Paper – 5 - Financial Accounting

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

Section A

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

(a) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then determine the amount of stock reserve on closing stock.

Answer:

Stock Reserve on Closing Stock = $₹18{,}000 \times \frac{33.33\%}{133.33\%} = ₹4{,}500.$

(b) On 1.1.2012 B Ltd. has a stock of bottles valued at ₹ 12,000. On 1.7.2012 they purchased additional bottles which amounted to ₹ 7,500. On Dec. 31st ,2012, the entire stock of bottles was revalued at ₹ 15,750. Show the Bottle Account for the year 2012.

Answer:

In the book of B Ltd.

Dr. Bottle Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012			2012		
Jan. 1	To, Balance b/d	12,000	Dec.31	By Depreciation A/c (bal. fig.)	3,750
July 1	" Bank A/c	7,500		" Balance c/d	15,750
		19,500			19,500

(c) On 31st December 2011, a club had subscription in arrears of ₹8,000 and in advance ₹2,000. During the year ended 31-12-2012, the club received subscription of ₹1,04,000 of which ₹5,200 was related to 2013. On 31st December 2012, there were 4 members who had not paid subscription for 2012 @ ₹800 per person. Write up subscription A/c for the year 2012.

Answer:
A single subscription account should be prepared to reflect both advance and arrears figures. The balancing figure will reflect the subscription amount that will be recognised as Income and transferred to I & E A/c as shown below:

Dr. Subscription Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Balance c/d (arrears)	8,000	By, Balance c/d (advance)	2,000
To, I & E A/c (income for 2012)	96,000	By, R & P A/c (received)	1,04,000
To, Balance c/d (advance)	5,200	By, Balance c/d (arrears)	3,200
	1,09,200		1,09,200

(d) X,Y and Z were in partnership sharing profits and losses in the ratio of 3: 2:1. Z retired . His share was taken by X and Y in 2:1 . Calculate the gaining ratio and new profit –sharing ratio.

Answer:

Old ratio =X: Y: Z = 3: 2:1
Now

$$\text{X gains } \frac{2}{3} \text{ of } \frac{1}{6} = \frac{2}{18} \text{ from Z}$$

$$\text{Similarly, Y gains } \frac{1}{3} \text{ of } \frac{1}{6} = \frac{1}{18} \text{ from Z}$$

$$\text{So, his new ratio will be } \frac{3}{6} + \frac{2}{18} = \frac{11}{18}$$

$$\text{and his new ratio will be} = \frac{2}{6} + \frac{1}{18} = \frac{7}{18}$$

Thus, the new ratio between X and Y is 11:7

(e) A bought goods from S for ₹1,000 on credit. For this purpose, S drew a bill on A which was accepted by A on 1.10.2012 for the amount payable after three months. On 1.11.2012, A arranged to retire the bill at a rebate of 12% p.a. Show the entries in the books of S.

Answer:

In the books of S
Journal

Date	Particulars	L/F	Debit (₹)	Credit (₹)
1.10.2012	A A/c Dr. To Sales A/c (goods sold to A)		1,000	 1,000
1.10.2012	Bill Receivable A/C Dr. To A A/c (bill drawn which was accepted by A for 3 months)		1,000	 1,000
1.11.2012	Cash a/c Dr. Rebate allowed A/c Dr. To bill Receivable (Bill accepted by A retired under a rebate of 12% p.a.)		979 21	 1,000

Note: Rebate = ₹1,000 ×12/100×65/365 (from Nov. 1 to Jan.4) =21.36 p. (say ₹21).

(f) From the following particulars, determine Closing Stock at Branch

	₹		₹
Opening stock at the Branch	**30,000**	**Expenses:**	
Goods sent to Branch	**90,000**	**Salaries**	**10,000**
Sales(Cash)	**1,20,000**	**Other Expenses**	**4,000**

The branch sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

Answer:

Calculation of closing Stock at Branch:

Opening stock at Branch	30,000
Add: goods sent to Branch	90,000
	1,20,000
Less: cost of sales (₹1,20,000 × 100/120)	1,00,000
Closing Stock	20,000

(g) ₹ 30,000 is the annual instalment to be paid for three years (given Present Value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the Cash Price in case of Hire-Purchase .

Answer:

Amount of Instalment	**Present Value**
1	2.7232
₹30,000	$\frac{2.7232 \times ₹30,000}{1}$
Cash price is	=₹81,696

(h) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 20 percent on invoice 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.
Calculate the amount of consignee's commission .

Answer:

Invoice value of goods sold = $₹6,30,000 \times \frac{2}{3} \times \frac{100}{(100-20)} = 5,25,000$

Surplus of Sale value over invoice value = ₹6,00,000 -₹5,25,000 =₹75,000.

Consignee Commission:

Ordinary $₹5,25,000 \times \frac{3}{100} = 15,750$

Over –riding $₹75,000 \times \frac{20}{100} = 15,000$

Total Commission 30,750

(i) Calculate the amount of subscription to be shown in the Income and Expenditure Account for the year ending 31st March, 2012 from the following information :

- **Subscription received during 2011-12 — ₹ 31,500.**
- **Subscription received in advance on 31.03.2011 — ₹ 2,100.**
- **Arrears of subscription on 31.03.2012 — ₹ 4,700.**
- **Subscription received in advance on 31.03.2012 — ₹ 2,150.**

Answer:

Particulars	**Amount (₹)**
Subscription received in 2011-12	31,500

Add: Subscription received in advance on 31.03.2011	2,100
Add : Arrears of subscription on 31.03.2012	4,700
	38,300
Less : Subscription received in advance on 31.03.2012	2,150
The amount of subscription to be shown in the Income and Expenditure Account for 2011-12	36,150

(j) Mugdha Ltd. purchased a machine of ₹ 40 lakhs including excise duty of ₹ 8 lakhs. The excise duty is Cenvatable under the excise laws. The enterprise intends to avail CENVAT credit and it is reasonably certain to utilize the same within reasonable time. How should the excise duty of ₹8 lakhs be treated?

