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]**

(a) Rectify the following errors by passing necessary journal entries:

- **A sale of ₹5,000 to P.K.Sen was passed through the Purchase Day Book.**
- **Salary paid to Mr. X ₹5,000, wrongly debited to his personal account.**

Answer:

Books of…………………………….
Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(i) P.K.Sen A/c ...., ... Dr. To Purchases A/c To Sales A/c [Goods sold to P.K.Sen, wrongly passed through Purchases Day book, now rectified.]		10,000	 5,000 5,000
	(ii) Salary A/c..Dr. To X A/c [Salary paid to X wrongly passed through the personal account,now rectified]		5,000	 2,000

(b) A and B are partners having Capitals of ₹ 4,80,000 and ₹ 1,20,000 respectively and a profit sharing ratio of 4 : 1. C is admitted for 1/5th share in the profits of the firm and he pays ₹ 1,80,000 as Capital. Find out the value of the Goodwill.

Answer:

Total Capital of the firm 1,80,000 × 5/1 = ₹9,00,000 [Taking Z's Capital as base]
Less: Combined Adjusted Capital = ₹7,80,000
[₹4,80,000 + ₹1,20,000 + ₹1,80,000]
Hidden Goodwill = ₹1,20,000

(c) Following Memorandum Royalty Statement are given with missing figures.

Year	Royalty	Min. Rent	Short working	Recoupment	Short working carried forward	Trf to P&L A/c	Payment to landlord
2011	-	54,000	?	-	?	-	54,000
2012	17,820	54,000	?	-	90,180	-	54,000
2013	59,940	54,000	-	5,940	84,240	-	?

Complete this above statement considering that excess of Minimum Rent over royalties as recoverable out of royalties of next three years.

Answer:

Computation of Memorandum Statement

Year	Royalty	Min. Rent	Short working	Recoupment	Short working carried forward	Trf to P&L A/c	Payment to landlord

2011	-	54,000	10,000	-	54,000	-	54,000
2012	17,820	54,000	6,700	-	90,180	-	54,000
2013	59,940	54,000	-	5,940	84,240	-	54,000

(d) A Company sold 25% of the goods on Cash Basis and the balance on Credit Basis. Debtors are allowed 2 months credit and their balance as on 31st March (Closing Balance) is ₹ 2,59,000. Assume that the Sale is uniform throughout the year. Calculate the Total Sales of the Company for the year ended 31st March.

Answer:

1. Closing Debtors as on 31st March	₹ 2,59,000 represents 2 months Sales
2. Hence, Credit Sales for the year (12 months)= $\frac{₹2,59,000}{2 \text{ months}}$ x12 months	₹ 15,54,000 = 75% of Total Sales
3. Cash Sales - 25% of Total Sales – ₹ 15,54,000 x $\frac{25\%}{75\%}$	₹ 5,18,000
4. Hence, Total Sales of the Company for the year = ₹ 15,54,000 + ₹ 5,18,000	₹ 20,72,000

(e) Harmony Traders keep their Ledger on self-balancing system, and provide the following data for the period just ended.

Particulars	₹	Particulars	₹
Opening Balance of Debtors	**3,91,162**	**Cash Received from customers**	**2,18,880**
Credit Sales	**2,04,345**	**Discount Received**	**5,729**
Returns Inward	**3,420**	**Returns Outward**	**5,130**

Prepare General Ledger Adjustment Account in the Sales Ledger of Harmony Traders.

Answer:

Note: Returns Outwards (Purchase Returns) and Discount Received will not affect Debtors related transactions and hence, no entry in the General Ledger Adjustment Account in Sales Ledger.

General Ledger Adjustment Account (in Sales Ledger)

Particulars	₹	Particulars	₹
To Debtors Ledger Adjt A/c (in Gen. Ledger)		By Balance b/d (Opening Balance of Debtors)	3,91,162
-Return Inwards	3,420	By Debtors Ledger Adjt A/c (in General Ledger)	
-Cash Received	2,18,880		
To Balance c/d (balancing figure)	3,73,207	- Credit Sales	2,04,345
	5,95,507		5,95,507

(f) From the following data, show degree of completion as would appear in the books of a contractor following Accounting Standard – 7:

Particulars	(₹ in lakhs)
Contract Price	**6,624**
Cost incurred to date	**4,140**
Estimated cost to complete	**2,760**

Answer:

Calculation of Total Estimated Cost

Particulars	(₹ in lakhs)
Cost to incurred to date	4,140
Estimated of cost to complete	2,760
Estimated Total Cost	6,900

Degree of completion: (4,140/6,900) x 100 = 60%

(g) On 12th June, 2014, a fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹87,920. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹ 81,640. The Estimated Value of stock at the date of fire was ₹ 6,28,000. On the basis of his accounts, it appears that he earns on an average a gross profit of 25% on sales. Patel has insured his stock for ₹ 4,71,000. Compute the amount of claim.

Answer:

Statement of Claim

	Particulars	Amount (₹)
A	Estimated Value of Stock as at date of fire	6,28,000
B	Value of Salvaged Stock and damaged stock (₹ 87,920 + ₹81,640)	1,69,560
C	Estimated Value of Stock lost by fire (A – B)	4,58,440
D	Amount of claim by applying Average Clause: $\text{Loss Suffered} \times \frac{\text{Sum Insured}}{\text{Estimated value of Stock}} = 4,58,440 \times \frac{4,71,000}{6,28,000}$	3,43,830

Note: Amount of policy is less than the estimated value of stock. So, Average clause is applied.

(h) A & Co. records through its Sales Day Book goods sent for approval to a few customers. On 31 March, 2015 when it closed its accounts its Debtors and Stock in hand were ₹ 2,62,500 and ₹ 1,31,250 respectively. The Debtors included ₹ 10,500 due from B and ₹ 3,500 from C for goods sent for approval to them at a profit of 33-$\frac{1}{3}$ % on cost. But no intimation was received from them till 31.3.2015.
Show how these items will appear in the Balance Sheet on 31 March, 2015.

