Paper-5: FINANCIAL ACCOUNTING

Time Allowed : 3 Hours **Full Marks :** 100

Section A is compulsory and answer any 5 questions from Section B

Section A

1. **Answer the following questions (give workings):** **[2×10]**

(i) MGS Ltd. purchased a machine costing ₹1,25,000 for its manufacturing operations and paid shipping costs of ₹30,000. MGS Ltd. spent an additional ₹12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?

Answer:

As per As 10, the cost of fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Cost includes the purchase price, freight and handling charges, insurance cost on the machine while in transit, cost of special foundations, and costs of assembling, installation and testing.

Therefore the cost to be recorded is ₹(1,25,000+30,000+12,000) i.e. ₹1,67,000.

(ii) M bought goods from N for ₹ 16,000. N draws a bill on 1.1.2013 for 3 months which was accepted by M for this purpose. On 1.3.2013, M arranged to retire the bill at a rebate of 15% p.a. Show the entries in the books of N.

Answer:

In the books of N
Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2013 Jan 1	M A/c Dr. To, Sales A/c (Goods sold to M)		16,000	 16,000
Jan 1	Bills Receivable A/c Dr. To, M A/c (Bills drawn for 3 months)		16,000	 16,000
March 1	Cash A/c Dr. Rebate allowed A/c Dr. To, Bills Receivable A/c (Bills retired under a rebate of 15% p.a.)		15,770 230	 16,000

Rebate = ₹16,000 × 15/100 × 35/365 (1st March to 4th April)

(iii) In preparing the bank reconciliation statement for the month of June 2013, AB Company has the following data:

	₹
Balance as per bank statement	**15,375**
Cheques in transit	**1,250**
Cheques issued but not presented	**1,725**
Bank service charges	**100**

Compute the Bank Balance as per Cash Book .

Answer:

Bank Balance as per Cash Book
=₹15,375 + ₹1, 250 - ₹1,725 + ₹100
=₹15,000.

(iv) Calculate the amount of Salary to be shown in the Income and Expenditure Account for the year ended 31st March 2013 from the following information:

(a) Salary paid as per Receipt and Payment A/c ₹63,000
(b) Salary unpaid on 31.3.2012 ₹6,000
(c) Salary Prepaid on 31.3.2012 ₹5,000
(d) Salary unpaid on 31.3.2013 ₹7,000
(e) Salary prepaid on 31.3.2013 ₹8,000

Answer:

Particulars	Amount (₹)	Amount (₹)
Salary paid during 2012-13		63,000
Add: Salary prepaid on 31.03.2012	5,000	
Salary unpaid on 31.03.2013	7,000	12,000
		75,000
Less: Salary unpaid on 31.03.2012	6,000	
Salary prepaid on 31.03.2013	8,000	14,000
Salary to be shown in Income & Expenditure A/c		61,000

(v) From the following particulars, show the entries in the books of Consignor:
Goods sent on Consignment 150 books of ₹ 200 each.

Expenses incurred by consignor		**Expenses incurred by consignee**	
Freight	**₹4,000**	**Clearing**	**₹4,000**
Insurances	**₹2,000**	**Storage**	**₹1,000**

Consignee sold 123 books and he informed that a deficiency of 3 units is disclosed by his actual physical stock taking.

Answer:

Journal

Date	Particulars	L.F	Debit	Credit
?	Stock on Consignment A/c Dr. To, Consignment A/c		6,400	 6,400
?	Stock Deficiency A/c Dr. To, Consignment A/c		800	 800
?	Profit and Loss A/c Dr. To, Stock Deficiency		800	 800

Workings:

Valuation of Unsold Stock

Particulars	**Amount (₹)**
Total Cost	30,000
Add: Consignor's expenses	6,000
Add: Consignees non recurring expenses	4,000
Cost Price of 150 books	40,000

$\therefore$ Value of Stock = ₹40,000 $\times \frac{24}{150}$ =₹6,400

Value of Deficiency of Stock = ₹40,000 $\times \frac{3}{150}$ =800

(vi) Mega Ltd. deals in three products A,B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2012-13 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	**Historical Cost (₹ in Lakhs)**	**Net realizable value (₹ in Lakhs)**
A	**22**	**16**
B	**18**	**18**
C	**10**	**14**

What will be the value of closing stock?

Answer:

Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered	₹
A	16
B	18
C	10
Value of Closing Stock	**44**

(vii) A Ltd. purchased fixed assets costing ₹ 5,100 lakhs on 01.01.2013 and the same was fully financed by foreign currency loan (U.S $) payable in three annual installments. Exchange rates were U.S $ I = ₹42.50 and ₹45.00 as on 01.01.2013 and 31.12.2013 respectively. First installment was paid on 31.12.2013. The entire difference in foreign exchange has been capitalized.

You are required to state , how these transactions would be accounted for.

Answer:

Foreign Currency Loan= ₹ 5,100 lakhs/ ₹ 42.50= 120 lakhs US Dollars
Exchange difference = 120 lakhs US Dollars × (₹45.00 – ₹42.50) = ₹ 300 lakhs
(including exchange loss on payment of first instalment)
Therefore, entire loss due to exchange differences amounting ₹ 300 lakhs should be charged to Profit and Loss Account for the year and the stand of the company is wrong.

