be sold on their joint risk. They agreed to share profits and losses in the ratio of 3 : 2.**
**On 15th April 2013, P consigned goods to the value of ₹36,000 and incurred expenses amounting to ₹ 3,000. On 31st July 2013, Q also consigned goods to the value of ₹ 22,000 and incurred expenses amounting to ₹1,800. On 15th Nov. 2013, R sold 80% of the total goods for ₹60,000 and remitted the proceeds to P after deducting 5% commission on sales. On 31st Dec. 2013, on which date accounts were prepared, an interim settlement was effected between P and Q. On 15th August 2014 R sold the remainder of the total goods for ₹ 8,000 and remitted the proceeds to Q, less 5% commission on sales. On 31st Oct. 2014, a final settlement was effected between P and Q.**

**(i)Prepare a Memorandum Joint Venture Account, and**

**(ii) Show the Joint Venture Account with Q in the books of P. [8]**

**Answer:**

**Dr. Memorandum Joint Venture Account Cr.**

| Date | Particulars | | Amount ₹ | Date | Particulars | | Amount ₹ |
|---|---|---|---|---|---|---|---|
| 2013<br>Apr. 15 | To P – Goods Supplied<br>Expenses | | 36,000<br>3,000 | 2013<br>Nov. 15 | By R – Sale Proceeds | | 60,000 |
| July 31 | To Q – Goods Supplied<br>Expenses | | 22,000<br>1,800 | Dec.31 | By Unsold Stock c/d<br>(36,000+ 3,000 +22,000 +1,800) × 20%) | | 12,560 |
| Nov. 15 | To R's Commission | | 3,000 | | | | |
| Dec.31 | To Profit on Venture:<br>P<br>Q | <br>4,056<br>2,704 | <br><br>6,760 | | | | |
| | | | 72,560 | | | | 72,560 |
| 2014<br>Jan. 1 | To Unsold Stock b/d | | 12,560 | 2014<br>Aug.15 | By R – Sale Proceeds | | 8,000 |
| Aug. 15 | To R's Commission | | 400 | Oct.31 | Loss on Venture:<br>Pandey<br>Parker | <br>2,976<br>1,984 | <br><br>4,960 |
| | | | 12,960 | | | | 12,960 |

**In the books of P**
**Joint Venture with Q**

**Dr. Cr.**

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| 2013<br>Apr.15 | To Goods consigned<br>To Bank- Expenses | 36,000<br>3,000 | 2013<br>Nov. 15 | By Bank – Sale Proceeds<br>(60,000 – 3,000 Com.) | 57,000 |
| Dec.31 | To Share of Profit<br>To Bank (Remittance) | 4,056<br>21,480 | | By Unsold Stock c/d<br>$\left(12,560 \times \frac{3}{5}\right)$ | 7,536 |
| | | 64,536 | | | 64,536 |
| 2014<br>Jan. 1 | To Unsold Stock b/d | 7,536 | 2014<br>Oct.31 | By Share of Loss<br>By Bank (bal.fig.) | 2,976<br>4,560 |

| | | | | | |
|---|---|---|---|---|---|
| | | 7,536 | | | 7,536 |

**(b) K of Kolkata sent on 15.01.2015, a consignment of 500 bicycles costing ₹ 100 each. Expenses of ₹ 700 met by the consignor. M of Mumbai spends ₹ 1,500 for clearance and the selling expenses were ₹ 10 per bicycle.**

**M sold, on 5.4.2015, 300 bicycles @ ₹ 160 each and, again, on 20.6.2015, 150 bicycles @ ₹ 172 each.**

**M was entitled to a commission of ₹ 25 per bicycle sold plus one-fourth of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per bicycle sold. M sent the amount due to X on 30.6.2015.**