Answer:

Balance Sheet as on 31.03.2015

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
			Sundry Debtors [2,62,500 – 14,000]		2,48,500
			Stock	1,31,250	
			Add : Stock lying with Customers on Sale or Return	10,500	
					1,41,750

(i) As on 31.12.14, the books of the Hero Bank include, among others, the following balances-

Particulars	₹
Rebate on Bills discounted (01.01.2014)	**9,15,200**
Discount Received	**1,57,73,472**
Bills Discounted and Purchased	**9,02,24,420**

Throughout 2014, the Bank's Rate for Discounting has been 18%. On investigation and analysis, the Average due date for the Bills discounted and purchased is calculated on 15.02.2015 and that for Bills for collection as 15.01.2015.
Compute the Rebate pertaining to the period after Balance Sheet Date.

Answer:

Particulars	Result
(a) Period = No. of days from the Balance Sheet Date 31.12.14 to Average Due date i.e. 15.02.2015 = 31+15	46 days
(b) Rebate Amount [Bills Discounted & purchase ₹ 9,02,24,420 x discount Rate 18% x 46 /365]	₹ 20,46,735

(j) Mention any two activities requiring Licence under the Electricity Act, 2003.
Answer:
Licence [Sec 12] : No person shall – (i) Transmit Electricity ,(ii) Distribute Electricity or (iii) Under take trading in electricity , unless he is authorized to do so by licence issued u/s 14 or is exempted u/s 13.
[Student may answer any 2 above the point]

2. (Answer any two) [2x4]

(a) Raja makes up his annual accounts to 31st December every year. He was unable to take stock of physical inventory till 9th January 2015 on which date the physical stock at cost was valued at ₹ 56,400.
You are required to ascertain the value of stock at cost on 31st Dec. 2014, from the following information regarding the period from 1st January 2015 to 9th January 2015:

(i) Purchases of goods amounted to ₹ 19,200 of which goods worth ₹ 3,525 had been received on 28.12.2014 and goods worth ₹ 4,425 had been received on 12.1.2015.
(ii) Sales of goods amounted to ₹ 28,800 of which goods of a sale value of ₹ 2,700 had not been delivered at the time of verification and goods of a sale value of ₹ 4,500 had been delivered on 29.12.2014.
(iii) A sub-total of ₹ 9,000 on one of the stock sheets had been carried to the summary of stock sheet as ₹ 15,750.
(iv) In respect of goods costing ₹ 3,000 received prior to 31st December 2014, invoices had not been received up to the date of verification of stock.
(v) The rate of gross profit was 20% on the cost price. [4]

Answer:

Statement showing the value of Physical Stock at cost on 31st Dec, 2014

Particulars	₹	₹	₹
Value of closing stock on 9th January 2015 :			56,400
Less: Goods purchased and received between 1.1.2015 and 9.1.2015;		19,200	
Less: Goods received on 28.12.2014	3,525		
Goods received on 12.1.2015	4,425	7,950	11,250
			45,150
Add : Cost of goods sold and delivered between 1.1.2015 and 9.1.2015		28,800	
Less: Goods undelivered	2,700		
Goods delivered on 29.12.2013	4,500	7,200	
		21,600	
Less : Gross profit (@ 20% on cost i.e. 1/6th of sales)		3,600	18,000

			63,150
Less: Stock sheet wrongly carried forward by (15,750 -9,000)			6,750
Value of stock as on 31.12.2014			56,400

Note: There will be no adjustment for item (iv)

(b) ABC Ltd. Issue 1,00,000 equity shares of ₹ 10 each (fully paid up) in consideration for supply of a Machinery by MNP Ltd. The shares exchanged for machinery are quoted on National Stock Exchange (NSE) at ₹25 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of company. [4]

Answer:

As per this statement, fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at the fair market value of the asset acquired or the fair market value of the securities issued, whichever is more clearly evident. Since, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at ₹ 25,00,000 (i.e. 1,00,000 shares x ₹ 25 per share being the market price).

Journal Entry

Date	Particulars	Amount (₹)	Amount (₹)
	Machinery A/c Dr	25,00,000	
	To Share capital A/c		10,00,000
	To Securities Premium A/c		15,00,000
	(being machinery recorded at the fair market value of the securities issued in consideration for machinery acquired)		

(c) Distinguish between Capital Expenditure and Revenue Expenditure. [4]

Answer:

Differences between Capital Expenditure and Revenue Expenditure

Capital Expenditure	Revenue Expenditure
The economic benefits of Capital Expenditures are enjoyed for more than one accounting period.	The economic benefits of Revenue Expenditures are enjoyed within a particular accounting period.
Capital Expenditures are of non-recurring in nature. Capital Expenditures are of non-recurring in nature.	Revenue Expenditures are of recurring in nature.
All Capital Expenditures eventually become Revenue Expenditures like depreciation	Revenue Expenditures are not generally capital expenditures.
Capital Expenditures are not matched with Capital Receipts.	All Revenue Expenditures are matched with Revenue Receipts.

3. (Answer any two) [2x12]

(a) (i) Water Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31-12-2012. The discount rate is 12%.

Year	Cash flow(₹ in Lakhs)
2013	2,000
2014	3,000
2015	3,000
2016	4,000
2017	2,000
Residual value at the end of 2017	500

Fixed Asset purchased on 01-01-2010 for ₹20,000 lakhs
Useful life 8 years
Residual value estimated ₹ 500 lakhs at the end of 8 years. Net selling price ₹ 10,000 lakhs.
Calculate on 31-12-2012.