(viii) Golden Ltd. furnished the following particulars:

Debtors ledger include ₹ 7,500 due from Das & Co. whereas creditors ledger include ₹ 4,500 due to Das & Co. Show the journal entry.

Answer:

In the books of Oscar Ltd.
Journal Entry

Particulars	Debit (₹)	Credit(₹)
Creditors Ledger Adjustment A/c Dr. To, Debtors Ledger Adjustment A/c (Debtors ledger includes ₹7,500 due form Das & Co. whereas Creditors Ledger include ₹4,500 due to Das & Co. ,adjusted)	4,500	 4,500

(ix) Sales was ₹30,00,000 in the previous year.
Gross Profit is 25% on Sales.
The Company expects 20% Sales increment in sales volume during this year.
Compute the Cost of goods Sold.

Answer:

Sales in previous year was ₹30,00,000
∴Sales of this year is ₹36,00,000
∴ Cost of goods sold = Sales – Gross Profit = ₹36,00,000 - ₹9,00,000 = ₹27,00,000

(x) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets.

Particulars	**Amount ₹**
Fair Market value of plan assets (beginning of year)	**3,50,000**
Employer Contribution	**50,000**
Actual return on plan assets	**25,000**
Benefit payments to retirees	**20,000**

Answer:

Computation of fair value of plan assets:

Particulars	**Amount ₹**

Fair Market value of plan assets (beginning of year)	3,50,000
Employer Contribution	50,000
Actual return	25,000
Benefit payments	(20,000)
Fair market value of plan assets (end of year)	4,05,000

Section B

Answer any 5 questions from the following

2. **(a) Rectify the following errors by way of journal entries and work out their effect on profit or loss of the concern:**
   - **i. ₹ 600 received from Viman has been debited to Mr. Vivek.**
   - **ii. Wages paid for the installation of a machine debited to wages account for ₹ 1,000.**
   - **iii. A purchase made for ₹ 2,000 was posted to purchase account as ₹ 200.**
   - **iv. Goods purchased for proprietor's use for ₹ 1,800 debited to purchase account. [6]**

Answer:

In the books of …..
Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Suspense A/c Dr. To, Viman A/c To, Mr. Vivek A/c (received from Viman has been debited to Mr. Vivek A/c, now rectified)		1,200	 600 600
(ii)	Machinery A/c Dr. To, Wages A/c (wages paid for maintenance of machinery debited to Wages A/c, now rectified)		1,000	 1,000
(iii)	Purchase A/c Dr. To, Suspense A/c (Purchase Account was short by ₹1,800, now rectified)		1,800	 1,800
(iv)	Drawings A/c Dr. To, Purchase A/c (Goods purchased for proprietor's use, debited to Purchase Account, now rectified)		1,800	 1,800

Effect on Profit

Items	Particulars	Increase (₹)	Decrease(₹)
(i)	No effect on Profit	-	-
(ii)	Increase in Profit	1,000	-
(iii)	Decrease in Profit	-	1,800
(iv)	Increase in Profit	1,800	-
	Total	**2,800**	**1,800**

	Increase in Profit		**1,000**

(b) On 1st April, 2012 Good Morning Ltd. offered 100 shares to each of its 500 employees at ₹50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock- in on transfers for three years from grant date. The market price of shares of the company on the grant dated is ₹ 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 56 per share.
On 30th April, 2012 , 400 employees accepted the offer and paid ₹ 30 per share purchased. Normal value of each share is ₹ 10. Pass journal entry. [2]

Answer:

Fair value of an ESPP = ₹ 56 - ₹ 50 = ₹ 6.00
Number of shares issued = 400 employees X 100 shares / employee= 40,000 shares
Fair value of ESPP which will be recognized as expenses in the year 2012-2013
= 40,000 shares × ₹ 6 = ₹ 2,40,000
Vesting period = 1 month
Expenses recognized in 2012-2013 = ₹ 2,40,000

Journals

Date	Particulars	Dr. ₹	Cr. ₹
30.04.2012	Bank A/c (40,000 shares X ₹ 50) Dr. Employees compensation expenses A/c Dr. To, Share Capital A/c (40,000 shares X ₹ 10) To, Securities Premium (40,000 shares X ₹ 46) (Being shares issued under ESPP @ ₹ 50.00)	20,00,000 2,40,000	 4,00,000 18,40,000

(c) Akash Ltd. has 3 departments A ,B and C. The following information is provided:

Particulars	A ₹	B ₹	C ₹
Opening Stock	6,000	8,000	6,000
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 connected. 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 and Stationary ₹ 2,000, rent ₹12,000, Interest paid ₹8,000, Depreciation ₹6,000,. Allocate expenses in the ratio of departmental gross profit. Opening figures of reserve for unrealized profits on departmental stock were: Department B ₹2,000; Department C ₹4,000. [8]

Answer:

