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 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 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 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 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 x 10=20]

(i) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2014. Interest on loan is 6% per annum. The machinery was put to use from 01.01.2015. What is the amount to be charged as borrowing cost for the year ended 31.3.2015 as per AS 16.

Answer:

Particulars	₹
(a) Interest upto 31.3.2014 (40,00,000 x 6% x 10/12 months)	2,00,000
(b) Less: interest relating to pre-operative period to be capitalized [2,00,000 x 7/10]	1,40,000
Amount to be charged to P & L A/c [2,00,000 x 3/10]	60,000

(ii) During a year, Subscription received was ₹ 42,000. It includes ₹ 1,600 for last year and ₹ 600 for next year. Also ₹5,000 is still to be received for current year. Calculate the amount of Subscription to be credited to Income and Expenditure Account.

Answer:

Subscription Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (Opg Bal of Subs. Rec'ble)	1,600	By Balance b/d (Opg Bal of Subs. Recd in Adv.)	Nil
To Income and Expenditure A/c – Subs. Income recognized during the year (balancing figure)	44,800	By Cash / Bank – Subs. Received during the year	42,000
To Balance c/d (Clg Bal of Subs. Recd in Adv.)	600	By Balance c/d (Clg Bal of Subs. Rec'ble)	5,000
Total	47,000	Total	47,000

(iii) On 1st April, 'X' purchased 12% debentures in 'M' Ltd for ₹6,50,000. The face value of these debentures were ₹6,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of Debentures at the time of acquisition.

Answer:

Cum Interest purchase price of debentures	₹ 6,50,000
Less: Interest from the last date of payment of interest to the date of purchase = [₹6,00,000 x 3/12 x 12%]	₹ 18,000
Cost of Debentures at the time of acquisition	₹ 6,32,000

(iv) A, B and C are Partners sharing Profits and Losses in the ratio 5:3:2. B retired from the Firm. Partners A and C decided to take his share in 3:2 ratio. Calculate the gaining Ratio?

Answer:

Computation of Gaining Ratio of partners A and C

Particulars	A	B	C	Ratio
1. Old Ratio	$\frac{5}{10}$	$\frac{3}{10}$	$\frac{2}{10}$	5:3:2
2. Share of B apportioned between A and C in 3:2 ratio	$\frac{3}{10} \times \frac{3}{5} = \frac{3}{50}$	$-\frac{3}{10}$	$\frac{3}{10} \times \frac{2}{5} = \frac{6}{50}$	3:6 Or,1:2

So, the gaining ratio of A and C is 1:2.

(v) How would you rectify the following errors made during the year ending 31st March of K.K. company, who keeps their sales ledger on the Self Balancing system–
- **The Sales Book of previous month, i.e., February, was overcast by ₹ 2,000.**
- **Goods returned ₹1,000 by Megha Ltd. Were not entered in the books.**

Pass necessary Journal Entries.

Answer:

Journal Entries

Particulars	Dr. (₹)	Cr.(₹)
1.(a) Sales Account in General Ledger will have to be debited by ₹ 2,000		
(b) General Ledger Adjustment A/c Dr. To Salesl Ledger Adjustment A/c	2,000	 2,000
2.(a) Return Inward A/c Dr. To, Megha Ltd.	1,000	 1,000
(b) General Ledger Adjustment A/c Dr. To, Sales Ledger Adjustment A/c	1,000	 1,000

(vi) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 25% percent on cost price. Consignee sold 2/3rd goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized. Compute the total commission.

Answer:

Calculation of Commission

Ordinary Commission: (₹6,00,000 x 3%) = ₹ 18,000

Particulars	Amount (₹)	Amount (₹)
Total Credit Side:		
Sales Amount	6,00,000	
Closing Stock	2,10,000	
Goods sent on consignment (Load) (6,30,000 x 25%]	1,57,500	9,67,500
Total Debit side:		
Goods sent on consignment (6,30,000 x125/100)	7,87,500	
Ordinary commission	18,000	
Stock Reserve (2,10,000 x 25/125)	42,000	8,47,500
Profit before overriding commission		1,20,000

Over-ridding Commission: 1,20,000 x 20% = ₹24,000

So, the commission is [18,000 + 24,000] =₹ 42,000

(vii) Goods are transferred from Department P to Department Q at a price so as to include a profit of 25% on transfer price. If the value of closing stock of Department Q is ₹ 20,000, then determine the amount of stock reserve on closing stock.

Answer:

Stock Reserve on Closing Stock = $₹20{,}000 \times \frac{25}{100} = ₹4{,}000.$

(viii) Amrit Ltd. has signed at 31st Dec, the Balance Sheet date, a contract where the Total revenue is estimated at ₹30 Crores and Total Cost is estimated at ₹40 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31st December?

Answer:

There is an Expected Loss of ₹10 Crores i.e. ₹(40-30). Such loss should be recognised in the Profit and Loss Statement as per AS-7, even though work has not commenced.

(ix) Accurate Insurance Company Ltd. received ₹ 15,45,800 as Premium on New Policies and ₹3,14,400 as Renewal Premium. The Company received ₹2,35,800 towards Re-insurance Accepted and paid ₹1,83,400 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?