Answer:

Treatment of Excise Duty:

Particulars		**Debit Amount (₹)**	**Credit Amount (₹)**
Year of Acquisition			
Machine A/c	Dr.	32	
CENVAT Credit Receivable A/c	Dr.	4	
CENVAT Credit Deferred A/c	Dr.	4	
To, Supplier's A/c			40
Next Year			
CENVAT Credit Receivable A/c	Dr.	4	
To, CENVAT Credit Deferred A/c			4

Section B

Answer any 5 questions from the following

2. (a) Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2012. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office.

The following are the particulars relating to the transactions of the Kanpur Branch:

		₹	₹
Goods sent to Branch (at cost to H.O.)			**4,50,000**
Sales — Cash			**2,10,000**
— Credit			**3,20,000**
Cash collected from Debtors			**2,85,000**
Return from Debtors			**10,000**
Discount Allowed			**8,500**
Cash sent to Branch			
	for Freight	**30,000**	
	for Salaries	**8,000**	
	for other expenses	**12,000**	**50,000**
Spoiled clothes written off at invoice price			**10,000**
Normal loss estimated at			**15,000**

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch. [10]

Answer:

Branch Stock Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Goods Sent to Branch A/c (₹4,50,000+25% of ₹4,50,000)	5,62,500		By, Cash Sales A/c	2,10,000
	To, Branch Debtors A/c	10,000		By, Branch Debtors (Cr. Sales)	3,20,000
				By, Branch adjustment A/c (Normal Loss)	15,000
				By, Branch adjustment A/c (Spoiled)	2,000
				By, Profit & Loss A/c (Spoiled)	8,000
				By, Stock Shortage	17,500
		5,72,500			**5,72,500**

Branch Debtors Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Goods sent to Branch	3,20,000		By, Cash A/c	2,85,000
				By, Discount A/c	8,500
				By, Branch stock (return)	10,000
				By, Balance c/d	16,500
		3,20,000			**3,20,000**

Branch Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Branch A/c (Spoilage)	2,000		By, 25% Mark up on goods sent	1,12,500
	To, Stock Shortage (of ₹17,500)	3,500			
	To, Normal Loss	15,000			
	To, Gross Profit c/d	92,000			
		1,12,500			**1,12,500**

Branch Profit and Loss Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Freight	30,000		By, Gross Profit b/d	92,000
	To, Salaries	8,000			
	To, Other expenses	12,000			
	To, Spoilage	8,000			
	To, Stock shortage	14,000			
	To, Net Profit c/d	20,000			
		92,000			**92,000**

(b) The following is a summary from Cash Book of M/s Mitra Trading for the month of Sept. 2012:

Particulars	₹	Particulars	₹
Balance b/d	**1,507**	**Payments**	**15,520**
Receipts	**15,073**	**Balance c/d**	**1,060**
	16,580		**16,580**

On investigation it was found that

(i) Bank charges of ₹ 35 were not entered in the Cash Book.

(ii) A cheque of ₹ 47 issued to supplier was entered by mistake as a receipt in the Cash Book.

(iii) A cheque of ₹ 81 was returned by the Bank marked as 'refer to drawer' but it's not entered in Cash Book.

(iv) The balance brought forward in Sept. 2012 should have been ₹ 1,570.

(v) Cheque paid to suppliers ₹ 214 , ₹ 70 and ₹ 330 have not been presented for payment.

(vi) Deposits of ₹ 1,542 on 30th Sept were cleared by the Bank on 2nd October.

(vii) The Bank charged a cheque wrongly to Mitra trading ₹ 92.

(viii) Bank statement shows overdraft of ₹ 124 as on 30th Sept.2012.

Show what adjustments will you make in the Cash Book and prepare a Bank Reconciliation Statement as on 30.09.2012. [6]

Answer:

As we know, the errors in the Cash Book must first be corrected and entries that have been missed out in the Cash Book should be recorded.

Dr. **Cash Book for Sept 2012** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Original balance b/d To Error in balance carried (1,570 -1,507)	1,060 63	By Bank charges not recorded earlier By Cheques issued recorded as receipt, now corrected (2×47) By Cheque returned By Revised balance c/d	35 94 81 913
	1,123		1,123

Now we can prepare the Bank Reconciliation Statement.

Bank Reconciliation from member as on 30.9.2012

Particulars	Amount ₹	Amount ₹
Balance as per Cash Book		913
Add: Cheques issued but not presented (214 + 70 + 330)	614	614
		1,527
Less: (i) Deposits not cleared	1542	
(ii) Cheques charged by mistake	92	1,634
Overdraft as per Pass Book		(107)

3. (a) From the following information relating to Evergreen Sports Club, prepare Balance Sheet of the Club as on 1-1-2012 and on 31-12-2012 :

(i) Assets as on 1-1-2012

	₹
Club Ground	**80,000**
Sports Equipment	**50,000**
Furniture	**10,000**

(ii) Accrued Subscription as on 1-1-2012 was ₹ 2,000.