Departmental Trading and Profit & Loss Account

Dr. for the year ended 31st March, 2013 **Cr.**

Particulars	A ₹	B ₹	C ₹	Total ₹	Particulars	A ₹	B ₹	C ₹	Total ₹
To, Opening Stock	6,000	8,000	6,000	20,000	By, Internal transfer	36,000	66,000	-	1,02,000
To, Direct Material	16,000,	24,000	-	40,000	By, Sales	-	-	68,000	68,000
To, Wages	10,000	20,000	-	30,000	By, Closing Stock	8,000	28,000	16,000	52,000
To, Internal Transfer	-	36,000	66,000	1,02,000					
To, Gross Profit c/d	12,000	6,000	12,000	30,000					
	44,000	**94,000**	**84,000**	**2,22,000**		**44,000**	**94,000**	**84,000**	**2,22,000**
To, Salaries	1,600	800	1,600	4,000	By, Gross Profit b/d	12,000	6,000	12,000	30,000
To, Printing & Stationery	800	400	800	2,000	By, Net Loss c/d	800	400	800	2,000
To, Rent	4,800	2,400	4,800	12,000					
To, Depreciation	2,400	1,200	2,400	6,000					
To, Interest paid	3,200	1,600	3,200	8,000					
	12,800	6,400	12,800	36,000		12,800	6,400	12,800	32,000
To, Net Loss b/d (After adjusting the profit of Deptt. C)				2,000	By, Provision for unrealized profit on Opening Stock				6,000
To, Provision for Unrealised profit on Closing Stock				7,836	By, Balance transferred to Profit & Loss A/c				3,836
				9,836					**9,836**

Working Notes :

(i) FIFO method for stock issue has been assumed. Alternatively this question could have been solved by assuming other methods for stock issue like LIFO Basis, Weighted Average basis, etc.

(ii) Calculation of unrealised profit on Closing Stock of Deptt. B	₹
Current cost incurred by Deptt. B (₹ 24,000 + ₹ 20,000 + ₹ 36,000)	80,000
Profit included in Above (₹ 36,000 × 50/150)	12,000
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 Deptt C	₹
Current Cost incurred by Deptt. C	66,000
Profit of Dept. B included in above (₹66,000 × 10/110)	6,000
Cost element of Dept. B included in current cost (₹ 66,000 –6,000)	60,000
Profit of Dept. A included in above cost (₹ 12,000 × ₹ 60,000/₹ 80,000)	9,000
Total Profit included in current cost of Dept. C (₹ 6,000 + ₹ 9,000)	15,000
Unrealised profit included in closing stock of ₹ 16,000 (₹ 15,000 × ₹ 16,000/₹ 66,000)	3.636
(iv) Total unrealised profit (₹ 4,200 + ₹ 3,636)	7,836

3. (a) P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2013 is as under :

Liabilities	Amount ₹	Assets	Amount ₹
Capital – P	60,000	Machinery	80,000
Capital - Q	50,000	Furniture	15,000
Capital – R	40,000	Motor Car	30,000
Sundry Creditors	72,000	Stock	50,000
Bank Loan	30,000	Sundry Debtors	60,000
Other Liabilities	20,000	Cash at Bank	37,000
	2,72,000		2,72,000

P retired on 1.9.2013 and the partnership deed provided inter alia that in the event of admission, retirement or death of a partner, the assets and liabilities are to be revalued and that goodwill of the firm is to be computed on the basis of 2 years purchase of the correct profit of the last 4 years.

During the period he drew ₹30,000, interest on drawings @ 6% p.a.

It is discovered that the accounts required adjustments owing to certain mistakes in earlier years. On 1.10.2010 repairs to machinery for ₹ 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2011 a piece of furniture, whose book value was ₹2,000 was disposed of for ₹800 but the proceeds were wrongly credited to Sales Account. The partners had been charging depreciation on all fixed assets at 10% p.a. on the reducing balance system on a time basis. Profits for the last four years without adjusting the above mentioned mistakes were as follows:

2009-10 ₹20,000; 2010-11 ₹24,000; 2011-12 ₹32,000; 2012-13 ₹36,000.

Revaluation on the date of retirement was:

Machinery- ₹90,000; Furniture- ₹10,000; Motor car - ₹22,000.

Partner will also be given proportionate share of profits based on the last year's profit.
Determine the amount to be paid to the retiring partner. [8]

Answer:

Statement showing computation of the amount to be paid to the retiring partner:

Particulars	Amount(₹)
Capital	60,000
Share of Loss on revaluation	(808)
Proportionate share of goodwill [₹52,880 × $\frac{3}{6}$]	26,440
Proportionate share of last year's profit - [₹36,693 × $\frac{3}{6} \times \frac{5}{12}$]	7,644

Drawings	(30,000)
Interest on Drawings[₹30,000 × $\frac{6}{100} \times \frac{5}{12} \times \frac{1}{2}$]	(375)
Amount to be paid to the retiring partner	**62,901**

Workings:

A.

Dr. **Revaluation Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To, Motor Car A/c	8,000		By, Machinery A/c	14,617
	To, Furniture A/c	5,000			
	To, Partner's Capital A/c (P-₹ 808; Q-₹ 539; R-₹ 270)	1,617			
		14,617			**14,617**

B. Ascertainment of Adjusted Profits

	2009-10 ₹	**2010-11** ₹	**2011-12** ₹	**2012-13** ₹
Profits without adjustment	20,000	24,000	32,000	36,000
Less : Repairs previously capitalised		(–) 6,000		
Add : Depreciation wrongly charged on the above		(+) 300	(+) 570	(+) 513
Less : Sale of Furniture wrongly credited to Sales			(–) 800	
Less : Loss on sale of Furniture not recorded (₹ 2,000 – 800)			(–) 1,200	
Add : Depreciation on Furniture wrongly provided			(+) 200	(+) 180
Adjusted Profits	20,000	18,300	30,770	36,693

C. Ascertainment of the Value of Goodwill and its Adjustment

Aggregate adjusted profits for 4 years: ₹ 1,05,763; Average Profits — ₹1,05,763 / 4 = ₹ 26,440.