Answer:

Particulars	Amount (₹)
Premium on Direct Business (First Year Premium 15,45,800 + Renewal Premium 3,14,400)	18,60,200
Add: Premium on Re-Insurance Accepted	2,35,800
Less: Premium on Re-Insurance Ceded	(1,83,400)
Amount to be credited to Revenue A/c towards Premium	19,12,600

(x) Calculate the interest income to be recognised for X Bank Ltd. for the year ended 31.03.2014 from the following information: **(₹ in Crores)**

Interest	**Total Interest collected**	**Earned but not collected**		**Expected Recovery on NPA**
		On PA	**On NPA**	
Interest on Cash Credit	**2,000**	**800**	**840**	**20**
Interest on Overdraft	**600**	**200**	**700**	**Nil**
Interest on Term Loan	**2,000**	**80**	**1,000**	**40**

Answer:

(₹ in Crores)

Interest on Cash Credit	(2,000 + 800)	= 2,800
Interest on Overdraft	(600 + 200)	= 800
Interest on Term Loan	(2,000 + 80)	= 2,080
Interest income to be recognised		5,680

2. (Answer any two)

(a) There was a difference in Trial Balance of Shri Viman Sen, a trader, on 31st December, 2014 and the difference in books was carried to a Suspense Account

and the books were closed. Subsequently on going through the books, the following errors were located:

(i) ₹ 2,296 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 696.
(ii) ₹ 400 being Purchase Returns posted to the debit of Purchases Account.
(iii) While carrying forward total of one page in Sumit Basu's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.
(iv) A cheque of ₹ 6,100 received from Sankari Das (after allowing her a discount of ₹ 92) was endorsed to Pranab Garg in full settlement of ₹ 7,000. The cheque was finally dishonoured but no entries were passed in the books.
Give the Journal entries to rectify the above transactions [4]

Answer :

Books of Viman Sen
Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(i) Profit & Loss Adjustment A/c (Repairs) Dr. To Motor Car A/c To Suspense A/c [Repairs to Motor Car ₹ 2,296 wrongly debited to Motor Car A/c as ₹696, now rectified]		2,296	 696 1,600
	(ii) Suspense A/c Dr. To P&L A/c Adjustment A/c (Purchase ₹ 400 and Purchase Returns ₹ 400) [Purchase Returns posted to the debit of Purchase A/c, now rectified]		800	 800
	(iii) Sundry Debtors A/c Dr. To Suspense A/c [Page total of one Debtor A/c written on the side instead of in the debit side, now rectified]		2,000	 2,000
	(iv) Sankari Das A/c Dr. *P/L Adjustment A/c (Disc. Recd. A/c Dr. To Pranab Garg A/c To P/L Adjustment A/c (Disc. Allowed) [Endorsed cheque dishonoured, now recorded]		6,192 900	 7,000 92

Notes:

* It is assumed that discount allowed and received at the time of endorsements are being disallowed/ cancelled.

** The entries have been made assuming that the Final Accounts have already been prepared.

(b) Mr. Banerjee request you to Amended Cash Book for January 2014, as his cash clerk reported a figure of ₹23,030 (credit) as on 31.1.2014. Scrutiny revealed the following discrepancies:

- **Cheques issued and deposited by the cash clerk in January 2013, were ₹30,000 and ₹14,000 respectively. However, against the above, the Bank had paid out and debited cheques worth ₹18,000 only and cleared and credited cheques worth ₹8,000 only, by 31.1.2013.**
- **A customer had paid in ₹12,800 directly into Mr. Banerjee's Bank account, the effect which was not recorded in the Cash Book.**

- **Bank charges of ₹90 charged was debited twice in the Cash Book.**
- **Total cash withdrawals of ₹6,000 by self and bearer cheques for office use, were recorded erroneously as ₹10,000 in the Cash Book. [4]**

Answer:

Cash Book (Bank Column only)

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
	To, Cheque Received	12,800		By, Balance b/d	23,030
	To, Error [Withdrawal shown excess for ₹4,000 I.e. (₹10,000-₹6,000)]	4,000	?	By, Bank Charges (90 x3)	270
	To, Balance c/d	6,500			
		23,300			23,300

(c) List the items that are not considered to be inventory as per AS 2 though appears to be inventory in common parlance. [4]

Answer:

AS-2 excludes the following though appears to be inventory in common parlance:

(a) Work-in-progress in construction contract and directly related service contract (ref: AS-7), inventories not forming part of construction work-in-progress will attract AS-2;

(b) Work-in-progress arising in the ordinary course of business of service providers;

(c) Shares, debentures and other financial instruments held as stock-in-trade (ref: AS-13 as Current Investments);

(d) Producer's inventories like livestock, agricultural and forest product, mineral oil/gasses as measured at net realizable value as per trade practices at certain stage of production.

3. (Answer any two)

(a) (i) Mr. P , purchased a machinery on hire purchase basis from Mr. Q on the following terms:

- **Cash down payment - 33⅓%;**
- **Three half-yearly instalments of ₹8,200,₹7,440 and ₹6,300, the first to commence at the end of 6 months from the date of cash down payment;**
- **Interest to be charged by the vendor 10% p.a. calculated on half yearly rates.**

Compute the Cash Price of the Machinery. [4]

Answer:

Computation of Cash Price and Periodic Interest:

A Instalment Number	B Closing Balance after the Payment of Instalment	C Instalment Amount	D=B+C Closing Balance before the payment of Instalment	E = D×R/(100+R) Interest D×5/105	F=D-E Opening Balance
3rd	Nil	6,300	6,300	300	6,000
2nd	6,000	7,440	13,440	640	12,800
1st	12,800	8,200	21,000	1,000	20,000

Let the **Cash Price** **= x**

X =₹20,000 + 33⅓% of X

$66\,^{2}/_{3}\%$ of X =₹20,000

X =₹30,000.