**You are required to show the Consignment Account and M's Account in the books of K. [8]**

**Answer:**

**Dr. Consignment to Mumbai Account Cr.**

| Date | Particulars | | Amount ₹ | Date | Particulars | | Amount ₹ |
|---|---|---|---|---|---|---|---|
| 2015 Jan.15 | To Goods Sent on Consignment A/c (500 × ₹100) | | 50,000 | 2015 Apr.5 | By M A/c - Sale Proceeds 300 × ₹160 = ₹ | 48,000 | |
| | To Bank A/c – Expenses | | 700 | | 150 × ₹172 = ₹ | 25,800 | 73,800 |
| | To M A/c – Expenses Clearance | 1,500 | | | By Stock on Consignment A/c (50,000 + 700+1,500) × $\frac{50}{500}$ ) | | 5,220 |
| | Selling (450 × ₹10) | 4,500 | 6,000 | | | | |
| June 30 | To Y A/c Ord. Commission | 11,250 | | | | | |
| | Spl. Com | 1,260 | 12,510[A] | | | | |
| | To Profit and Loss A/c - Profit on Consignment Transferred | | 9,810 | | | | |
| | | | 79,020 | | | | 79,020 |

**Dr. M's Account Cr.**

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| 2015 Apr. 5 | To consignment Mumbai A/c - Sale Proceeds | 73,800 | 2015 Jan. 15 | By Consignment Mumbai A/c - Expenses | 6,000 |
| | | | June 30 | By – Commission | 12,510 |
| | | | | By Bank A/c | 55,290 |
| | | 73,800 | | | 73,800 |

**Note:**

**A. Calculation of Commission:** ₹

Ordinary Com. = 450 × ₹25 11,250

Add: special Com. = $\frac{1}{5}$ [(Gross Sale Proceeds – Total Com.) – (450 × 125)]

| | |
|---|---|
| $*\frac{1}{5}$ [₹73,800 – ₹11,250) – (₹56,250)] | |
| $= \frac{1}{5}$ (₹62,500 – ₹56,250) | |
| $= \frac{1}{5} \times$ ₹6,300 | 1,260 |
| | 12,510 |

(* It should be considered after charging as the total Commission is not known).

$$\left\{\text{So,} \frac{\text{Rate}}{\text{Rate}+1} = \frac{\frac{1}{4}}{\frac{1}{4}+1} = \frac{\frac{1}{4}}{\frac{5}{4}} = \frac{1}{4} \times \frac{4}{5} = \frac{1}{5}\right\}$$

**(c) A fire occurred on 1st July 2014 in the premises of A. Ltd. and business was practically disorganised up to 30th November 2014. From the books of account, the following information was extracted:**

| | | ₹ |
|---|---|---|
| **(1)** | **Actual turnover from 1st July 2014 to Nov.2014** | **60,000** |
| **(2)** | **Turnover from 1st July to 30th Nov.2013** | **2,00,000** |
| **(3)** | **Net Profit for the last financial year** | **90,000** |
| **(4)** | **Insured Standing Charges for the last financial year** | **60,000** |
| **(5)** | **Turnover for the last financial** | **5,00,000** |
| **(6)** | **Turnover for the year ending 30th June 2014** | **5,50,000** |
| **(7)** | **Total standing Charges for the year** | **72,000** |

**The company incurred additional expenses amounting to ₹9,000 which reduced the loss in turnover. There was also a sayings during the indemnity period of ₹2,486.**

**The company holds a 'Loss of Profit' policy for ₹1,65,000 having an indemnity period for 6 months. There has been a considerable increase in trade and it has been agreed that an adjustment of 20% be made in respect of upward trend in turnover.**

**Compute claim under 'Loss of Profit Insurance'. [8]**

**Answer:**

| **Particulars** | | ₹ |
|---|---|---|
| Short Sales: | | |
| Standard Turnover (from 01.07.2013 to 30.11.2013) | | 2,00,000 |
| Add: Increase @ 20% | | 40,000 |
| | | 2,40,000 |
| Less: Actual sale during indemnity period (i.e., from 01.07.2014 to 30.11.2014) | | 60,000 |
| | | 1,80,000 |
| ∴ Gross Profit @ 30% on Short Sales | | 54,000 |
| Additional Expenses: | | |
| Least of the following: | | |
| (a) Actual amount | 9,000 | |
| (b) Gross profit on additional sales @ 30% $\left(₹60,000 \times \frac{30}{100}\right)$ | 18,000 | |

| | | |
|---|---|---|
| [$\frac{\text{Gross Profit on Adjusted Annual Turnover}}{\text{Gross Profit on Adjusted Annual Turnover + Uninsured Standing Charges}}$] × Additional Expenses<br>$\frac{₹1,98,000}{₹2,10,000} \times ₹9,000 = 8,486$ | | 8,486 |
| | | 62,486 |
| Less: Saving in Expenses | | 2,486 |
| | | 60,000 |