A. Value in use on 31-12-2012.
B. Carrying Amount at the end of 31-12-2012
C. Recoverable amount on 31-12-2012.
D. Impairment loss to be recognized for the year ended 31-12-2012.
E. Revised carrying amount.
F. Depreciation charge for 2013. [2+2+1+1+1+1]

Answer:

A. Computation of value in use

(₹ in Lakhs)

Year	Cash flow	Discount as per 12%	Discount cash flow
2013	2,000	0.893	1,786
2014	3,000	0.797	2,391
2015	3,000	0.712	2,136
2016	4,000	0.635	2,540
2017	2,000 + 500	0.567	1,418
	(residual value)		10,271

Value in use is ₹ 10,271 lakhs

B. Calculation of Carrying Amount

Particulars	Amount (₹ in Lakhs)
Original cost	20,000
Less: Depreciation for 3 years [(20,000 - 500) × 3/8] (for 2010, 2011 & 2012 on straight-line basis)	7,313
Carrying amount on 31-12-2012	12,687

Carrying Amount ₹12,687

C. Calculation of Recoverable Amount

Particulars	Amount (₹ in Lakhs)
Net selling price (as given)	10,000
Value in use	10,271
[Higher of this two]	
Recoverable Amount 31-12-2012	10,271

Recoverable Amount ₹10,271

D. Calculation of Impairment Loss

Particulars	Amount (₹ in Lakhs)
Carrying Amount Less: Recoverable Amount	12,687 10,271
Impairment Loss	2,416

E. Calculation of Revised Carrying Amount

Particulars	Amount (₹ in Lakhs)
Carrying Amount Less: Impairment Loss	12,687 2,416
Impairment Loss	10,271

F. Depreciation charge for 2013

Particulars	Amount (₹ in Lakhs)
Carrying Amount Less: Residual Income	10,271 500
	9,771
Depreciation for (9,771 / 5)	1,954

(ii) Distinguish between Profit and Loss Account and Profit & Loss Appropriation Account. **[4]**

Answer:

Profit and Loss Account	Profit and Loss Appropriation Account
The purpose of preparing a profit and loss account is to determine the net profit or net loss made by a firm during an accounting period.	The purpose of preparing a profit and loss appropriation account is to show how the profit earned during an accounting period is distributed amongst the partners.
The profit and loss account forms the main part of the revenue account of a partnership firm.	The profit and loss appropriation account is only a continuation or extension of the profit and loss account.
All types of profit-seeking concerns prepare a profit and loss account.	Only partnership firms and companies prepare a profit and loss appropriation account.
The profit and loss account starts with the balance of trading account (i.e. gross profit or gross loss).	The profit and loss appropriation account starts with the balance of profit and loss account (i.e. net profit or net loss). In case of a company, however, it starts with the unappropriated profits coming from the last year.
The profit and loss account is debited with all indirect expenses which are charged against profits.	The profit and loss appropriation account is debited with items which are appropriation of profits (and not charge against profits).In case of a partnership firm, such items are salary to partners, interest on capital, commission to partners, transfer to reserve, share of partners in the residue of profits etc.In case of a company, such items are provision for taxation, transfer to reserves, dividends etc.

The profit and loss account is credited with all indirect incomes.	In case of a partnership firm, this account is credited with interest on drawings. In case of a company, however, there will not be any credit except those mentioned in point (4) above.

(b)(i) From the following, you are required to calculate the Net Cash Flow from the Operating Activities by Indirect Method:

Particulars	31 March 2014 ₹	31 March 2015 ₹
Balance of Profit & Loss A/c	**1,89,000**	**2,04,750**
Debtors	**2,74,050**	**1,26,000**
Bills Receivable	**1,95,300**	**3,24,450**
General Reserve	**6,36,300**	**7,46,550**
Salary Outstanding	**94,500**	**37,800**
Wages Prepaid	**15,750**	**22,050**
Goodwill	**2,52,000**	**2,20,500**

[6]

Answer:

Calculation of Net Cash Flow from Operating Activities (under Indirect Method) of …………….for the year that ended on 31 March 2015

Particulars	₹	₹
Net Profit for the Year (after Appropriation) (₹ 2,04,750 - ₹ 1,89,000)		15,750
Add: Appropriation made during the year:		
Transfer to General Reserve	1,10,250	1,10,250
Net Profit before appropriation		1,26,000
Add: Adjustment for Non-current & Non-operating Items charged to		
Profit & Loss A/c:		31,500
Goodwill written off		1,57,500
Operating Profit before Working Capital Changes	Nil	
Add: Increase in Operating Current Liabilities		
Decrease in Operating Current Assets:	1,48,050	1,48,050
Debtors		3,05,550
Less: Increase in Operating Current assets:	1,29,150	
Bills Receivable	6,300	
Wages Prepaid		
Decrease in Operating Current Liabilities:	56,700	
Salary outstanding		1,92,150
Net Cash Flow from Operating Activities		1,13,400

(ii) X Ltd has three departments A, B and C. From the particulars given below, compute The Departmental results

Particulars	A(₹)	B(₹)	C(₹)
Opening Stock	**24,000**	**36,000**	**12,000**
Purchases	**1,46,000**	**1,24,000**	**48,000**
Actual Sales	**1,72,500**	**1,59,400**	**74,600**
Gross Profit on Normal selling price	**20%**	**25%**	$33\frac{1}{3}\%$

During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

Particulars	A(₹)	B(₹)	C(₹)
Sales at Normal Price	**10,000**	**3,000**	**1,000**
Purchases	**7,500**	**2,400**	**600**

[4]

Answer:

Calculation of Departmental Results (Actual Gross Profit)

Particulars	A(₹)	B(₹)	C(₹)
Actual sales	1,72,500	1,59,400	74,600
Add back: Discount (Normal price – Actual Price)	2,500	600	400
Normal Sales	1,75,000	1,60,000	75,000
Gross profit % on Normal sales	20%	25%	$33\frac{1}{3}\%$
Normal Gross Profit	35,000	40,000	25,000
Less: Discount	(2,500)	(600)	(400)
Actual Gross Profit	32,500	39,600	24,600

(iii) Mention any two features of Accounting for Independent Branches. [2]

Answer:

A. **Double Entry:** Branch maintains its entire books of account under double entry system.

B. **Control Account:** In its books, the Branch maintains a Head office Account to record all transactions that take place between HO and Branch. Similarly, the HO maintains a Branch Account to record these transactions.