(ii) Calculate the invoice price of the Goods sent to branch and the profit included therein in each of the following alternative cases:
Case – 1: Goods sent to Branch (at cost) ₹ 1,20,000. Goods are invoiced to the branch to give a gross margin of 20% on cost price.

Case – 2: Goods sent to branch (at cost) ₹ 1,20,000. Goods are invoiced to the Branch at 20% on Invoice price.

[2+2=4]

Answer:

Case	Invoice Price = Cost + Profit	Profit (loading) = Total Invoice Price × $\frac{\text{Profit}}{\text{Invoice Price}}$
1	Let cost price = 100 , Profit = 20 then Invoice price = 120. Invoice price = 1,20,000 x 120/100 = ₹1,44,000	1,44,000 x 20/120 = ₹24,000
2	Let, Invoice price = 100, So, cost price = 80. Therefore, Invoice price = 1,20,000 x100/80 = ₹1,50,000	1,50,000 x 20/100 = ₹30,000

(iii) The following data has been abstracted from the annual accounts a Company-

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Share Capital: 40,000 Equity Shares of ₹10 each	**400**	**Profit before Tax**	**280**
General Reserve	**300**	**Provision for Tax**	**168**
Investment Allowance Reserve	**100**	**Proposed Dividend**	**20**
15% Long term loan.	**600**		

Calculate the following ratios – Return on Capital Employed (ROCE). **[1+1+1+1=4]**

Answer:

Computation of ROCE

Particulars	**₹ in lakhs**
Profit Before Tax	280
Add : Interest on Long Term Loan at 15%	90
Profit Before Tax and Interest (PBIT)	370

Computation of Net Worth on Net Worth and Capital Employed **(Amount in ₹ lakhs)**

a. Net Worth = Share Cap. + Gen. Reserve +Invt. Allowance Reserve = 400+300+100	800
b. Capital Employed = Net Worth + Long term Borrowings = 800 + 600	1,400

Computation of Ratios

	Particulars		**%**
Return on Capital Employed	= (PBIT ÷ Capital Employed.)	= (370÷ 1,400) ÷ 100	26.43%

(b) The following are the items of receipts and payments Account of India Sports Club:

Receipts	**₹**	**Payments**	**₹**
Opening balance (01.01.14)	**4,200**	**Manager's salary**	**1,000**
Entrance Fees (2013)	**1,000**	**Printing & Stationery**	**2,600**
Entrance Fees (2014)	**10,000**	**Advertising**	**1,800**
Subscriptions (2013)	**600**	**Fire Insurance**	**1,200**
Subscriptions (2014)	**15,000**	**Investments Purchased**	**20,000**
Interest Received on Investments	**3,000**	**Closing balance on 31.12.14**	**7,600**
Subscriptions (2015)	**400**		
	34,200		**34,200**

It was ascertained from enquiry that the following represented a fair picture of the Income & Expenditure of the club for the year 2014 for audit purposes:

Expenditure		**₹**	**Income**	**₹**
Manager's salary		**1,500**	**Entrance Fees**	**10,500**
Printing & stationery	**2,000**		**Subscriptions**	**15,600**
Add: Accrued	**400**	**2,400**	**Interest on Investments**	**4,000**
Advertising (accrued nil)		**1,600**		
Audit fees		**500**		
Fire Insurance		**1,000**		
Depreciation		**4,940**		
Excess of Income over Expenditure		**18,160**		
		30,100		**30,100**

You are required to show the Balance Sheets of the Club as on 31.12.2013 and 31.12.2014, it being given that the values of the fixed assets as on 31.12.13 were: Building ₹44,000, sports Equipment ₹25,000 and Furniture ₹4,000. The rates of depreciations were: Building 5%, sports Equipments 10% and Furniture 6%. **[12]**

Answer:

India Sports Club
Balance Sheet
as on 31.12.2013.

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹
Outstanding Liabilities:			Building	44,000
Advertisement [Note 1]	200		Furniture	4,000
Printing & stationery [Note 2]	600		Sports Equipment	25,000
Capital Fund (Excess of		800	Entrance fees Outstanding	1,000
Assets over Liabilities)		78,000	Subscriptions Outstanding	600
			Cash	4,200
		78,800		78,800

Balance Sheet
as on 31.12.2014

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund:			Building	44,000	
Opening balance	78,000		Less: depreciation @ 5%	2,200	41,800
Add: Surplus	18,160	96,160	Furniture	4,000	
Outstanding Liabilities:			Less: Depreciation @ 6%	240	3,760
Printing & stationery	400		Sports Equipments	25,000	
Manager's salary [Note 5]	500		Less: Depreciation @ 10%	2,500	22,500
Audit Fees [Note 5]	500	1,400	Investments		20,000
Subscription received in Advance (2015)		400	Outstanding Interest on Investment [Note 3]		1,000
			Outstanding Subscription [Note 3]		600
			Outstanding Entrance Fees [Note 3]		500
			Fire Insurance paid in Advan. [Note4]		200
			Cash		7,600
		97,960			**97,960**

Workings:

1. Advertisement payable for 2014 as per I & E A/c ₹1,600. It does not include any accrued amount for 2014. But from R & P A/c advertisement paid is ₹1,800.
   ∴ The excess paid ₹200 must be outstanding amount of 2013.