(iii) Creditor for stationery as on 1-1-2012 was ₹ 1,800.

Receipts and Payments Account
for the year ended 31-12-2012

Dr. **Cr.**

Receipts	Amount ₹	Payment	Amount ₹
ToBalance brought down	8,000	By Salaries	14,000
Subscription received (2011)	1,800	Printing and Stationery	3,500
- do – (2012)	22,000	Fire Insurance	2,200
-do- (2013)	600	Advertisement	3,000
Sales of old Newspaper	500	Furniture	4,000
Rent Received	5,800	Investments	21,000
Entrance Fees	18,000	Balance c/d	9,000
	56,700		56,700

Income and Expenditure Account
for the year ended 31-12-2012.

Dr. **Cr.**

Expenditure	Amount ₹	Income	Amount ₹
To Salaries	**16,000**	**By Subscription**	**24,000**
Printing and Stationery	**2,000**	**Entrance Fees**	**9,000**
Advertisement	**3,000**	**Rent**	**6,000**
Audit Fees	**800**	**Sale of old Newspapers**	**500**
Fire Insurance	**2,000**		
Depreciation:			
Equipment	**7,000**		
Furniture	**1,000**		
Excess of Income over Expenditure	**7,700**		
	39,500		**39,500**

[8]

Answer:

Balance Sheet as at 01.01.2012

Liabilities	Amount ₹	Assets	Amount ₹
Capital Fund (Bal. Fig.)	1,48,200	Club Ground	80,000
Creditors (for stationery)	1,800	Sports Equipment	50,000
		Furniture	10,000
		Accrued Subscription	2,000
		Cash	8,000
	1,50,000		**1,50,000**

Balance Sheet as at 31.12.2012

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹
Capital Fund	1,48,200		Club Ground	80,000
Entrance Fees	9,000		Sports Equipment (₹50,000 -₹7,000)	43,000
Surplus	7,700	1,64,900	Furniture (₹10,000 +₹4,000 less: Depreciation ₹1,000)	13,000
Advance Subscription		600	Investments	21,000
Liabilities for expenses			Accrued Subscription	
Printing	300		-2011 ₹200 -2012 ₹2,000	2,200
Salaries	2,000		Accrued Rent	200
Audit fees	800	3,100	Prepaid Insurance	200

			Cash	9,000
		1,68,600		**1,68,600**

(b) Prepare Total Debtors Account (or Debtors Control Account) and Total Creditors Account (or Creditors Control Account) from the following particulars as on 31.03.2013.

Particulars	Amount ₹	Particulars	Amount ₹
Debtors balance (01.04.2012) Dr.	**20,000**	**Discount Allowed to Debtors**	**6,000**
Debtors balance (01.04.2012) Cr.	**6,000**	**Credit Purchase**	**80,000**
Creditors balance (01.04.2012) Dr.	**16,000**	**Cash paid to Creditors**	**5,000**
Creditors balance (01.04.2012) Cr.	**2,000**	**Discount Received**	**6,000**
Sales (including Cash Sales ₹16,000)	**1,36,000**	**Returns Outward**	**4,000**
Returns Inward	**10,000**	**Bills Payable Accepted**	**10,000**
Cash Received from Customer	**70,000**	**Transfer from bought ledger to sale ledger**	**12,000**
Bad Debts	**6,000**		
(Cash Received from Debtors ₹6,000 against a debt previously written off)	**-**	**Credit balance in sold ledger on 31.03.2013**	**8,000**
Bills Receivable received	**12,000**	**Debit balance in bought ledger on 31.03.2013**	**6,000**
Bills Receivable dishonoured	**4,000**	**Noting Charges charged from Debtors**	**200**
Bills Receivable endorsed to creditors	**2,000**		
Endorsed bill dishonoured	**1,000**		
Provision made for Bad Debts	**8,000**		
Provision made for Discount on Debtors	**2,000**		
Provision made for Discount on Creditors	**2,000**		

[8]

Answer:

In the books of …………………

Total Debtors or Debtors Control Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012			2012		
April 1	To, Balance b/d	20,000	April 1	By Balance b/d	6,000
	To, Sales (₹1,36,000-₹16,000)	1,20,000		Return Outwards	10,000
	To, B/R Dishonoured	4,000		By, Cash Received	70,000
	To, Total Creditors A/c	1,000		By, Bad Debts	6,000

	(Endorsed B/R Dishonoured)				
	To, Noting Charges	200		By,B/R Received	12,000
2013 Mar.31	To, Balance c/d	8,000	2013 Mar.31	By, discount Allowed	6,000
				By, Transfer	12,000
				By, Balance c/d	31,200
		1,53,200			**1,53,200**
April 1	To, Balance b/d	31,200	April 1	By, Balance b/d	8,000

Total Creditors or Creditors Control Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012			2012		
April 1	To, Balance b/d	2,000	April 1	By, Balance b/d	16,000
	To, B/R	2,000		By, Total Debtors A/c (Endorsed Bill Dishonoured)	1,000
	To, Cash paid	50,000		By, Purchase	80,000
	To, Discount Received	6,000	2013 Mar.31	By, Balance c/d	6,000
	To, Returns Outward	4,000			
	To, B/P accepted	10,000			
	To, Transfer	12,000			
2013 Mar.31	To, Balance c/d	17,000			
		1,03,000			**1,03,000**
April 1	To, Balance b/d	6,000		By, Balance b/d	17,000

Note:

Recovery of Bad Debts , provision for Bad Debts, Provisions for Discount on Debtors, Provision for discount on Creditors, Cash Sales etc. will not appear in Total Debtors or Debtors Control Account.