(c) Sachin and Tuhin were carrying on business as equal partners. Their Balance Sheet as on 31st March 2014 stood as follows:

Capital and Liabilities		₹	Properties and Assets	₹
Capital Account:			**Stock**	**2,70,000**
- **Sachin**	**6,40,000**		**Debtors**	**3,65,000**
- **Tuhin**	**6,60,000**	**13,00,000**	**Furniture**	**75,000**
Creditors		**3,27,500**	**Joint Life Policy**	**47,500**
Bank Overdraft		**1,50,000**	**Plant**	**1,72,500**
Bills Payable		**62,500**	**Building**	**9,10,000**
Total		**18,40,000**	**Total**	**18,40,000**

The operations of the business was carried on till 30th September 2014. Sachin and Tuhin both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% p.a. had been written off on Building and Plant and 5% p.a. written off on Furniture. During the current period of 6 months, Creditors were reduced by ₹50,000, Bills Payables by ₹11,500 and Bank Overdraft by ₹75,000. The Joint Life Policy was surrendered for ₹47,500 on 30th September 2014. Stock was valued at ₹3,17,000 and Debtors at ₹ 3,25,000. The other items remained the same as they were on 31st March 2014.

On 30th September 2014, the Firm sold its business to Swastik Ltd. Goodwill was estimated at ₹ 5,40,000 and the remaining Assets were valued on the basis of the Balance Sheet as on 30th September 2014. Swastik Ltd. paid the Purchase Consideration in Equity Shares of ₹ 10 each. You are required to prepare a Realisation Account and Capital Accounts of the Partners. [12]

Answer:

Realisation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Sundry Assets A/c (transfer)		By Creditors A/c (transfer)	2,77,500
- Stock	3,17,000	By Bills Payable A/c (transfer)	51,000
- Debtors	3,25,000	By Bank Overdraft A/c	75,000
- Plant	1,63,875	(transfer)	18,80,000
- Building	8,64,500	By Shares in ST Ltd (WN C)	
- Furniture	73,125		
To Profit trfd to Capital (equal)	5,40,000		
- Sachin 2,70,000			
- Tuhin 2,70,000			
Total	**22,83,500**	**Total**	**22,83,500**

Partners' Capital Account

Dr. **Cr.**

Date	Particulars	Sachin	Tuhin	Date	Particulars	Sachin	Tuhin
01.04.14	To Cash Drawings	20,000	20,000	01.04.14	By balance b/d	6,40,000	6,60,000
30.09.14	(WNB)	9,30,000	9,50,000	30.09.14	By Profit (WN B)	40,000	40,000
	To Shares in Swastik Ltd.			30.09.14	By Realsn A/c (Pft)	2,70,000	2,70,000
	Total	**9,50,000**	**9,70,000**		**Total**	**9,50,000**	**9,70,000**

Working Notes:

A. Balance Sheet as on 30th September 2014 (To find out Total Capital of the Firm)

Capital and Liabilities	₹	Properties and Assets		₹
Sundry Creditors (3,27,500 -	2,77,500	Building	9,10,000	
50,000)	51,000	Less: Dep. at 10% p.a. for 6 months	(45,500)	8,64,500
Bills Payable (62,500 - 11,500)	75,000	Plant	1,72,500	
Bank Overdraft (1,50,000 - 75,000)	13,40,000	Less: Dep. at 10% p.a. for 6 months	(8,625)	1,63,875
Total Capital (balancing figure)		Furniture	75,000	
		Less: Dep. at 5% p.a. for 6 months	(1,875)	73,125
		Current Assets: Stock		3,17,000
		Debtors		3,25,000
Total	**17,43,500**	**Total**		**17,43,500**

B. Profit earned during six months to 30th September 2014

Particulars		₹
Total Capital (of Sachin and Tuhin) on 30th September 2013 (WN A)		13,40,000
Capital on 1st April 2013		
- Sachin	6,40,000	
- Tuhin	6,60,000	13,00,000
Net Increase (after Drawings)		**40,000**

Since Drawings are half of the profits, Actual Profit earned = ₹ 40,000 x 2 = ₹ 80,000 (shared equally by Partners Sachin and Tuhin).

C. Purchase Consideration

	Particulars	₹
	Total Assets (WN A)	17,43,500
Add:	Goodwill	5,80,000
		22,83,500
Less:	External Liabilities (2,77,500 + 51,000 + 75,000)	(4,03,500)
	Purchase Consideration	**18,80,000**

Note: The above solution is given on the assumption that reduction in Bank Overdraft (as given in question) is after the surrender of Joint Life Policy.