2. Similarly Printing & Stationery paid ₹2,600 – ₹2,000 = ₹600 should be outstanding amount of 2013.
3. Incomes outstanding for 2014:
   (a) Interest of Investment = ₹4,000 – ₹3,000 = ₹1000.
   (b) Subscriptions = ₹15,600 – ₹15,000 = ₹600
   (c) Entrance Fees = ₹10,550 – ₹10,000 = ₹550
4. Fire Insurance Paid in Advance = ₹1,200 – ₹1,000 = ₹200
5. Manager's salary outstanding for 2014 = ₹1,500 – ₹1,000 = ₹500; Audit Fees ₹500

(c) (i) A and B were carrying on the business as equal partners. It was agreed that A should retire from the firm on 31st March, 2014 and that his son H should join B from 1st April 2014 and should be entitled to one-third of the profits of the partnership.

The balances in the firm's books on 31st March, 2014 were as follows:

Liabilities	₹	Assets	₹
A's Capital Account	34,000	Cash at Bank	11,000
B's Capital Account	28,200	Sundry Debtors	14,100
Sundry Liabilities	7,800	Furniture	14,200
		Building	20,700
		Goodwill	10,000
	70,000		70,000

On 31st March, 2014, Goodwill was valued at ₹ 22,000 and Building at ₹ 24,000. It was also agreed that enough money should be introduced to enable A to be paid out and leave ₹10,000 cash by way of working capital. B and H were to provide such sum as would make their capitals proportion to their shares of profits. A agreed to make a friendly personal loan to H by transfer from his Capital Account of half the amount which H had to provide.
B and H paid in the cash due from them on 7.4.2014 and the amount due to A was paid out on the same day.
Set out Journal Entries with full narration to record the above transactions in the books of the partnership. [2+2+3=7]

Answer:

Books of firm
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.14	Goodwill A/c Dr.		12,000	
	Building A/c Dr.		3,300	
	To A's Capital A/c			7,650
	To B's Capital A/c			7,650
	[Being profit on revaluation distributed between existing partners as 1 : 1]			
	A's Capital A/c Dr.		12,750	
	To H's Capital A/c			12,750
	[Being transfer of half of H's Capital Contribution from A's Capital]			
7.4.14	Bank A/c Dr.		27,900	
	To B's Capital A/c			15,150
	To H's Capital A/c			12,750
	[Being, Sufficient Cash introduced as Capitals]			
	A's Capital A/c Dr.		28,900	
	To Bank A/c			28,900
	[Being, the dues to the retiring partner paid off]			

Working Notes:

A. Estimated financial position on 7.4.2014 (after the transactions are over)

	₹	₹
Total Assets:		
Cash at Bank	10,000	
Sundry Debtors	14,100	
Furniture	14,200	

Buildings	24,000	
Goodwill	22,000	84,300
Less: External Liabilities : Sundry Creditors		7,800
Capitals of B & H		76,500

∴ B's Capital would be $\frac{2}{3}$ of 76,500 = ₹ 51,000 and H's Capital would be $\frac{1}{3}$ of ₹ 76,500 = ₹ 25,500

B. Adjustment related to Capital Accounts

	A ₹	B ₹	H ₹
(a) Existing Capitals Balances as per last Balance Sheet Profit on revaluation [24,000 – 20,700]+[22,000 – 10,000] as 1 : 1 Transfer between A and H [$\frac{1}{2}$ of 25,500]	 34,000 7,650 -12750	 28,200 7,650	 --- +12,750
(b) Maintainable Capital	28,900 Nil	35,850 51,000	12,750 25,500
Amount Paid off or brought in	28,900 (paid)	15,150 (brought in)	12,750 (brought in)

(ii) Book value of old assets exchanged ₹16,000
Additional cash given for exchange of asset ₹10,000
Determine the cost of new asset acquired and show the accounting treatment in this regard in the following cases:

- **If no other information is given**
- **Fair market value of old asset exchanged is ₹36,000**
- **Fair market value of new asset acquired in exchange of old asset is ₹50,000.**

[1+2+2=5]

Answer:
When the market value of asset given up/ acquired is not clearly evident:

Journal

Particulars		Dr. (₹)	Cr.(₹)
New Asset A/c	Dr.	26,000	
To, Bank A/c			10,000
To, Old Asset A/c			16,000
(Being the cost of asset acquired is recorded at the book value of asset given up and adjusted for payment.)			

When the market value of the asset given up is more clearly evident:

Journal

Particulars		Dr. (₹)	Cr.(₹)
New Asset A/c	Dr.	46,000	
To, Bank A/c			10,000
To, Old Asset A/c			36,000
(Being the cost of asset acquired is recorded at the fair			

market value of the asset given up and adjusted for payment.)		
Old Asset A/c Dr. To, Profit and Loss A/c (Being the excess of fair market value over book value is transferred to P&L A/c.)	20,000	 20,000

When the market value of the asset acquired is more clearly evident:

Journal

Particulars	Dr. (₹)	Cr.(₹)
New Asset A/c Dr. To, Bank A/c To, Old Asset A/c (Being the cost of asset acquired is recorded at the fair market value)	50,000	 10,000 40,000
Old Asset A/c Dr. To, Profit & Loss A/c (Being credit balance in Old Asset A/c transferred to P&L A/c)	24,000	 24,000

4. (Answer any two)

(a) The net total balances extracted from purchases ledger of Mr. M on March, 2013 amounted to ₹ 12,560 which did not agree with balance on the Purchase Ledger Control Account.