4. (a) Distinguish between Hire Purchase System and Instalment Payment System. [4]

Answer:

Difference between Hire Purchase System and Instammment Purchase System

Hire Purchase System	Instalment Purchase System
(i) It is an agreement of hiring of goods.	(i) It is an agreement of sale of goods.
(ii) The title of the goods is transferred to the buyer after payment of last instalment.	(ii) The title of goods is passed on to the buyer at the signing of agreement.

(iii) If the buyer fails to pay any of the instalment the goods can be repossessed by the seller.	(iii) The seller cannot repossess the goods.
(iv) The buyer can not hire out, sell, transfer, destroy, pledge the goods.	(iv) The buyer can hire out, sell, transfer, destroy and pledge the goods
(v) The buyer may return the goods without further payment, except for the instalment overdue.	(v) Except seller's default, goods cannot be returned.
(vi) In cae of default, the total amount of instalment paid is forfeited and treated as hire charge.	(vi) In case of default, the total amount of instalmens paid by the buyer cannot be forfeited.

(b) The balance on the Sales Ledger Control Account of Q Ltd. on Sept. 32012 amounted to ₹ 9,600 which did not agree with the net total of the list of Sales Ledger Balance on that date.

Errors were found and the appropriation adjustments when made balanced the books. The errors were:

(i) Debit balance in the sales ledger amounting to ₹306 had been omitted from the list of balances.
(ii) A Bad Debt amounting to ₹750 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.
(iii) An item of goods sold to Amar for ₹400 had been entered once in the Day Book but posted to his account twice.
(iv) ₹70 Discount Allowed to Manoj had been correctly recorded and posted in the books. This sum had been subsequently disallowed, debited to Manoj's account, and entered in the discount received column of the Cash Book.
(v) No entry had been made in the Control Account in respect of the transfer of a debit of ₹260 from Kumar's Account in the Sales Ledger to his account in the purchase ledger.
(vi) The Discount Allowed column in the Cash Book had been under cast by ₹280.

You are required to give the journal entries, where necessary, to rectify these errors, indicating whether or not any control accounts is affected, and to make necessary adjustments in the Sales Ledger Control Account bringing down the balance. [6]

Answer:

In the books ……..

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Sept. 30				
	₹306 should be added to Sales Ledger Balances and it will not affect Control Account			
	Bad Debts A/c Dr. To, Sales Ledger Control A/c (Bad Debts written-off without recording in general ledger, now rectified.)		750	750
	Amar's Account should be credited by ₹400.		----	----

	It will not affect Control Account.			
	Discount Received A/c Dr. To, Purchases Ledger Control A/c Sales Ledger Control A/c Dr. To, Discount Allowed A/c (Discount previously allowed cancelled, which was wrongly treated as discount received, now rectified.)		70 70	 70 70
	Purchase Ledger Control A/c Dr. To, Sales Ledger Control A/c (Transfer of debit of Kumar's Account to Purchase Ledger , not recorded, now rectified.)		260	 260
	Discount Allowed A/c Dr. To, Sales Ledger Control A/c (Discount allowed account undercast, now rectified.)		280	 280

In General Ledger

Sales Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Oct. 1 2012 Sept. 30	 To Balance b/d To, Discount Allowed A/c	 9,600 70	2012 Sept. 30	By Bad Debts A/c By, Purchases Ledger Control A/c By, Discount Allowed A/c By, Balance c/d	750 260 280 8,380
		9,670			9,670
Oct. 1	To, Balance c/d	8,380			

(c) Power Electric Company decides to replace one of its old plant by an improved plant with larger capacity. The cost of the new plant is ₹ 8,00,000.
Materials and Labour earlier and now are in the ratio of 4 : 6.

Original cost of the old plant is ₹ 1,50,000. Materials cost has gone up by 2½ times and Labour cost by 3 times since then. Old materials worth ₹ 5,000 were used in the construction of the new plant and ₹ 10,000 were realised from the sale of old materials.

Give the necessary Journal Entries for recording the above transactions. [6]

Particulars	L.F.	Amount (₹)	Amount (₹)
Plant A/c To Bank A/c To Replacement A/c (Being the additional cost incurred and old materials utilized in new plant)		3,85,000	 3,80,000 5,000
Replacement A/c To Bank A/c (Being the current cost of replacement)		4,20,000	 4,20,000

Bank A/c To Replacement A/c (Being the old materials sold)		10,000	 10,000
Revenue A/c To Replacement A/c (Being the balance of replacement account transferred to Revenue Account)		4,05,000	 4,05,000

Working Note:

Old cost of the plant ₹ 1,50,000:

Material = 1,50,000 x 40/100 = 60,000

Labour = 1,50,000 x 60/100 = 90,000

Particulars	Amount (₹)	Amount(₹)
Cost of material increased by 250% =₹60,000×250%		1,50,000
Cost of labour increased by 300% = ₹90,000×300%		2,70,000
Current cost of replacing old plant		4,20,000
Less: Sale of old materials	10,000	
Old materials utilized in new plant	5,000	15,000
Amount to be transferred to Revenue Account		4,05,000
Cash cost of new plant		8,00,000
Add: Old materials utilized		5,000
		8,05,000
Less: Current cost of replacing old plant		4,20,000
Amount to be capilised		3,85,000

* The cost of new plant has been given as ₹8,00,000 in the question. It has been assumed in the above solution that this cost does not include the cost of old materials used in the construction of new plant worth ₹5,000.