4 (Answer any two) **[4x2]**

(a) A firm keeps its sold and bought ledgers on self-balancing system. From the following particulars, prepare the adjustment accounts in the sold and bought ledgers.
Trade Debtors on 1st April, 2013—₹62,000; Trade Creditors on 1st April, 2013—₹25,000; Credit Purchases— ₹ 1,03,000; Credit Sales—₹ 1,34,000; Cash received from trade debtors—₹ 78,000; Returns Inward—₹ 3,000; Acceptances given—₹40,000; Returns Outward—₹2,500; Acceptances from trade debtors dishonoured—₹5,000; Discount allowed to trade debtors—₹1,000; Bad Debts written off—₹2,000; Bad Debts written off in the previous years now recovered—₹ 5,000; Trade Creditors on 31st March, 2014 — ₹10,500; Trade Debtors on 31st March, 2014—₹1,17,000. **[4]**

Answer:

In Sold Ledger of
Dr. General Ledger Adjustment Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.14	To Sold Ledger Adjustment A/c : - Cash Received	 78,000	1.4.13	By Balance b/d	62,000
	- Returns Inward	3,000	31.3.14	By Sold Ledger Adjustment A/c :	
	- Discount Allowed	1,000		- Credit Sales	1,34,000
	- Bad Debts	2,000		- Acceptances from Debtors Dishonoured	5,000
31.3.14	To Balance c/d	1,17,000			
		2,01,000			2,01,000

In Bought Ledger of
Dr. General Ledger Adjustment Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.13 1.3.14	To Balance b/d To Bought Ledger Adjustment A/c : Purchases (Credit)	25,000 1,03,000	31.3.14	By Bought Ledger Adjustment A/c : - Acceptance given - Returns Outwards - Cash [Note 1] " Balance c/d	 40,000 2,500 75,000 10,500
		1,28,000			1,28,000

Note 1: Cash paid to creditors is not given but the closing balance is given. So cash paid = Balancing Amount = ₹ 75,000.

(b) Distinction between Self Balancing System and Sectional Balancing System. **[4]**

Answer:

Self Balancing Systems	Sectional Balancing Systems
Under it, all three ledgers namely the Sales Ledger, the purchase ledger and the General Ledger are made separately self –	Under it, only the General Ledger can made self- balancing.

balancing.	
Separate Trial Balance can be prepared at the end of each separate ledger.	The Trial balance may be prepared only in the General Ledger.
Here adjustment accounts are prepared on complete double entry principle.	Here lists of debtors or creditors are prepared at the end of Debtors and Creditors Ledger.
It is actually an extension of sectional balancing systems.	It is not an extension of sectional balancing systems.

(c) Prepare the General Ledger Adjustment Accounts as will appear in Debtors Ledger from the information given below:

Particulars	Dr. (₹)	Cr.(₹)
Debtors' Ledger	**47,200**	**240**

Transactions for the year ended 31.3.2015:

Total Sales	**1,20,100**
Cash Sales	**8,100**
Received from Debtors (in full settlement of ₹59,000)	**58,200**
Bills Accepted by customers	**20,100**
Bills Receivable Dishonoured	**1,500**
Bills Receivable endorsed to creditors	**4,000**
Endorsed bills Dishonoured	**1,000**
Bad Debts	**2,200**
Provision for Doubtful debts	**550**
Transfer from Creditors Ledger to Debtors Ledger	**1,900**

Balance on 31.03.2015

Debtors' Ledger (Cr.)	**₹380**

[4]

Answer:

In Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.14	To Balance b/f	240	1.4.14	By Balance b/f	47,200
31.3.15	To Debtors Ledger Adjustment A/c :		31.3.15	By Debtors Ledger Adjustment A/c :	
	- Cash (Received)	58,200		- Sales (Credit)	1,12,000
	- Bills Receivable	20,100		- Bills Receivable (Dishonoured)	1,500
	- Discount Allowed	800		- Endorsed bill Dishonoured	1,000
	- Bad Debts	2,200			
	- Transfer from Purchase Ledger	1,900			

31.3.15	" Balance c/f (Balancing figure)	80,540	31.3.15	By Balance c/f	380
		1,62,080			1,62,080

Note: Self-balancing entry is not required for Provision for Bad Debts.

5 (Answer any two) **[4x2]**

(a) Excellent Construction Company Limited undertook a contract to construct a building for ₹26.01 crores on 1st September, 2013. On 31st March 2014, the company found that it had already spent ₹ 15.61 crores on the construction. Prudent estimates of additional cost of completion was ₹ 12.14 crores. Calculate what amount should be charged, to revenue in the final accounts for the year ended on 31st March 2014, as per the provisions of AS -7? [4]

Answer:

Estimated Total contract Costs = Costs till date + further costs = 15.61+12.14= ₹27.75 crores

Percentage of completion = Costs incurred till date / Estimated Total costs = 15.61/27.75 =56.25%

Total Expected Loss to be provided for = Contract Price - Estimated Total Costs
= ₹(26.01 – 27.75) = ₹1.74 crores

(i)	Contract Revenue = 56.25% of ₹26.01 crores	= ₹14.63 crores
(ii)	Less: Contract Costs	= ₹15.61 crores
(iii)	Loss on Contract [B - A]	= ₹ 0.98 crores
(iv)	Less: Further Provision required in respect of expected loss	= ₹0.76 crores (Bal. Figure)
(v)	Expected Loss recognized as per Para 35	= ₹1.74 crores

Disclosures As Per As – 7

Particulars	**₹ crores**
Contract Revenue	14.63
Contract Expenses Charged	15.61
Provision for Future Losses to be Charged	0.76

(b) Write a note on Segment Reporting in the perspective of Telecommunication Sector. [4]

Answer:

Segmental Reporting

As with other industries that do not follow segmented reporting based on the various products offered, cellular companies treat prepaid and postpaid services as the same product offered, calling them 'telecom services'. Therefore, no segmented results are provided to distinguish between prepaid and post-paid services by GSM mobile providers. Integrated telecom players like Bharti Tele ventures Limited have classified their business into four segments - Mobile, Broadband, Long Distance, Enterprise and Others. For purposes of geographical segmentation, Bharti discloses results for the Indian region as one geographical area and rest of the world as another geographical area VSNL has revised its reportable segments into two categories. For the year ended 31st March 2005, it revised its segments to consider "Telephony and Related Services", including international and national voice and data services and Internet services. "Other Services" include transponder lease, television up-linking, gateway packet switching services and video conferencing facilities. VSNL has identified geographical segments as India (58%), USA (11%), Saudi Arabia (3%), UAE (8%) and others.