Net claim = Amount of Claim × $\frac{\text{Amount of Policy}}{\text{G.P. on Annual Adjusted Turnover}}$

= ₹60,000 × $\frac{1,65,000}{₹1,98,000}$ = ₹50,000

**Note:**

**A.** Rate of Gross Profit: $\frac{₹1,50,000}{₹5,00,000} \times 100 = 30\%$

**B.** 30% on ₹6,60,000 (i. e., ₹5,50,000 + 20%).

**7. (Answer any two)**

**(a) Calculate depreciation as per 2009 regulations from the following information of an Electricity generation project**

**A. Date of commercial operation i.e. 01.09.2010.**

**B. The details of actual expenditure incurred up to the date of commercial operation i.e. 01.09.2010 and projected expenditure to be incurred from the date of commercial operation to 31.03.2014 for the assets under Transmission system. The details of apportioned approved cost as on the date of commercial operation and projected expenditure to be incurred for the above mentioned assets Is summarized below:**

**(₹ in lakhs)**

| Apportioned Approved cost | Actual Cost Incurred as on the date of commercial operation | Proposed Expenditure from the date of commercial operation to 31.3.2011 | Proposed Expenditure for 2011-12 | Total Expenditure competition cost |
|---|---|---|---|---|
| **4,20,000** | **4,00,000** | **1,00,000** | **20,000** | **5,20,000** |

**C.**

| | | | | |
|---|---|---|---|---|
| **Ave. Rate of Depreciation Calculated as per rates Specified in Appendix-III** | **5.3** | **5.2** | **5.2** | **5.2** |

**Additional capital expenditure of 20,000 lakh has been considered out of 1,00,000 lakh for the year 2010-11 and no further additional capital expenditure has been considered as capital cost has been restricted to apportioned approved cost in the absence of revised capital expenditure. [8]**

**Answer:**

**Computation of Depreciation** **(₹ in lakhs)**

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|
| A. Opening Gross Block | 4,00,000 | 4,20,000 | 4,20,000 | 4,20,000 |
| B. Additional Capital exp. | 20,000 | 0.00 | 0.00 | 0.00 |
| C. Closing Gross Block [A+B] | 4,20,000 | 4,20,000 | 4,20,000 | 4,20,000 |
| D. Average Gross Block [(A+C)/2] | 4,10,000 | 4,20,000 | 4,20,000 | 4,20,000 |
| E. Weighted Average Rate of Depreciation | 5.3 | 5.2 | 5.2 | 5.2 |
| F. Period | 7 months | 12 months | 12 months | 12 months |
| G. Depreciation (D × E × F/12) | 12,676 | 21,840 | 21,840 | 21,840 |

**(b) Khush Raho Life Insurance Co. Ltd. provides you the following information:**

| Particulars | Direct Business ₹ | Re-Insurance ₹ |
|---|---|---|
| **Commission Paid** | **1,11,000** | **10,000** |
| **Commission Payable on 1.4.2014** | **2,000** | **1,000** |
| **Commission Payable on 31.3.2015** | **1,000** | **3,000** |
| **Commission Received** | | **14,000** |
| **Commission Receivable on 1.4.2014** | | **2,000** |
| **Commission Receivable on 31.03.2014** | | **3,000** |

**How will you show the various figures in respect of Commission on Re-Insurance ceded in the Revenue Account for the year ended 31st March, 2015.**