5. (a) A firm of contractors obtained a contract for construction of bridges across a river. The following details are available in the records kept for the year ended 31st March, 2012.

(₹ in lakhs)

Total Contract Price	**2,000**
Work Certified	**1,000**
Work not certified	**210**
Estimated further cost to completion	**990**
Progress Payment Received	**800**
To be received	**280**

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI. [8]

Answer:

As per AS 7, 'Construction Contract', when it is probable that total contract costs will exceed total revenue, the expected loss should be immediately recognized as an expense. The amount of such a loss is determined irrespective of (a) Whether or not work has commenced on the contract,(b) the stage of completion of contract activity as per AS 7.

We are to compute the anticipated loss and current loss which are computed as:-

Anticipated or Foreseeable Loss

Particulars	**₹ in lakhs**
Cost of Total Contract:	
Work Certified	1,000
Add: Work not certified	210
Add: Estimated further cost to completion	990
	2,200
Less: Contract Price	2,000
Anticipated / Foreseeable loss	**200**

Work-in-Progress/Stage of Completion: = Work certified+ Work not certified
= ₹ (1,000+210) = ₹ 1,210

% of work completed

(1,210/2200) x 100 = 55%

Recognition of Contract Revenue:

Total Contract Price x 55% = ₹ (2,000 x 55%) = ₹ 1,100 lakhs
Amount due from /to customers
= Contract costs + Recognised profits-recognised losses – (progress payments received+ Progress payments to be received)
=[1,210+NIL – 200-(800+280)]₹in lakhs = [1,210-200-1,080]
Amount due to customers = ₹70 lakhs .
The amount of ₹70 lakhs will be shown in the balance sheet as liability.
The relevant disclosure under AS 7 (Revised) are given below:

	₹ in lakhs
Contract revenue	1,100
Contract expenses	1,210
Recognised profits less recognised losses	(200)
Progress billings(800+2800)	1,080
Retentions (billed but not received from contractee)	280
Gross amount due to customers	70

(b) The balance Sheet of A,B and C who are sharing profits in proportion to their capital stood as follows on March 31st ,2012:

Liabilities	₹	₹	**Assets**	₹	₹
Capital Accounts:			**Land and Buildings**		**50,000**

A **B** **C**	**40,000** **30,000** **20,000**	**90,000**			
Creditors		**13,800**	**Plant and Machinery**		**17,000**
			Stock		**16,000**
			Debtors	**10,000**	
			Less: provision	**200**	**9,800**
			C ash at Bank		**11,000**
		1,03,800			**1,03,800**

B required on the above date and the following was agreed upon:

(i) That Stock be depreciated by 6%
(ii) That the Provision for Doubtful Debts be brought up to 5% on Debtors.
(iii) That the Land and Buildings be appreciated by 20%.
(iv) That a provision for ₹1,540 be made in respect of outstanding legal charges.
(v) That the Goodwill of the entire firm be fixed at ₹21,600 and B's share of it be adjusted into the accounts of A and C who are going to share future profits in the ratio of 5:3.
(vi) That the assets and liabilities (except Cash at Bank) were to appear in the Balance Sheet at their old figures.
(vii) That the entire capital of the firm as newly constituted be fixed at ₹ 56,000 between A and C in the proportion of 5: 3 (actual cash to be brought in as paid off, as the case may be).

Show the Balance Sheet after B's retirement. [8]

Answer:

In the books of the firm
Balance Sheet as at 31st March 2012

Liabilities		₹	Assets		₹
Capital Accounts:			Land and Buildings		50,000
A	35,000		Plant and Machinery		17,000
C	21,000	56,000	Stock		16,000
B's Loan A/c		39,600	Debtors	10,000	
Creditors		13,800	Less: Prov. For Bad Debts	300	9,800
			Cash at Bank (₹ 11,000 + ₹ 5,600)		16,600
		1,09,400			1,09,400

Note: Since assets and liabilities will appear in the Balance Sheet at their old future, Memorandum Revaluation Account should be opened.

Workings:

1. Gaining Ratio

$$A = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$B = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{71}$$

Hence, gaining ratio = 13: 11

Memorandum Revaluation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Under valuation of stock	960	By Overvaluation of Land & Building	10,000
'' Prov. For Bad Debts (₹ 500 – ₹ 200)	300		
'' Prov. For Legal Exp.	1,540		
'' Profit on Rev.:			
A 3,200			
B 2,400			
C 1,600	7,200		
	10,000		10,000
To Reversal of Items		By Reversal of Items	
'' Over valuation of Land & Building	10,000	'' Undervaluation of stock	960
		'' Prov. For Bad Debts	300
		'' Prov. For Legal Charges	1,540
		'' Capital A/c	
		Profit to be written-back	
		X - $\frac{5}{8}$ = 4,500	
		Y - $\frac{3}{8}$ = 2,700	7,200
	10,000		10,000

$\therefore$ B's share of goodwill = ₹ 21,600 x $\frac{3}{9}$

= ₹7200

The entry being:

A's Capital A/c. Dr. 3,900
C's Capital A/c. Dr. 3,300
To B's Capital A/c. 7,200
(In gaining ratio)

Capital Account

Dr. Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	Cr. C ₹
To Memo. Revat. A/c	4,500	---	2,700	By Balance b/d	40,000	30,000	20,000
'' B's Capital A/c	3,900	---	3,300	'' Revaluation A/c			
'' B's Loan A/c	---	39,600	---	- Profit	3,200	2,400	1,600
'' Balance c/d	35,000*	---	21,000	''A's Capital	---	3,900	---
				B's Capital A/c	---	3,300	---
				'' Bank A/c			
				(bal. fig.)	200	---	5,400
	43,400	39,600	27,000		43,400	39,600	27,000

* Total Capital = ₹ 56,000 in 5 : 3, i.e., X ₹ 35,000; Y ₹ 21,000.