In case of geographical segmentation, Bharti Tele venture's disclosure is limited to India (90%) and the rest of the world (country-wise details are not relevant, as they amount to less than 90%).

(c) On 25th September, 2014, Shanthi Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Dec, 2014 for ₹520 lakhs.
They furnish the following information:
- **The company obtained the advertisements for 70% of available time for ₹700 lakhs by 30th September, 2014.**
- **For the balance time they got bookings in October, 2014 for ₹ 240 lakhs.**
- **All the advertisers paid the full amount at the time of booking the advertisements.**
- **40% of the advertisements appeared before the public in Nov. 2014 and balance 60% appeared in the month of December, 2014.**

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2014 as per Accounting Standard-9. [4]

Answer:
As per AS 9 in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Further, appendix to AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

Advice:
In the given problem, 40% of the advertisement appeared before the public in November, and balance 60% in December.

Calculation of Total Profit

Particulars	₹ in lakhs
Advertisement for 70% of available time obtained by 30th September, 2014	700
Advertisement for 30% of available time obtained in by October, 2014	240
Total	940
Less: Cost of advertisement rights	(520)
Profit	420

The profit amounting ₹420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2014. Thus, the company should recognize ₹168 lakhs (i.e. ₹ 420 lakhs × 40%) in November, 2014 and rest ₹252 lakhs (i.e. ₹420 lakhs × 60%) in December, 2014.

6 (Answer any two) [8 x 2]

(a) A fire occurred in the premise of ME X-Ray & Co. on 15.5.14 causing destruction of large part of the stock. The firm had taken a fire insurance policy for ₹ 38,57,760 to cover the loss of stock by fire. From the records saved the following particulars were ascertained:

	₹		₹
Purchases for the year 2013	**2,11,61,280**	**Stock on 31st December 2013**	**54,59,520**
Sales for the year 2013	**2,61,69,600**	**Wages paid during 2013**	**22,56,000**
Purchases from 1st January 2014 to 15th May 2014	**41,05,920**	**Wages paid during 1st January 2014 to 15th May 2014**	**4,06,080**
Sales from 1st January 2014 to 15th May 2014	**54,14,400**	**Stock Salvaged was**	**6,31,680**
Stocks on 1st January 2013	**32,48,640**		

In 2013 some goods were destroyed by fire. The cost of such goods was ₹ 11,28,000. These goods were not covered by any insurance policy. In valuing the stock on 31st December 2014 stocks costing ₹ 2,39,700 were found to be poor selling line and ₹ 42,300 in relation to

such stock were written off. A portion of these goods (original cost ₹ 35,250) were sold in April 2014 at a loss of ₹ 7,050 on original cost. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit has remained at a uniform rate throughout. You are required to ascertain the insurance claim available to the firm. [8]

Answer:

In the Books of ME X-Ray & Co
Memorandum Trading Account
for the period from 1st January to 15th May 2014

Particulars	Normal Items ₹	Abnormal Items ₹	Particulars	Normal Items ₹	Abnormal Items ₹
To Opening Stock	52,62,120	2,39,700	By Sales	53,86,200[1]	28,200
" Purchase	41,05,920	—	" Loss (bal.fig.)	—	7,050
" Wages	4,06,080	—	"Closing stock (bal.fig.)	56,50,314	2,04,450
" Gross Profit (23.4375% on ₹ 7,64,000)	12,62,394	—			
	1,10,36,514	2,39,700		1,10,36,514	2,39,700

Amount of Claim = Value of Stock - Stock Salvaged
= (₹ 56,50,314 + ₹ 2,04,450) - ₹ 6,31,680 = ₹ 52,23,084.

Since, policy amount is less than the amount of Claim, Average clause to be applied, i.e.,

$$\text{Net Claim = Loss of Stock x } \frac{\text{Policy Value}}{\text{Stock destroyed at the date of fire}}$$

$$= ₹\ 52,23,084 \text{ x } \frac{₹38,57,760}{₹58,54,764} = ₹\ 34,41,540.$$

Workings:

1. Sales ₹54,14,400 inclusive of ₹ 28,200 (i.e., ₹ 35,250 - ₹ 7,050) treated as abnormal sales.

2

Trading Account for the year ended 31st Dec. 2013

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	32,48,640	By Sales	2,61,69,600
" Purchases	2,11,61,280	"Abnormal Loss (not covered, by Ins.)	11,28,000
" Wages	22,56,000	" Closing Stock:	
Gross Profit	61,33,500	" Normal Item (54,59,520-1,97,400)	52,62,120
		Abnormal Items	2,39,700
	3,27,99,420		3,27,99,420

$$\text{Percentage of G.P. on sales} = \frac{₹61,33,500}{₹2,61,69,600} = 23.4375\%$$

(b) (i) Explain the preparation of Account Current by the Method of Products. [4]

Answer

Format of Account Current

Debit Side						Credit Side					
Trans Date	Due Date	Particulars	Amt	No. of Days	Product	Trans Date	Due Date	Particulars	Amt	No. of Days	Product

	Note1			Note 2	Note 3		Note 1			Note 2	Note 3

Note:

- If no specific date is mentioned as the date on which payment is due, the date of the transaction itself is presumed to be the Due Date.
- Number of Days is counted from the Due Date of each transaction to the date of rendering the account.
- Each entry in Product Column = Entry in Amount Column x No. of Days.
- At the end of the period, the Product Column in balanced and the Net Product is the Amount on which Interest is to be computed. This is called "Product Balance".
- Interest = Product Balance x Rate of Interest x $\frac{1}{365}$. This Interest Amount is posted to the Account Current on the side opposite to the side where the "Product Balance" stands.
- **Note:** This Method computes the Net Interest directly, i.e. Interest Payable and Interest Due are mutually set-off and only the Net Interest Due / Receivable is reflected in the Account Current. Interest on the individual transactions is not reflected as in the Interest Method.