Goodwill at 2 years' purchase of average profit = ₹ 52,880 (₹ 26,440 × 2).

(b) The following information is avail from the books of the trader for the period 1st Jan. to 31st March 2012:

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. Bills receivable drawn during the period totaled ₹ 7,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ₹ 1,500 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.

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

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

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

You are required to show the Debtors Ledger Adjustment Account in the General Ledger.

[6]

Answer:

In the General Ledger

Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Jan 1 March.31	To Balance b/d " General Ledger Adjustment A/c : - Sales - Bills Receivable Dishonoured - Cheque Dishonoured	 40,000 55,000 1,500 5,000	2011 Jan 1 March.31	By, General Ledger Adjustment A/c : Cash Discount Allowed Bills Receivable Bad Debts " Balance c/d	 57,000 2,600 7,000 2,000 32,900
		1,01,500			1,01,500
April 1	To Balance b/d	32,900			

Workings:

1. 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.

2. Cash received

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

Cash received $89,000 \times \frac{60}{100}$ = ₹57,000.

(c) What are the advantages of Self Balancing System? **[2]**

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.

4. (a) Compute the percentage of completion and the Contract Revenues and Costs to be recognized from the following data.

Contract Price — ₹150 Lakhs

Materials issued to the Contract — ₹36 Lakhs of which materials costing ₹ 6 Lakhs is still lying unused at the end of the period.

Labour paid for workers engaged at site — ₹ 24 Lakhs (₹ 4 Lakhs is still payable)

Specific Contract Costs – ₹ 12 Lakhs, Sub-Contract Costs for work executed — ₹10 Lakhs, Advances paid to Sub-Contractors — ₹ 6 Lakhs

Cost estimated to be incurred to complete the Contract — ₹ 60 Lakhs. [6]

Answer:

Based on above information, the Proportionate Cost Method will provide a realistic estimate of stage of completion. This is calculated as under —

	Materials Cost incurred on the Contract (net of Closing Stock)	= ₹ 36 – ₹ 6	=	₹ 30 Lakhs
Add :	Labour Costs incurred on the Contract (paid + payable)	= ₹ 24 + ₹ 4	=	₹ 28 Lakhs
	Specific Contracts Costs	= Given	=	₹ 12 Lakhs
	Subcontract costs (advances should not be considered)	= Given	=	<u>₹ 10 Lakhs</u>
	Costs Incurred Till Date		=	₹ 80 Lakhs
Add :	Further Costs to be incurred	= Given	=	<u>₹ 60 Lakhs</u>
	Total Contract Costs		=	₹140 Lakhs
	Hence, Percentage of Completion base on Costs	= 80 ÷ 140	=	57.14%
= Costs Incurred Till Date ÷ Estimated Total Contract Costs				
	Contract Revenue to be recognised (as per Para 21)	= 57.14% × ₹150	=	₹85.71Lakhs
Less :	Contract Costs to be recognised (as per Para 21)	=as computed	=	<u>₹80.00 Lakhs</u>
Therefore, Contract Profit		=		<u>₹ 5.71 Lakhs</u>

(b) Blue Sky Ltd. used certain resources of Blue Moon Ltd. In return Blue Moon Ltd. received ₹ 15 lakhs and ₹ 22.50 lakhs as interest and royalties, respectively from Blue Sky Ltd. during the year 2012-13. Discuss the situation as per AS 9. [2]

Answer:

As per AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognised when no significant uncertainty as to its measurability or collectability exists. These revenues are recognised on following bases:

Interest: On a time proportion basis taking into account the amount outstanding and the rate applicable.

Royalties: On an accrual basis in accordance with the terms of the relevant agreement.

Here the interest should be recognised in the year to which it pertains, not in the year in which it is received.

(c) A fire occurred in the office premises of lessee in the evening of 31.3.2012 destroying most of the books and records. From the documents saved, the following information is gathered:

Short-working recovered :

2009-10 ₹ 4,000 (towards short-workings which arose in 2006-07)

2010-11 ₹ 8,000 (including ₹ 1,000 for short-working 2007-08)

2011-12 ₹ 2,000

Short-working lapsed :

2008-09 ₹ 3,000
2009-10 ₹ 3,600
2011-12 ₹ 2,000

A sum of ₹ 50,000 was paid to the landlord in 2008-09. The agreement of Royalty contains a clause of Minimum Rent payable for fixed amount and recoupment of short-workings within 3 years following the year in which Short-workings arise.

Information as regards payments to landlord subsequent to the year 2008-09 is not readily available.
Show the Short – working Account and the Royalty Account in the books of lessee. [8]

Answer:

Working Notes:
Analysis of payments

Year	Minimum Rent ₹	Royalty ₹	Actual Payment ₹	Shortworking ₹			
				Occurred	Recouped	Lapsed	Carried Forward
2007-08	-	-	-	-	-	-	11,600
2008-09	50,000	39,000	50,000	11,000	-	3,000	19,600**(C)**
2009-10	50,000	54,000	50,000	-	4,000	3,600	12,000**(B)**
2010-11	50,000	58,000	50,000	-	8,000	-	4,000**(A)**
2011-12	50,000	52,000	50,000	-	2,000	2,000	-

Analysis of Royalty Payable:

		₹	₹
Royalty in 2008-09	Minimum Rent – Shortworking	50,000 - 11,000	39,000
Royalty in 2009-10	Minimum Rent + Recoupment	50,000 + 4,000	54,000

Royalty in 2010-11	Minimum Rent + Recoupment	50,000 + 8,000	58,000
Royalty in 2011-12	Minimum Rent + Recoupment	50,000 + 2,000	52,000

Explanation of the above mentioned Analysis:

(i) 2008-09 ₹50,000 was paid but there was no recoupment. ∴ ₹50,000 was the payment for Minimum Rent. This has been posted in the minimum rent column, every year.