**[8]**

**Answer:**

**Revenue Account for the year ended 31st March, 2015**

| Particulars | Schedule | Current Year (₹ '000) | Previous Year (₹ '000) |
|---|---|---|---|
| Commission | 2 | 107 | |

**Schedule-2 Commission Expenses**

| Particulars | Current Year (₹ 000) | Previous Year (₹ 000) |
|---|---|---|
| **Commission paid** | | |
| Direct | 110 | |
| Add: Commission on Re-insurance accepted | 12 | |
| Less: Commission on Re-insurance Ceded | (15) | |
| Net Commission | 107 | |

**Notes:** (i) Commission incurred on Insurance Accepted**.**

| Particulars | Direct Business ₹ | Re-Insurance ₹ |
|---|---|---|

| | | |
|---|---|---|
| A. Paid | 111 | 10 |
| B. Add: Payable at the end | 1 | 3 |
| C. Less: Payable in the beginning | (2) | (1) |
| | 110 | 12 |

(ii) Commission earned on Insurance Ceded

| Particulars | ₹ |
|---|---|
| A. Received during the year | 14 |
| B. Add: Receivable at the end | 3 |
| C. Less: Receivable in the beginning | (2) |
| D. Total (A + B - C) | 15 |

**(c) From the following ledger balance, Compute the amount of Interest Earned, Interest Expended and Operating Expenses of My Money Bank Ltd. As on 31st March, 2015:**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| **Interest and discount** | **3,045** | **Printing and stationery** | **180** |
| **Income from investments** | **115** | **Advertisement and publicity** | **95** |
| **Interest on balances with RBI** | **180** | **Depreciation** | **92** |
| **Commission, exchange and brokerage** | **820** | **Director's fees** | **220** |
| | | **Auditor's fees** | **120** |
| **Profit on sale of investments** | **110** | **Law charges** | **230** |
| **Interest on deposits** | **1,225** | **Postage, telegrams and telephone** | **70** |
| **Interest to RBI** | **160** | | |
| **Payment to and provision for employees** | **1,044** | **Insurance** | **50** |
| | | **Repairs and maintenance** | **48** |
| **Rent, taxes and lighting** | **210** | **Bad Debts** | **6** |

**Other Information:**

**(i) Interest and discount mentioned above is after adjustment for the following:**

| | **(₹ '000)** |
|---|---|
| **Tax provision for the year** | **220** |
| **Provision during the year for doubtful debts** | **102** |
| **Loss on sale of investments** | **12** |
| **Rebate on bills discounted** | **58** |

**(ii) 25% of profit is transferred to Statutory reserves**

**5% of profit is transferred to revenue reserve.**

**Profit brought forward from last year** **16**

**[8]**

**Answer:**

**SCHEDULE 13 — INTEREST EARNED**

| Particulars | ('000 ₹) |
|---|---|
| 1. Interest/Discount [3,045 + 220 +102 + 12 + 58] | 3,437 |
| 2. Income on Investment | 115 |
| 3. Interest on Balance with RBI and other inter-bank fund | 180 |
| 4. Others | - |
| | 3,732 |

**SCHEDULE 15 — INTEREST EXPENDED**

| Particulars | ('000 ₹) |
|---|---|

| | |
|---|---|
| 1. Interest on Deposits | 1,225 |
| 2. Interest on RBI/Inter bank borrowings | 160 |
| | 1,385 |

**SCHEDULE 16 — OPERATING EXPENSES**

| Particulars | ('000 ₹) |
|---|---|
| 1. Payments to and provision for employees | 1,044 |
| 2. Rent, taxes and lighting | 210 |
| 3. Printing and stationery | 180 |
| 4. Advertisement and publicity | 95 |
| 5. Depreciation on bank's property | 92 |
| 6. Director's fees, allowances and expenses | 220 |
| 7. Auditor's fee and expenses (including branch auditors) | 120 |
| 8. Law charges | 230 |
| 9. Postage, telegram, telephones, etc. | 70 |
| 10. Repairs and maintenance | 48 |
| 11. Insurance | 50 |
| 12. Other expenditure | 6 |
| | 2,365 |