(ii) On 01.04.20X1, Dhakshinamurthi purchased 1,000 Equity Shares of ₹ 100 each in Lakshmi Ltd at ₹ 120 each from a Broker, who charged 2% Brokerage. He incurred 50 paise per ₹ 100 as cost of Share Transfer Stamps. On 31.01.20X2, Bonus was declared in the ratio of 1:2. Before and after the record date of Bonus Shares, the Shares were quoted at ₹ 175 per Share and ₹ 90 per Share respectively. On 31.03.20X2, Dhakshinamurthi sold Bonus Shares to a Broker, who charged 2% Brokerage.
Show the Investment Account in the books of Dhakshinamurthi, who held the shares as Current Assets. Closing Value of Investments shall be made at Cost or Market value whichever is less. [4]

Answer:

Basic Computations

Particulars	Computation	₹
(a) Cost of Shares purchased on 01.04.20X1	(1,000 x 120) + (2% of 1,20,000) + 0.5% of 1,20,000	1,23,000
(b) Sale Proceeds of Shares sold on 31.03.20X2	(500 x 90) - 2% of 45,000	44,100
(c) Profit on Sale of Bonus Shares on 31.03.20X2	Sale Proceeds = 44,100 Less: Average Cost 1,23,000 x $\frac{50,000}{1,50,000}$ =(41,000)	3,100
(d) Valuation of Equity Shares of 31.03.20X2	Cost: 1,23,000 x $\frac{1,00,000}{1,50,000}$ = 82,000 Market Value: 1,000 Shares of ₹ 90 = 90,000	Least of the two 82,000

Investment (Equity Shares of Lakshmi Limited) Account

Dr. Cr.

Date	Particulars	NV	Cost	Date	Particulars	NV	Cost
01.04.20X1	To Bank	1,00,000	1,23,000	31.03.20X2	By Bank	50,000	44,100
31.03.20X2	To Bonus Shares	50,000	3,100	31.03.20X2	By balance c/d	1,00,000	82,000
31.03.20X2	To P&L A/c						
		1,50,000	1,26,100			1,50,000	1,26,100

Note: Here NV = Nominal Value

(c) Lubrizols Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing ₹ 800 per barrel to Central Oil Co. of Kolkata on 1.1.2014. Lubrizols Ltd. paid ₹ 50,000 as freight and

insurance. 25 barrels were destroyed on 7.1.2014 in-transit. The insurance claim was settled at ₹ 15,000 and was paid directly to the consignor.

Central Oil took delivery of the consignment on 19.1.2014 and accepted a bill drawn upon them by Lubrizols Ltd., for ₹ 5,00,000 for 3 months. On 31.3.2014, Central Oil reported as follows:-

(i) 750 barrels were sold as ₹ 1,200 per barrel.

(ii) The other expenses were:

	₹
Clearing charges	**11,250**
Godown Rent	**10,000**
Wages	**30,000**
Printing, Stationery, Advertisement	**20,000**

(iii) 25 barrels of oil were lost due to leakage which is considered to be normal loss.

Central Oil Co. is entitled to a commission of 5% on all the sales effected by them. Central Oil Company paid the amount due in respect of the consignment on 31st March itself. Show the Consignment Account, the account of Central Oil Co., and the Lost-in-Transit Account as they will appear in the books of Lubrizols Ltd.

[8]

Answer:

In the Books of Lubrizols Ltd.
Consignment to Kolkata Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2014 Jan. 1	To, Goods Sent on Consignment A/c (1,000 x ₹ 800)	8,00,000	2014 Jan. 7	By Abnormal Loss A/c	21,250
Mar. 31	To Bank A/c – Expenses	50,000		By Central Oil Co. - Sale Proceeds (750 x ₹ 1,200)	9,00,000
	To Central Oil Co. A/c				
	Clearing Charge 11,250				
	Godown Rent 10,000			By Stock on Consignment A/c	1,76,842
	Wages 30,000				
	Printing etc. 20,000	71,250			
	To Central Oil Co.-				
	Commission @ 5%	45,000			
	To Profit and Loss A/c				
	- Profit on Consignment Transferred	1,31,842			
		10,98,092			10,98,092

Central Oil Co. Ltd. Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2014 Mar. 31	To, Consignment to Kolkata A/c - Sale Proceeds	9,00,000	2014 Jan. 19	By Abnormal Loss A/c	5,00,000
			Mar. 31	By Consignment to Cal A/c	
				- Expenses	71,250
				- Commission	45,000
				By Bank (amount due)	2,83,750
		9,00,000			9,00,000

Abnormal Loss Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2014 Jan. 7	To, Consignment to Kolkata A/c	21,250	2014 Jan. 7	By Bank-Insurance claim	15,000
			Mar. 31	By Profit and Loss A/c	6,250
				(Bal. Fig.)	
		21,250			21,250

Workings:

Valuation of Goods Lost-in-Transit and Unsold Stock

		₹
	Total Cost (1,000 x ₹ 800)	8,00,000
Add:	Consignor's expenses	50,000
	Value of 1,000 barrels	8,50,000
Less:	Lost-in-transit $\left(25 \times \frac{₹8,50,000}{1,000}\right)$	21,250
		8,28,750
Add:	Non-recurring expenses of Consignee	11,250
	Value of (1,000 – 25 – 25) = 950 Kg.	8,40,000

Therefore, Value of Stock = $200 \times \frac{₹8,40,000}{950}$ = ₹ 1,76,842 (app.)

7 (Answer any two) **[8x 2]**

(a) From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditons of Tariff) Regulations, 2004.