(ii) In 2011-12 Shortworking recouped + Shortworking lapsed = ₹2,000 + ₹2,000 = ₹4,000. This has been posted as the amount carried forward in 2010-11. **(A)**

(iii) In 2010-11 ₹8,000 has been recouped. So, the closing balance of its preceding year 2009-10 was =₹(4,000+8,000)=₹12,000. **(B)**

(iv) In 2009-10 Shortworkings adjusted = amount recouped + amount lapsed =₹(4,000+3,600)=₹7,600. In its preceding year 2008-09, the closing balance was ₹(12,000+7,600) =₹19,600. **(C)**

(v) No Shortworking occurred in 2009-10, 2010-11,2011-12. ∴All Shortworkings occurred in 2008-09 or before.

(vi) Shortworking can be recovered within next 3 years.
∴Total Shortworking adjusted in 2011-12 ₹4,000 must be related to 2008-09.
Again out of ₹8,000 recouped in 2010-11. ₹1,000 is related to 2007-08.
∴ Balance ₹7,000 was related to 2008-09.
∴Total Shortworking of 2008-09 = ₹4,000 + ₹7,000 = ₹11,000.

(vii) Opening Balance of Short working in 2007-08 = Closing balance + Amount recouped + Amount Lapsed – Amount of Shortworking occurred i.e.₹(19,600+3,000-11,000)=₹11,600

In the books of ….
Royalty Account

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2008-09	To, Landlord A/c	39,000	2008-09	By, Profit and Loss A/c	39,000
		39,000			**39,000**
2009-10	To, Landlord A/c	54,000	2009-10	By, Profit and Loss A/c	54,000
		54,000			**54,000**
2010-11	To, Landlord A/c	58,000	2010-11	By, Profit and Loss A/c	58,000
		58,000			**58,000**
2011-12	To, Landlord A/c	52,000	2011-12	BY, Profit and Loss A/	52,000
		52,000			**52,000**

Shortworkings Account

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2008-09	To, Balance b/d	11,600	2008-09	By, Profit and Loss A/c	3,000
	To, Landlord A/c	11,000		By, Balance c/d	19,600
		22,600			**22,600**
2009-10	To, Balance b/d	19,600	2009-10	By, Landlord A/c	4,000
				By, Profit and Loss A/c	3,600
				By, Balance c/d	12,000
		19,600			**19,600**
2010-11	To, Balance b/d	12,000	2010-11	By, Landlord A/c	8,000
				By, Balance c/d	4,000

		12,000			**12,000**
2011-12	To, Balance b/d	4,000	2011-12	By, Landlord A/c	2,000
				By, Profit and Loss A/c	2,000
		4,000			**4,000**

5. (a) From the following particulars, which have been extracted from the book of A & Co. , for the year ended 31.01.2012, prepare General Ledger Adjustment Account in the Creditors Ledger and Debtors Ledger Adjustment Account in t5he General Ledger:

	Amount ₹		**Amount ₹**
Debtors Balance (01.01.2012) Dr.	**20,000**	**Bills Receivable received**	**3,000**
Cr.	**300**	**Bills Receivable endorsed**	**800**
Creditors Balance (01.01.2012) Dr.	**200**	**Bills Receivable as endorsed discounted**	**300**
Cr.	**15,000**	**Bills Receivable discounted**	**1,400**
Purchases (including Cash ₹4,000)	**12,000**	**Bills Receivable dishonoured**	**400**
Sales (including Cash ₹6,000)	**25,000**	**Interest charged on dishonoured bills**	**30**
Cash paid to suppliers in full settlement of claims for ₹ 9,000	**8,500**	**Transfer from one ledger to another**	**600**
Cash received from customers in full settlement of claims of ₹ 15,000	**14,1000**	**Returns (Cr.)**	**700**
Bills Payable accepted (including renewals)	**2,000**	**Debtors Balance (31.12.2012)Cr.**	**450**
Bills Payable withdrawn upon renewals	**500**	**Creditors Balance (31.12.2012) Dr.**	**10,870**

[8]

Answer:

In the Creditors Ledger General Ledger Adjustment Account

Dr. **Cr.**

Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
2012 Jan 1	To, Balance b/d	15,000	2012 Jan	By, Balance b/d	200
Dec. 31	To, Creditors Ledger Adjustment A/c: Purchases Bills Payable Withdrawn Bills Receivable Dishonoured (as endorsed)	 8,000 500 300	Dec. 31	By, Creditors Ledger Adjustment A/c: Cash Discount Received (9,000-8,500) Returns Outward Bills Payable Bills Receivable (endorsed) Transfer	 8,500 500 700 2,000 800 600
	To, Balance c/d	170		By, Balance c/d	10,870