6. (a) From the following figures of Uttam Vavishya Life Assurance Co. Ltd. prepare a Valuation Balance Sheet and Profit Distribution Statement for the year ended 31st March 2012. Also pass necessary journal entries to record the above transactions with narrations:

Particulars	₹ (in lakhs)
Balance of Life Assurance Fund as on 1.4.2011	**668.6**
Interim bonus paid in the valuation period	**100.00**
Balance of Revenue Amount for the year ended 31.3.2012	**960.00**
Net Liability as per valuer's Certificates as on 31.3.2012	**330.00**

The company declares a revisionary bonus of ₹185 per ₹1,000 and gave the policyholders an option to take bonus in cash ₹105 per ₹1,000. Total business conducted by the company was ₹2,400 lakhs. The company issued profit policy only, 3/5th of the policyholders in value opted for cash bonus. [8]

Answer:

In the Books of Well Assurance Co. Ltd.
Valuation Balance Sheet
As at 31st March 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Net Liabilities as per Actuarial Valuation Surplus/Net Profit	3,30,00,000 6,30,00,000	Life Insurance Fund	9,60,00,000
	9,60,00,000		9,60,00,000

Distribution Statement, i.e. Distribution of Surplus	Amount (₹)
Surplus/ Net Profit	6,30,00,000
Add: Interim Bonus Paid	1,00,00,000
	7,30,00,000

Policyholders' shares @95% of ₹7,30,00,000	6,93,50,000
Less: Interim Bonus paid	1,00,00,000
	5,93,50,000

Shareholders' Share @5% of ₹7,30,00,000	36,50,000

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
?	Life Assurance Fund A/c Dr. To, Profit and Loss A/c (Surplus/Net Profit transferred to P&L A/c as per Valuation Balance Sheet)		6,30,00,000	6,30,00,000
	Profit and Loss A/c Dr. To, Bonus (in cash) Payable A/c (Bonus paid in cash)		1,51,20,000	1,51,20,000
	Profit and Loss A/c Dr. To, Life Assurance Fund A/c (Revisionary Bonus payable transferred to Life assurance Fund)		1,77,60,000	1,77,60,000

Workings:

1. Bonus Payable in Cash
@ ₹ 105 per ₹ 1,000
On 14,40,00,000 (₹24,00,00,000 × $\frac{3}{5}$)
= ₹ $\frac{14,40,00,000}{1,000} \times 105$
= ₹1,51,20,000

2. Revisionary Bonus
@ ₹ 185 per ₹ 1,000
On 9,60,00,000 (₹24,00,00,000 × $\frac{2}{5}$)
= ₹ $\frac{9,60,00,000}{1,000} \times 185$
=₹1,77,60,000

(b) The following balances are available from the books of Mr. Chanda as on 31st March 2012 and 31st March 2013:

Particulars	**31.03.2012** ₹	**31.02.2013** ₹
Furniture & Fixtures (at cost, less depreciation)	**1,62,000**	**1,63,800**
Stock-in-trade	**1,00,000**	**1,50,000**
Sundry Creditors	**2,40,000**	**80,000**
Sundry Debtors	**1,70,000**	**1,04,000**
Office Equipments (at cost, less depreciation)	**1,08,000**	**97,200**
Cash & Bank	**1,20,000**	**10,000**

Additional Information:

(i) His drawings were: 2011-12 ₹ 50,000
2012-13 ₹ 60,000

(ii) His total sales for 2012 – 2013 amounted to ₹ 12,00,000. Total cash sales figure is not readily available. He always sales his goods at cost plus 25%.

(iii) Payments to creditors in 2012-13 included ₹ 24,000 paid from his private Bank Account. There is no cash purchase.

(iv) Sundry Debtors on 31.03.13 includes a wrong credit of ₹ 40,000 as insurance claim received towards goods costing ₹ 50,000 destroyed by fire, and a further sum of ₹ 4,000 as recovered from a customer whose account was written-off in 2011-12.

(v) During the year goods costing ₹ 12,000 were distributed as free samples. Discounts allowed to debtors ₹ 24,000 and discounts received ₹16,000.