The audit revealed the following errors which were appropriately adjusted to make the books balances:

- **A debit balance of ₹220 in the Purchase Ledger and been recorded as a credit balance.**
- **Mr. N had been debited for goods returned to him ₹495 but no other entry was made.**
- **The Purchase Day Book had been overcast by ₹550.**
- **Credit balance on the Purchase Ledger amounting to ₹2,640 and the debit balance amounting to ₹110 had been omitted from the list of the balances.**

You are to prepare (a) a statement reconciling the original net balance extracted from the Purchase ledger with the corrected balance on the Purchase Ledger Control Account and (b) the Purchase Ledger Control Account showing the balance just before the correction of the errors and the adjustments made thereon.

[3+3=6]

Answer:

Statement for reconciling the Purchase Ledger Balance with the Balance of Purchase Ledger Control Account on 31.03.2014

	₹	₹
Original Net Total of Purchase Ledger Balance Extracted		12,560
Add: Credit balance Omitted		2,640
		15,200
Less: (a) Debit Balance Omitted	110	
(b)Debit Balance in Purchase Ledger recorded as a Credit Balance	440	550
Amended Balance on Purchase Ledger Control A/c		14,650

In General Ledger

Purchase Ledger Control Account

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.3.2014	To Purchase Returns " Purchase (Over casting Set Off) " Balance c/f	495 550 14,650	31.3.2014	By Balance b/f (Balancing Figure)	15,695
		15,695			15,695

(b) List any two features of Sectional Balancing System. [2]

Answer:

The features of the sectional balancing are:

(i) The accounts of individual credit customers are kept in the Debtors Ledger. Individual transactions with these customers are recorded in this ledger. But unlike self-balancing system, double entry is not completed in this ledger.

(ii) Similarly, accounts of individual credit suppliers are maintained in the creditors' ledger where double entry is not completed.

(iii) The General Ledger maintains only the Total Debtors Account and the Total Creditors Account.

(iv) The balance of the Total Debtors Account should agree with the total of balances as per accounts of individual customers. Any difference will indicate the existence of an error or errors.

(v) Similarly, the balance of Total Creditors Account should agree with the total of balances as per accounts of individual credit suppliers. Any difference will indicate the existence of an error or errors.

(vi) A Trial Balance can be prepared only in the General Ledger.

[Answer any two features]

(c) From the following particulars prepare the General Ledger Adjustment Account as it would appear in the Consignment Ledger of Delhi Enterprises:

Date	Particulars	Bombay ₹	Calcutta ₹	Kanpur ₹	Madras ₹	Lucknow ₹	Patna ₹
01.01.2014	**Balance of Consignment Stock**	**60,000**	**60,000**	**50,000**	**70,000**	**20,000**	**20,000**
31.12.2014	**Goods Sent on Consignment**	**2,00,000**	**3,00,000**	**4,00,000**	**2,00,000**	**1,00,000**	**1,50,000**
	Expenses	**10,000**	**20,000**	**10,000**	**5,000**	**10,000**	**15,000**
	Sales	**4,00,000**	**5,00,000**	**6,00,000**	**3,00,000**	**2,00,000**	**2,50,000**
	Stock on Consignment	**---**	**---**	**10,000**	**15,000**	**20,000**	**20,000**

Commission in each case is 10% on sales. [4]

Answer:

In Consignment Ledger
General Ledger Adjustment Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12. 14	To Sales ``Consignment Stock (Closing)	22,50,000 65,000	1.1.2014 31.12.2014 31.12.2014	By Consignment Stock ``Goods Sent on Consignment `` Expenses `` Commission `` Balance c/f (Profit)	2,80,000 13,50,000 70,000 2,25,000 3,90,000
		23,15,000			23,15,000

Opening Sock	=₹ [60,000 + 60,000 + 50,000 + 70,000 + 20,000 + 20,000] = ₹2,80,000;
Goods sent on consignment	= ₹ [2,00,000 + 3,00,000 + 4,00,000 + 2,00,000 + 1,00,000 + 1,50,000] =₹ 13,50,000;
Expenses	=₹ [10,000 + 20,000 + 10,000 + 5,000 + 10,000 + 15,000] = ₹ 70,000;
Sales	=₹ [4,00,000 + 5,00,000 + 6,00,000 + 3,00,000 + 2,00,000 + 2,50,000] = ₹ 22,50,000;
Closing Stock	= ₹ [10,000 + 15,000 + 20,000 + 20,000] = ₹65,000.