		23,970			**23,970**
2013 Jan. 1	To, Balance b/d	10,870	2013 Jan. 1	By, Balance c/d	170

In the General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	**Particulars**	**Amount(₹)**	**Date**	**Particulars**	**Amount(₹)**
2012 Jan.1	To, Balance b/d	20,000	2012 Jan. 1	By, Balance b/d	300
Dec.31	To, General Ledger Adjustment A/c: Sales Bills Receivable endorsed dishonoured Bills Dishonoured	 19,000 300 400	Dec. 31	By, General Ledger Adjustment A/c: Cash Discount Allowed (15,000-14,100) Bills Receivable transfer	 14,100 900 3,000 600
	To, Balance c/d	450		By, Balance c/d	21,250
		40,150			**40,150**
2013 Jan. 1	To, Balance b/d	21,250	2013 Jan. 1	By, Balance b/d	450

(b) Azad , for mutual accommodation, draws a bill for ₹12,000 on Rahim. Azad discounted it for ₹11,700. He remits ₹3,900 to Rahim. On the due date , Azad is unable to remit his dues to Rahim to enable him to meet the bill. He, however, accepts a bill for ₹15,000 which Rahim discounts for ₹14,500. Rahim send a ₹700 to Azad after discounting the above bill. Azad becomes insolvent and a dividend of 80 paise in the rupee is received from his estate.

Pass journal entries in the books of Azad. [8]

Answer:

In the books of Azad
Journal Entries

Particulars	**L.F.**	**Dr. (₹)**	**Cr. (₹)**
Bills Receivable A/c Dr. To, Rahim A/c (Bill drawn for mutual accommodation and accepted by Rahim.)		12,000	 12,000
Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Bill discounted by the bank.)		11,700 300	 12,000
Rahim A/c Dr. To, Bank A/c To Discount A/c (1/3 Proceeds remitted to Rahim)		4,000	 3,900 100

Rahim A/c Dr. To, Bills Payable A/c (Bill accepted.)		15,000	 15,000
Bank A/c Dr. Discount A/c Dr. To, Rahim A/c (Proceeds received from Rahim including discount charges.)		700 300	 1,000
Bills Payable A/c Dr. To, Rahim A/c (Bill dishonored since he became insolvent)		15,000	 15,000
Rahim A/c Dr. To, Bank A/c To,Deficiency A/c (Cash paid to Rahim @80 paise in the rupee and balance transferred to deficiency account)		9,000	 7,200 1,800

Note:

Sharing Discount:

After discounting of the 1st bills, Azad received	₹8,000 (including discount)
Add: Amount remitted by Rahim (after discounting of the 2nd bill)	₹700
Total benefit received by Azad	₹8,700

Now,

After discounting of the 2nd bill Rahim received ₹14,500

$\therefore$ Proportion of Azad to Rahim = $\frac{8,700}{14,500} \times 500$ =₹300

$\therefore$ Azad is to bear = ₹300 of discounting charges, and the balance by Rahim.

6. **(a) On 01.07.2012,Pustak Printers purchased a printing machine from Mitra Ltd. on a Hire-Purchase basis, payments to be made ₹ 8,000 on the said date and the balance in three half-yearly instalments of ₹ 6,560; ₹ 5,952; ₹ 5,040; commencing from December 31, 2012. The vendor charged interest at 10% p.a. calculated on half-yearly rates. Pustak Printers closes their books annually on December 31, and provide depreciation at 10% p.a. on Diminishing Balances eanh year. Work out the Cash Price of the machine and show the account of Mitra Ltd. in the books of Pustak Printers. [8]**

Answer:

[(P+i)=Instalment

Since rate of interest is @10% p.a. for half-yearly rates, it will be 5%

(100+5)= ₹105

$\therefore \frac{5}{105} = \frac{1}{21}$]

	₹
Last Instalment	5,040
Less : Interest @$\frac{1}{21}$	240
Principal	4,800
Add : Instalment	5,952

	10,752
Less : Interest @$\frac{1}{21}$	512
	10,240
Add : Instalment	6,560
	16,800
Less : Interest @$\frac{1}{21}$	800
Principal	16,000
Add : Down Payment	8,000
Cash Price	24,000

In the books of Pustak Printers

Dr. **Mitra Ltd. Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2011			2011		
July 1	To, Bank A/c	8,000	July 1	By, Machinery A/c	24,000
Dec.31	" Bank A/c	6,560	Dec.31	" Interest A/c	800
	" Balance c/d	10,240			
		24,800			24,800
2012			2012		
June 30	To, Bank A/c	5,952	Jan.1	By, Balance b/d	10,240
Dec.31	To, Bank A/c	5,040	June 30	By, Interest A/c	512
			Dec.31	By, Interest A/c	240
		10,992			10,992

(b) Heaven Life Insurance Co. furnishes you the following information:

Particulars	**Amount (₹)**
Life insurance fund on 31.03.2013	**39,00,000**
Net Liability on 31.03.2013 as per actuarial valuation	**30,00,000**
Interim bonus paid to policyholders during intervaluation period	**3,00,000**

You are required to prepare:

(i) Valuation Balance Sheet;
(ii) Statement of Net Profit for the valuation period; and
(iii) Amount due to the policyholders. **[6]**

Answer:

Valuation Balance Sheet as at 31st March,2012

Liabilities	Amount (₹)	Assets	Amount(₹)
Net Liabilities as per actuarial valuation	30,00,000	Life Assurance Fund	39,00,000
Surplus	9,00,000		
	39,00,000		**39,00,000**

Statement showing Net Profit for the valuation period

Particulars	Amount (₹)
Surplus as per Valuation Balance Sheet	9,00,000
Add: Interim Bonus Paid	3,00,000
	12,00,000

Amount due to policyholders

Particulars	Amount (₹)
95% of Net Profit due to policyholders (95% of ₹12,00,000)	11,40,000
Less: Interim Bonus already paid	3,00,000
Amount due to policyholders	**8,40,000**

(c) What is register of claim with reference to Insurance Companies? **[2]**

Answer:

Register of claims

The Insurance Act, 1938 and the rules framed thereunder have an important bearing on the preparation of accounts by insurance companies.
The insurer must maintain a register of claims .
It contains:
The details of claim made such as date of the claim, the name and address of the claimant and the date on which the claim was discharged. If the claim was rejected, the date of rejection and the reasons therefore.

7. (a) ESC Ltd. a power generation company, laid down a main at a cost of ₹ 25,00,000. Some years later, the company laid down an auxiliary main for one-fifth of the length of the old main at a cost of ₹ 7,50,000. At the same time, it also replaced the rest of the length of the old main at a cost of ₹ 30,00,000 using in addition the materials of the old main amounting to ₹ 50,000. The cost of materials and labour having gone up by 15%. Sale of old materials realized ₹ 40,000. Materials of the old main valued at ₹25,000 were used in the construction of the auxiliary main.

Give journal entries for recording the above transactions and also draw up the Replacement A/c. **[8]**

Answer:

Journal Entries (Without Narration)

	Particulars	Debit (₹)	Credit(₹)
1	Bank A/c Dr. To, Replacement A/c	40,000	 40,000
2	Auxiliary Main A/c Dr. To, Bank A/c To, Replacement A/c	7,50,000	 7,25,000 25,000
3	Replacement A/c Dr. New Main A/c Dr. To, Bank A/c	22,50,000 7,50,000	 30,00,000

4	Revenue A/c Dr. To, Replacement A/c	21,85,000	 21,85,000

A. Increased Cost of New Main:

25,00,000 × (4/5)	₹20,00,000
Add: Increase in Cost of 15%	₹3,00,000
	₹23,00,000
Cash Cost	₹30,00,000
Add: old materials used in renewals	₹50,000
Actual Cost	₹30,50,000

B. Auxiliary Main:

Total Cost	₹7,50,000
Less: Old Material used	₹25,000
Cash Cost	₹7,25,000

Replacement Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount(₹)
To, Bank A/c	22,50,000	By, Bank A/c	40,000
		By, Auxiliary Main A/c	25,000
		By, Revenue A/c	21,85,000
	22,50,000		**22,50,000**

(b) Write a note on internally Generated Computer Software. **[4]**

Answer:

Internally generated computer software for internal use is developed or modified internally by the enterprise solely to meet the needs of the enterprise and at no stage it is planned to sell it. The stages of development of internally generated software may be categorized into the following two phases:

i. **Preliminary project stage. i.e., the research phase.**
ii. **Development stage.**

Preliminary project stage. i.e., the research phase.

At the preliminary project stage the internally generated software should not be recognized as an asset. Expenditure incurred in the preliminary project stage should be recognized as an expense when it is incurred. The reason for such a treatment is that at this stage of the software project an enterprise cannot demonstrate that an asset exists from which future economic benefits are probable.

Development stage

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.
- There is technical feasibility of installing the internally generated software.
- The enterprise is able to use the software;
- There is availability of adequate technical, financial and other resources to complete the development and to use the software; and
- There is enough capacity to measure the expenditure attributable to the software during its development.

(c) Yuba Vavishwa Club was holding a building valuing ₹ 20 lakhs as on 31.03.2012. Building Fund stands ₹ 17 lakhs and Cash at Bank is ₹ 32 lakhs as on 01.04.2012. During the year 2012-13 donation received for the building fund is ₹ 42 lakhs. Give the journal entries and the effect in the Balance Sheet as on 31.03.2013

If i) It purchases building of ₹ 32 lakhs during 2012-13

ii) It purchases building of ₹ 60 lakhs during 2012-13 **[4]**

Answer:

Situation (i)

Journal Entries

(₹ in Lakhs)

Date	Particulars	L.F.	Debit (₹)	Credit(₹)
	Bank A/c Dr. To, Donation for Building Fund A/c (Donation received for Building Fund)		42	 42
	Building A/c Dr. To, Bank A/c (Building purchased utilizing the Building Fund)		32	 32
	Building Fund A/c Dr. To, Capital Fund A/c (Being the capital expenditure transferred to the Capital Fund)		32	 32

Balance Sheet
as at 31.03.2013

(₹ in Lakhs)

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund ? Add: Building Fund 32.00 (Amount transferred)		Building 20.00 Add: Purchase of building 32.00	 52.00
Building Fund 17.00 Add: Donation 42.00 59.00 Less: Amount transferred to Capital Fund 32.00	 27.00	Bank 32.00 Add: Donation Received 42.00 74.00 Less: Purchase of	

		Building 32.00	42.00

Situation (ii)

Journal Entries

(₹ in Lakhs)