- **Date of Commercial Operation of COD = 1st April 2010**
- **Approved opening Capital cost as on 1st April 2010 = 1,50,000**
- **Weighted Average Rate of Depreciation: 3.5%**
- **Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average**

Rate of Interest on Loan is as Follows

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed}	**10,000**	**3,000**	**2,000**	**1,000**
Repayment of Loan	**8,000**	**10,000**	**10,000**	**11,000**
Weighted Average Rate of Interest on Loan	**7.4**	**7.5**	**7.6**	**7.5**

[8]

Answer :

1. COMPUTATION OF DEPRECIATION

Particulars	1st year	2nd year	3rd year	4th year

A. Opening Capital Cost	1,50,000	1,60,000	1,63,000	1,65,000
B. Additional Capital Cost	10,000	3,000	2,000	1,000
C. Closing Capital Cost (A + B)	1,60,000	1,63,000	1,65,000	1,66,000
D. Average Capital Cost [(A + C)/2]	1,55,000	1,61,500	1,64,000	1,65,500
E. Weighted Average Rate of Dep.	3.5%	3.5%	3.5%	3.5%
F. Annualized Depreciation (D x E)	5,425	5,652.5	5,740	5,792.50
G. Advance Against Depreciation (AAD)	2,575	4,347.50	4,260	5,207.50
H. Total Depreciation (including AAD) for Tariff (F +G)	8,000	10,000	10,000	11,000

2. COMPUTATION OF ADVANCE AGAINST DEPRECIATION (AAD)

Particulars	1st year	2nd year	3rd year	4th year
A. Repayment of Loan (10% of Loan Amou	8,000	10,000	10,000	11,000
B. Depreciation (Excluding AAD)	5,425	5,652.5	5,740	5,792.50
C. Difference between A & B (A - B)	2,575	4,347.50	4,260	5,207.50
D. Cumulative Repayment of Loan	8,000	18,000	28,000	39,000
E. Cumulative Depreciation (Excluding AAD) at the beg.	5,425	11,077.50	16,817.50	22,610
F. Difference between D & E (D - E)	2,575	6,922.50	11,182.50	16,390
G. Advance Against Depreciation (AAD) (Minimum of C & F)	2,575	4,347.50	4,260	5,207.50

(b)(i) Write a note on Reserve Funds (Statutory Reserve) in the context of Banking Companies [Under Section 17]. **[3]**

Answer:

Every banking company incorporated in India is required to transfer at least 25% of its profit to the reserve fund.

The profit of the year as per the profit and loss account prepared u/s 29 is to be taken as base for the purpose of such transfer and transfer to reserve fund should be made before declaration of any dividend.

If any banking company makes any appropriation from the reserve fund or securities premium account, it has to report to the Reserve Bank of India the reasons for such appropriation within 21 days.

(ii) Explain about the Maintenance of Cash Reserve Under Section 18. **[5]**

Answer:

- Every non-scheduled bank has to maintain a cash reserve at least to the extent of at % prescribed (by RBI) of its demand and time liabilities in India on the last Friday of the second preceding fortnight.
- Cash reserve can be maintained by way of balance in a current account with the Reserve Bank of India or by way of net balance in current accounts.
- Every non-scheduled bank has to submit a return showing the amount so held for cash reserve along with the particulars of its demand and time liabilities in India on such Friday before 20th day of every month.
- If any such Friday is a holiday under the Negotiable Instruments Act 1881, such return is to be sent at the close of business on the preceding working day.
- Every Scheduled Commercial Bank has to maintain cash reserve as per direction of the RBI issued under Section 42 (IA) of the Reserve Bank of India Act, 1934.

(c) The Revenue Account of a Life Insurance Company showed the Life Fund at ₹ 58,53,600 on 31st March before taking into consideration the following items. Pass the Journal Entries for the following and compute the Corrected Balance of Life Fund.

Particulars	₹
Claims Intimated but not Admitted	**78,600**
Bonus Utilized in Reduction of Premium	**10,800**
Interest Accrued on Investments	**23,800**
Outstanding Premiums	**21,600**
Claims covered under Re-Insurance	**32,400**
Provision for Taxation	**25,200**

[8]

Answer:

Journal Entries

	Particulars	Dr. (₹)	Cr. (₹)
1.	Claims A/c Dr. To Outstanding Claims A/c (Being Claims Intimated but not admitted, omitted to be accounted earlier, now brought into account.)	78,600	78,600
2.	Bonus in Reduction of Premium A/c Dr. To Premium Income A/c (Being Bonus in Reduction of Premium, omitted to be accounted earlier, now accounted for)	10,800	10,800
3.	Accrued Interest A/c Dr. To Interest Income A/c (Being Interest Accrued on Investments as on 31st March accounted for)	23,800	23,800
4.	Outstanding Premium A/c Dr. To Premium Income A/c (Being Outstanding Premiums brought into account)	21,600	21,600
5.	Re-Insurance Claims Rec'able from Other Insurance Companies A/c. Dr. To Claims A/c (Being adjustments for Claims covered under re-insurance, reimbursements receivable)	32,400	32,400
6.	Profit and Loss A/c Dr. To Provision for Taxation A/c (Being adjustments for Provision for Taxation)	25,200	25,200

2. Corrected Balance of Life Fund

Particulars		₹
Life Assurance Fund as on 31st March (before above corrections)		58,53,600
Add: Bonus in Reduction of Premium (Being Income Equivalent)	10,800	
Accrued Interest	23,800	
Outstanding Premium	21,600	
Re-Insurance Claims	32,400	88,600
Total of above		59,42,200
Less: Claims Outstanding	78,600	
Bonus in Reduction of Premium (Being Cost Equivalent)	10,800	
Provision for Taxation	25,200	1,14,600
Corrected Balance of Life Fund as on 31st March		58,27,600