5. (Answer any two)

(a) A consigned 300 units to B at a cost of ₹100 each.
Expenses were : (i) Paid by A – Freight ₹800 and Insurance ₹200.
(ii) Paid by B – Dock charges ₹200 and godown rent ₹100.
Commission payable to B – 10% on sales.
B sold 250 units @ ₹175 each and reported a deficiency of 10 units agreeing however to bear 50% of such deficiency. Show the journal entries in the books of A. [5+1+2=8]

Answer:

Books of X [Consignor]
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
	Consignment A/c Dr. To Goods Sent on Consignment A/c [Goods consigned to B as per Pro Forma Invoice…..]		30,000	30,000
	Consignment A/c Dr. To Bank A/c [Freight and Insurance paid on the above consignment]		1,000	1,000
	B A/c Dr. To Consignment A/c [Goods sold by B as per Account Sales dated………]		43,750	43,750
	Consignment A/c Dr. To B A/c [Expenses incurred by B as per account sales]		300	300
	Consignment A/c Dr. To B A/c [Commission payable to B @ 10% on ₹ 43,750]		4,375	4,375
	Stock on Consignment A/c Dr. To Consignment A/c [Unsold Stock on Consignment valued]		4,160	4,160
	Stock Deficiency A/c Dr. To Consignment A/c [Deficiency of Stock valued]		1,040	1,040

	Profit & Loss A/c Dr. B A/c Dr. To Stock Deficiency A/c [½ of the deficiency borne by consignee and the balance ½ charged against profits]		520 520	 1,040
	Bank A/c Dr. To B A/c (43,750 + 520 – 300 – 4375) [Received the balance due from B]		39,595	 39,595
	Consignment A/c Dr. To Profit & Loss A/c [Profit on Consignment]		13,275	 13,275

Working Note:

Valuation of Stock Deficiency and Unsold Stock

Particulars	Units	Amount (₹)
Goods Consigned + Non-Recurring expenses by Consignor By consignee (Dock Charges)	300	30,000 1,000 200
	300	31,200
Stock Deficiency	10	$\frac{31,200 \times 10}{300}$ = ₹ 1,040
Unsold Stock [Quantity = 300 – 250 – 10]	40	$\frac{31,200 \times 40}{300}$ = ₹ 4,160

(b) (i) D Purchased 500 equity shares of ₹100 each in the Mohan Ltd. for ₹62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalize its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of Mohan Ltd. were quoted at ₹175 per share. After the capitalization, the shares were quoted at ₹92.50 per share. D sold the Bonus shares and received ₹90 per share. Show Investment Account in D's books on average cost basis as per AS 13. [5]

Answer:

Investment Account (equity shares of Mohan Co. Ltd.)

Dr. **Cr.**

Particulars	Normal Value (₹)	Cost (₹)	Particulars	Normal Value (₹)	Cost (₹)
To Balance b/d* To Bonus Shares A/c To Profit & Loss A/c(Profit on sale)	50,000 50,000	62,500 --- 13,750	By Bank A/c By Balance c/d	50,000 50,000	45,000 31,250
	1,00,000	76,250		1,00,000	76,250

Working Notes:

(i) Profit on sale of bonus shares = [₹45,000 – (₹62,500 x 50,000/1,00,000)] = ₹13,750

(ii) Value of investment will be least of market value ₹46,250 (i.e., 92.5% of ₹50,000) or average cost price (i.e., ₹31,250).

(ii) Write a note on the following:
Proportionate Discount Charges [3]

Answer:

Proportionate Discount Charges:
If the date of maturity of a bill falls on a date of a month within the accounting year, discounting of bill can be done without any problem. But when the date of maturity falls on a month of the next year i.e. the due date falls on two accounting periods, problem will arise. In such a situation, proportionate amount of discount will be charged to Profit and Loss Account.
This can be understood with the help of the following example:

A bill was drawn on 1st November, 2013 for ₹40,000 for 3 months. The bill was discounted by the bank on same day @12% p.a. Therefore, the total amount of discount will be ₹1,200 (i.e. 40,000 x 12% x $^1/_4$). So 2/3rd of ₹1,200, i.e. ₹800 will be transferred to Profit and Loss Account for the year ended 31st December, 2013.

(c) The premises of XY Ltd. were partially destroyed by fire on 1st March,2014 and as a result, the business was practically disorganized upto 31st August, 2014. The company is insured under a loss of profits policy for ₹ 1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

Sl. No.	Particulars	Amount (₹)
(i)	Actual turnover during the period of dislocation (1.3.2014 to 31.8.2014)	80,000
(ii)	Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire	2,40,000
(iii)	Turnover for the 12 months immediately preceding the year fire (1.3.2013 to 28.2.2014)	6,00,000
(iv)	Net Profit for the last financial year	90,000
(v)	Insured standing charges for the last financial year	60,000
(vi)	Uninsured standing charges	5,000
(vii)	Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the time of fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to ₹ 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹ 55,000. There was also a saving during the indemnity period of ₹ 2,700 in insured standing charge as a result of the fire. [8]

Answer:

A. Rate of Gross Profit

	₹
Net Profit for the Last Financial Year	90,000
Add: Insured Standing Charges	60,000
	1,50,000

Turnover for the last financial year = 5,00,000. ∴ Rate of Gross Profit = $\frac{1,50,000}{5,00,000}$ x 100 = 30%.