Date	Particulars	L.F.	Debit (₹)	Credit(₹)
	Bank A/c Dr. To, Donation for Building Fund A/c (Donation received for Building Fund)		42	 42
	Building A/c Dr. To, Bank A/c (Building purchased utilizing the Building Fund)		60	 60
	Building Fund A/c Dr. To, Capital Fund A/c (Being the capital expenditure transferred to the Capital Fund)		59	 59

Balance Sheet
as at 31.03.2013

(₹ in Lakhs)

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund ? Add: Building Fund 59.00 (Amount transferred) Building Fund 17.00 Add: Donation 42.00 59.00 Less: Amount transferred to Capital Fund 59.00		Building 20.00 Add: Purchase of building 60.00 Bank 32.00 Add: Donation Received 42.00 74.00 Less: Purchase of Building 60.00	 80.00 14.00

8. (a) Anik and Aniket decided to work a joint venture for the sale of electric motors.

On 1st May 2011, Anik purchased 100 electric motors at ₹ 175 each and dispatched 75 motors to Aniket incurring ₹ 500 as freight and insurance charges. 5 electric motors were damaged in transit. On 1st Feb. 2012, ₹ 500 were received by Anik from the insurance company, in full settlement of his claim. On 15th March 2012, Anik sold 25 electric motors at ₹ 225 each. He received ₹ 10,000 from Aniket on 1st April 2012.

On 15th May 2012, Aniket took delivery of the electric motors and incurred the following expenses :

Clearing Chares ₹ 170; Repair charges to electric motors damaged in-transit ₹ 300; Godown rent for 3 months ₹ 600.

He sold the electric motors as :

01.2.2012	**5 damaged motors ₹ 170 each**
	20 motors at ₹ 200 each
15.3.2012	**10 motors at ₹ 315 each**

01.4.2012 40 motors at ₹ 250 each

It is agreed that they are entitled to a commission of 10% on the respective sales effected by them; that the profits and losses shall be shared between Anik and Aniket in the ratio of 2:1. Aniket remits Anik the balance of amount due on 30th April 2012. You are required to show the Memorandum Joint Venture account only.

You are required to show the Memorandum Joint Venture Account only. [8]

Answer:

Memorandum Joint Venture Account

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 May 1	To Anik : Cost of Motors (100 × ₹ 175)	17,500	2012 Mar. 15	By Anik : Sale of Motors (25 × ₹ 225)	5,625
May 15	To Anik : Freight and Insurance	500	Feb. 1	By Aniket : Sale of Motors 5 × ₹ 170 = ₹ 850 20 × ₹ 200 = ₹ 4,000 10 × ₹ 315 = ₹ 3,150 40 × ₹ 250 = ₹ 10,000	18,000
	Aniket : Clearing Charge 170 Repairs 300 Ground Rent 600	1,070	April 1	By Anik : Insurance Claim	500
April 15	To Anik: Commission @ 10%	563			
	To AniketCommission@10%	1,800			
" 30	ToProfit on Venture : Anik (2/3) 1,795 Aniket (1/3) 897	2,692			
		24,125			**24,125**

(b) On 31 March, 2011 Chinta Money Bank Ltd. had a balance of ₹ 27 crores in "rebate on bill discounted" account. During the year ended 31st March, 2012, Chinta Money Ltd. discounted bills of exchange of ₹ 12,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹ 1,800 crores were due for realization from the acceptor/customers after 31st March, 2012, the average period outstanding after 31st March, 2012 being 36.5 days.

Chinta Money Ltd. asks you to show the ledger accounts pertaining to:

I. Discounting of Bills of Exchange; and

II. Rebate on bill Discounted. [4]

Answer:

Ledger of Chinta Money Bank Ltd.
Rebate on Bills Discounted Account

(₹ in Crore)

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.11	To, Discount on Bills A/c	27.00	01.04.11	By, Balance b/d	27.00
31.03.12	To, Balance c/d	32.40	31.03.12	By, Discount on bills A/c (Rebate required)	32.60
		59.40			**59.40**

Discount on Bills Account

(₹ in Crore)

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.12	To, Rebate on Bills Discount A/c	32.40	01.04.11	By, Rebate on Bills A/c	27.00
31.03.12	To, Profit and Loss A/c (Transfer)	426.60	31.03.12	By, Bills Purchased and Discounted A/c	432.00
		459			**459**

(c) Save Money Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 2006:

	Term Loan	Export Loan
Balance Outstanding on 31.03.2012	**₹ 105 lakhs**	**₹ 90 lakhs**
DICGC/ECGC cover	**40%**	**50%**
Securities held	**₹ 45 lakhs**	**₹ 30 lakhs**
Realisable value of Securities	**₹ 30 lakhs**	**₹ 24 lakhs**

Compute necessary provisions to be made for the year ended 31st March, 2012. [4]

Answer:

Particulars	Term Loan (₹ in lakhs)	Export Credit (₹ in Lakhs)
Balance outstanding on 31.03.	105.00	90.00
Less: Realisable Value of Securities	30,00	24.00
	75.00	66.00
Less: DICGC cover @40%	30.00	-
ECGC cover @50%	-	33.00
Unsecured balance	**45.00**	**33.00**

Required Provision:

Particulars	Term Loan (₹ in lakhs)	Export Credit (₹ in lakhs)
100% for unsecured portion	45.00	33.00
100% for secured portion	30.00	24.00
Total provision required	**75.00**	**57.00**