(vi) Depreciation is charged @ 10% on Furniture & Office Equipments. Mr. Chada requests you to prepare a Trading Account and Profit & Loss Account for the year ended 31st March 2013. [8]

Answer:

Mr. Chanda

Trading and Profit & Loss Account for the year ended 31st March 2013

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock ,, Purchase (balancing figures) ,, Gross Profit (i.e., 20% on turnover) on 25% on Cost.	1,00,000 10,72,000 2,40,000	By Sales ,, Goods distributed as per sample ,, goods destroyed by fire ,, closing Stock	12,00,000 12,000 50,000 1,50,000
	14,12,000		14,12,000
To Expenses (balance figure) ,, Loss of Stock by Fire (25,000–20,000) ,, Advertisement (free sample) ,, Discount Allowed ,, Depreciation: Furniture 8,100 Office Equipments 5,400 ,, Capital Account: - Net Profit transferred	41,000 10,000 12,000 24,000 13,500 1,05,000	By Gross Profit ,, Bad Debt Recovery ,, Discount Received	2,40,000 4,000 16,000
	2,60,000		2,60,000

Workings:

A.

Balance Sheet as at ………………

Liabilities	31.03.2012 ₹	31.03.2013 ₹	Assets	31.03.2012 ₹	31.03.2013 ₹
Creditors	2,40,000	80,000	Furniture & Fixture	1,62,000	1,63,800
Capital A/c (bal. fig.)	4,20,000	4,89,000	Office Equipment	1,08,000	9,7200
			Stock	1,00,000	1,50,000
			Debtors	1,70,000	1,48,000*
			Cash at Bank	1,20,000	10,000
	6,60,000	5,69,000		6,60,000	5,69,000

***** ₹1, 04,000 + ₹ 40,000 claims received + ₹ 4,000 recovery of Bad Debts.

B. Ascertainment of Net Profit

Particulars	₹
Capital (as on 31.03.2013)	4,89,000
Less: Capital (as on 31.03.2012	4,20,000
	69,000
Add: Drawings	60,000
	1,29,000
Less: Further Capital	24,000
	1,05,000

7. (a) A and B enter into a joint venture for guaranteeing the subscription at par of 1,00,000 shares of ₹ 10 each of a Joint Stock Company. They agree to share profit and losses in the ration of 2 : 3. The terms with the company are 4½% commission in cash and 6,000 shares of the company as fully paid-up.

The public took up 88,000 of the shares and the balance share of the guaranteed issue are taken up by A and B who provide cash equally. The commission in cash is taken by partners in the ratio of 4 : 5.

The entire shareholding of the joint venture is then sold through brokers – 25% price of ₹ 9. 50% at a price of ₹ 8.75; 15% at a price of ₹ 8.50 and the remaining 10% are taken over by A and B equally at ₹ 8 per share. The sale proceeds of the shares are taken by the partners equally.

Prepare a Joint Venture Memorandum Account and the separate accounts of A and B in the books of B and A, respectively, showing the adjustment of the final balance between A and B.

Ignore interest and income-tax. **[9]**

Answer:

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To A (Cost of Shares) ,, B (Cost of Shares) ,, Profit to Joint Venture A 32,640 B 48,960	60,000 60,000 81,600	?	By A (Commission) B (Commission) ,, A (Sale Proceeds) B (Sale Proceeds) ,, A (Shares taken) B (Shares taken)	20,000 25,000 71,100 71,100 7,200 7,200
		2,01,600			2,01,600

In the books of A
Joint Venture with B

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Bank – Cost of Shares ,, Share of Profit ,, Bank – final settlement	60,000 32,640 5,660	?	By Bank – Commission ,, Bank – Sale Proceeds ,, Shares taken	20,000 71,100 7,200
		98,300			98,300

In the books of B
Joint Venture with A

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011	To Bank – Cost of Shares ,, Share of Profit	60,000 48,960	2011	By Bank – Commission ,, Bank – Sale Proceeds ,, Shares taken ,, Bank – Final settlement	25,000 71,100 7,200 5,600

		1,08,960			1,08,960

Workings:

A. Purchase of Shares

(1,00,000 – 88,000) = 12,000 @ ₹ 10 = ₹ 1,20,000 provided by A and B equally i.e., ₹ 60,000 each.

B. Calculation of Sales

6,000 Shares taken as Commission
12,000 shares purchase
Entire share-holding **18,000**

Particulars	₹
20% of 10,000 = 4,500 shares @ 9.00 =	40,500
50% of 18,000 = 9,000 shares @ 8.75 =	78,750
15% of 18,000 = 2,700 shares @ 8.50 =	22,950

1,42,200 x ½ = ₹ 71,100 made by A and B each.

C. Commission in Cash

1,00,000 Shares @ ₹ 10 = ₹ 10,00,000 x 4½% = ₹ 45,000 to be taken by A and B in the ratio 4 : 5.

D. Unsold Shares taken equally by A and B

10% of 1,800 shares @ ₹ 8.00 = ₹ 14,400 x ½ = ₹ 7,200 each.

(b) What is meant by Reversionary Bonus in relation to Insurance policies? [2]

Answer:

In the case of life policies with profits, policyholders are given the right to participate in the profits of the business. After nationalization, policyholders are given 95% of profits of L.I.C. by way of bonus. Bonus can be paid in cash, adjusted against the future premiums due from the policy holders or it can be paid on the maturity of the policy, together with the policy amount. Bonus paid in the end along with the policy amount is called reversionary bonus.