B. Short Sales

	₹
Turnover during the corresponding period from 1.3.2013 to 31.8.2013	2,40,000
Add: Increase @ 10%	24,000

Standard Turnover	2,64,000
Less: Actual turnover in the current dislocation period	80,000
Short Sales	1,84,000

C. Gross Profit on Short Sales = 30% of 1,84,000 = ₹ 55,200.

D. Adjusted Turnover

	₹
Annual Turnover [1.3.2013 to 28.2.2012014]	6,00,000
Add: Increase @ 10%	60,000
Adjusted Turnover	6,60,000

E. Gross Profit on Adjusted Annual Turnover = 30% of 6,60,000 = ₹ 1,98,000

F. Additional Expenses Minimum of :

i. Increased Cost of Working x $\frac{\text{Net Profit} + \text{Insurred Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}}$

=₹ 9,300 x $\frac{90,000 + 60,000}{90,000 + 65,000}$ = ₹ 9,000

ii. Gross Profit on Sales enhanced = 30% of (₹ 80,000 – ₹ 55,000) = ₹ 7,500

iii. Actual additional expenses ₹9,300

Allowable Additional Expenses = ₹7,500.

So, amount admissible as additional expenses = ₹ 7,500.

Computation of Claim

	₹
Loss of Profit on Short Sales (Note 3)	55,200
Add: Additional Expenses Allowed	7,500
	62,700
Less: Saving in insured charges	2,700
	60,000

Claim under Average Clause = ₹ 60,000 x $\frac{\text{₹}1,65,000 \text{ (Policy Taken)}}{\text{₹}1,98,000 \text{ (Policy should have been taken)}}$

= ₹ 50,000.

6. (Answer any two)

(a) VK Ltd. sold goods worth ₹50,000 to YK Ltd. YK Ltd. asked for discount of ₹8,000 which was agreed by VK Ltd. The sale was effected and goods were dispatched. After receiving, goods worth ₹ 7,000 was found defected, which they returned immediately. They made the payment of ₹ 35,000 to VK Ltd. Accountant booked the sales for ₹ 35,000. Please discuss. [4]

Answer:

As per AS 9, revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

VK Ltd. should record the sales at gross value of ₹ 50,000. Discount of ₹ 8,000 in price and goods returned worth ₹ 7,000 are to be adjusted by suitable provisions. VK Ltd. might have sent the credit note of ₹ 15,000 to YK Ltd. to account for these adjustments. The contention of the accountant to book the sales for ₹ 35,000 is not correct.

(b) Write a note on — MOU [The Minutes of Usage]. [4]

Answer:

The Minutes of Usage (MOU) is the total duration of minutes for which a customer uses a telecommunication network during a given month. In the nascent days of mobile telecommunication in India, airtimes rates were very high and a customer had to pay for incoming calls as well. During those days, the MOU ranged from 110 to 150 minutes per month, as customers were wary of making calls.

However, with falling rates, the MOU has steadily reduced. As on September 2005, the blended MOU was in the range of 367 minutes signifying a multi-fold increase in network utilization.

The MOU is also analysed between prepaid and post-paid services and further drilled down between incoming and outgoing. In the current billing system, a customer does not pay for any incoming calls. However, incoming calls bring in revenue for a telecom operator in the form of IUC charges paid by other service providers for terminating calls.

(c) Calculate the contract revenue from the following details

(₹ In Crores)

Years

Particulars	I	II	III
1. Initial contract revenue	**3000**	**3000**	**3000**
2. Revenue increase due to escalation in IInd year	**---**	**600**	**---**
3. Claim			**300**
4. Incentive Payment			**450**
5. Penalties		**150**	

[4]

Answer:

Calculation of contract revenue

(₹ In Crores)

Years

Particulars	I	II	III
Initial contract value	3000	3000	3000
Increase in revenue due to escalation	---	600	600
Claims	---	---	300
Incentive	---	---	450
Penalties	---	(150)	(150)
Contract revenue	3000	3450	4200

7. (Answer any two)

(a) (i) Calculate depreciation as per 2009 regulations from the following informationof Sell Power generation Project

Date of commercial operation/Work Completed Date	**11-Jan-1999**
Beginning of Current year	**1 -Apr-2014**
Useful life	**35 years**

		(Figures in ₹ Crores)
1.	**Capital Cost at beginning of the year 2012-13**	**222.000**
2.	**Additional Capitalization during the year: 2013-14**	**10.560**
	2014-15	**29.440**
3.	**Value of Freehold Land**	**12.000**
4.	**Depreciation recovered up to 2010-11**	**48.600**
5.	**Depreciation recovered in 2011-12**	**5.400**

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2012-13. **[4]**

Answer:

Name of the Power Station:	Sell Power Generation Project
Date of commercial operation/Work Completed Date:	11 -Jan-1999
Beginning of Current year:	1-Apr-2014
Useful life:	35 years
Remaining Useful life:	20 years

Statement showing the Calculation of Depreciation

	Particulars	**2012-13**	**2013-14**	**2014-15**
A	Opening Capital Cost	222.00	222.00	232.56
B	Additional Capital Cost	0.00	10.56	29.44
C	Closing Capital Cost	222.00	232.56	262.00
D	Average Capital Cost [(A + C)/2]	222.00	227.28	247.28
E	Less: Cost of Freehold Land	12.00	12.00	12.00
F	Average Capital Cost for Depreciation (D - E)	210.00	215.28	235.28
G	Depreciable value (90% of F)	189.00	193.75	211.75
H	Depreciation recovered upto prev. year *(48.6 + 5.4)	*54.00	60.75	67.75
I	Balance Depreciation to be recovered (G - H)	135.00	133.00	144
J	Balance useful life out of 35 years	20.00	19.00	18.00
K	Yearly depreciation from 2012-13 (I/J)	6.75	7.00	8.00
L	Depreciation recovered upto the year (H + K)	60.75	67.75	75.75

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2012-13.

(ii) Discuss the steps involved in ODRC Method (Optimised Depreciated Replacement Cost). **[4]**

Answer:

The ODRC (Optimised Depreciated Replacement Cost) Method comprises the following steps:

Step 1: Preparing a detail Asset Register containing data on quantity, location, physical condition, age and maintenance of the assets.

Step 2: Calculation of the Replacement Cost (i.e. Cost of replacing the assets with modern equivalent assets).

Step 3: Assessment of Depreciation. The new assets at replacement costs identified earlier need to be depreciated in case the life of the existing asset is lower than the life of the new assets.

Step 4: System Optimisation: This is done to measure the most cost effective way of delivering service, in terms of capacity and quality to meet the requirements.

This involves three levels:
(i) Capacity Optimisation both in size and number;

(ii) Optimisation of spares; and

(iii) Optimisation of unit costs.

(b) When closing the books of a bank on 31.12.2013 you find in the loan ledger an unsecured balance of ₹2,00,000 in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year.
How would you deal with this item of interest in 2013 account?

During the year 2014, the bank accepts 75 paise in the rupee on account of the total debt due up to 31.12.2013.

Show the entries and the necessary accounts showing the ultimate effect of the transactions in 2014 books of account under Interest Suspense Method. [4+2+2=8]

Answer:

When preparing the 2013 accounts the sum of ₹20,000 due from the merchant on account of interest should not be carried to Profit and Loss Account, because its recovery was doubtful. It should, therefore, be transferred to an Interest Suspense Account which would appear as a liability in Balance Sheet on 31.12.2013.

In the Books of Bank Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2013 Dec. 31	Merchant A/c Dr. To Interest Suspense A/c (Interest due transferred to Interest Suspense A/c)		20,000	 20,000
	Interest Suspense A/c Dr. Bad Debts A/c Dr. To Merchant A/c (Interest not received and balances transferred to Bad Debts A/c)		5,000 50,000	 55,000
	Cash A/c Dr. To Merchant A/c (Amount received @ 0.75 p in the rupee from the merchant)		1,65,000	 1,65,000
	Interest Suspense A/c Dr. To Profit and Loss A/c (Interest received out of Interest Suspense transferred)		15,000	 15,000

In the Books of the Bank

Dr. Merchant's Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2013 Dec. 31	To Balance b/d To Int. Suspense A/c	2,00,000 20,000	2013 Dec. 31	By Balance c/d	2,20,000
		2,20,000			2,20,000
2014 Jan. 1	To Balance b/d	2,20,000	2014 Dec. 31	By Cash (@ 75p in the rupee)	1,65,000
				By Int. Suspense A/c (amount of Int. not covered)	5,000
				By Bad Debts	50,000
		2,20,000			2,20,000

Interest Suspense Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2013 Dec. 31	To Balance c/d	20,000	2013Dec. 31	By Merchant's A/c	20,000
		20,000			20,000
2014 Dec. 31	To Merchant's A/c To Profit & Loss A/c	5,000 15,000	2014 Jan. 1	By Balance b/d	20,000
		20,000			20,000

Notes:

A. Interest amounting to ₹20,000 due from customer has been debited to him by crediting Interest Suspense Account (and not to Interest A/c as its recovery is doubtful) and Interest Suspense A/c will appear in the liability side of the Balance Sheet.

B. Actual amount of interest which has been received in cash, i.e. ₹15,000, is transferred to P&L A/c.

(c) From the following figures appearing in the books of Fire Insurance division of Vipul General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars	Direct Business ₹	Re-Insurance ₹
Claim paid during the year	**70,05,000**	**10,50,000**
Claim Payable — 1st April, 2013	**11,44,500**	**1,30,500**
31st March, 2014	**12,18,000**	**79,500**
Claims received	**-**	**3,44,000**
Claims Receivable — 1st April, 2013	**-**	**98,000**
31st March, 2014	**-**	**1,69,500**
Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)	**3,45,000**	**-**

[2+6=8]

Answer:

Vipul General Insurance Company (Abstract showing the amount of claims)

Particulars	₹'000	₹'000
Claims less Re-insurance :		
Paid during the year	7,831.00	
Add: Outstanding claims at the end of the year	1,128.00	
	8,959.00	
Less: Outstanding claims at the beginning of the year	1,177.00	7,782.00

Working Notes:

	Particulars	₹'000	₹'000
1.	Claims paid during the year		
	Direct business	7,005.00	
	Reinsurance	1,050.00	8,055.00
	Add: Surveyor's fee	52.50	
	Legal expenses	67.50	120.00
			8,175.00
	Less : Claims received from re-insurers		344.00
			7,831.00
2.	Claims outstanding on 31st March, 2014		
	Direct business	1,218.00	
	Reinsurance	79.50	1,297.50
	Less : Claims receivable from re-insurers		169.50
			1,128.00
3.	Claims outstanding on 1st April, 2013		
	Direct business	1,144.50	
	Reinsurance	130.50	1,275.00
	Less : Claims receivable from re-insurers		98.00
			1,177.00