(c) Prepare an Account Current to be received by A to M on 30th June 2012 considering rate of interest @ 5% p.a. from the given particulars:

2012		₹
Jan. 1	**M owes to A**	**4,000**
Feb. 1	**M remits Cash**	**2,000**
Mar. 15	**A sold goods to Y (due on May 1)**	**8,000**
Mar. 31	**M sends a bill (due on Oct. 1)**	**2,000**
May 30	**M purchased goods (due on Aug.31)**	**40,000**

[5]

Answer:

M in Account Current with A

Dr. **Cr.**

Date	Particulars	Amount ₹	Months to June 30	Product ₹	Date	Particulars	Amount ₹	Months to June 30	Product ₹

2012									
Jan.1	**To, Balance b/d**	**4,000.00**	**6**	**24,000.00**	**Feb.1**	**By, Cash A/c**	**2,000.00**	**5**	**10,000.00**
Mar.1	**To, Sales A/c**	**8,000.00**	**2**	**16,000**	**Mar.1**	**By, B/R A/c**	**2,000.00**	**(-) 3**	**(-)6,000.00**
Apr.1	**To, Sales A/c**	**40,000.00**	**(-)2**	**(-)80,000.00**	**June 30**	**By, Interest A/c**	**183.33**	**-**	**-**
					June 30	**By, Balance c/d**	**47,816.67**		
		52,000.00		**(-)40,000.00**			**52,000.00**		**(-)4,000.00**
July 1	**To, Balance b/d**	**47,816.67**							

*** Interest is to be calculated on ₹44,000 (i.e., -₹40,000-(+)₹4,000)**

@5% p.a. for one month, i.e. ₹(₹44,000× $\frac{5}{100}\times\frac{1}{12}=183.33$)

8. (a) Mr. Right sold goods on credit to various customers. Details related to one of the customer, Mr. Best, is as under:

(i) Goods sold on credit ₹ 5,00,000

(ii) Goods returned by the customer ₹ 35,000 due to defective quality, credit note raised but not recorded.

(iii) Payment received from customer in cash ₹ 1,00,000 and by cheques ₹ 2,30,000. Out of cheques received, a cheque of ₹ 38,000 was dishonoured by bank.

(iv) Customer accepted two Bills of ₹19,000 and ₹ 56,000 for 2 months and 3 months respectively.

(v) Credit note raised against the customer ₹ 3,400 for excess payment charged against one of the consignment.

Mr. Best, the customer is in need to ascertain the actual balance due to Mr. Right. Prepare a Reconciliation Statement. [4]

Answer:

Receivable from Mr. Best - Reconciliation Statement

Particulars	**Amount (₹)**
Credit Sales during the period	5,00,000
Less: Goods returned by the Customer, adjustment of credit note	35,000
Less: Payment received in cash	1,00,000
Less: Payment received by cheque less dishonored cheque (2,30,000 - 38,000)	1,92,000
Less: Bills Receivable accepted by Customer, yet to be matured (19,000 +56,000)	75,000
Less : Adjustment of Credit Note raised	3,400
Net Receivable from Customer	94,600

(b) The factory premises of Dolly Ltd. were engulfed in fire on 31st March 2012, as a result of which a major part of stock burnt to ashes. The stock was covered by policy for ₹ 2,00,000, subject to Average Clause.

The records at the office revealed the following information:

I. (i) The Company sold goods to dealers on one month credit at dealer's price which is catalogue price less 15%. A cash discount is allowed @ 5% for immediate payment.
(ii) The goods are also sold to agents at catalogue price less 10% against cash payment.
(iii) Goods are sent to branches at catalogue price.
(iv) Catalogue price is cost + 100%.

II. The sale/despatch during the period up to date of fire is –
(i) Sale to Dealer ₹ 6,80,000 (without Cash Discount)
(ii) Sale to Dealer ₹ 6,46,000 (Net of Cash Discount)
(iii) Sale of Agent ₹ 1,80,000
(iv) Despatch to branches ₹ 6,00,000.

III. Stock on 01.01.2012 was ₹ 5,00,000 at catalogue price. Purchases at cost from 01.01.2012 to 31st March, 2012 ₹ 12,50,000.

IV. Salvaged Stock valued at ₹ 90,000.
Compute the amount of claim to be lodged. [6]

Answer:

In the books of Toy Company

Let the Cost price be ₹ 100.

Catalogue price will be ₹ 200 (i.e., ₹ 100 + 100%)

Agents' Price will be ₹ 180 (i.e., ₹ 200 – 10%)

Dealers' Price will be ₹ 170 (i.e., ₹ 200 – 15%)

Dealers' Price when cash discount is allowed will be ₹ 161.50 (i.e., dealers' price–5% on ₹161.50).

Ascertainment of Loss of Stock

Particulars	₹	₹
Opening Stock (₹ 5,00,000 x 50%)		2,50,000
Add: Purchases		12,50,000
		15,00,000
Less: Cost of Goods Sent:		
(i) To Dealers ₹ 6,80,000 x $\frac{100}{170}$ =	4,00,000	
(ii) To Agents ₹ 1,80,000 x $\frac{100}{180}$ =	1,00,000	
(iii) To Branches ₹ 6,00,000 x $\frac{100}{200}$ =	3,00,000	
(iv) To Dealers (enjoying Cash Discount) ₹ 3,23,000 x $\frac{100}{161.50}$ =	4,00,000	
		12,00,000
Closing Stock at Cost		3,00,000

Less: Salvaged Stock		90,000
∴ Loss of Stock		2,10,000

So, claim to be lodged after applying Average Clause : as policy value is less than the loss of stock

Net claim $= \text{Loss of Stock} \times \dfrac{\text{Policy Value}}{\text{Stock at the date of fire}}$

$= ₹\ 2{,}10{,}000 \times \dfrac{\text{Rs. } 2{,}00{,}000}{\text{Rs.}3{,}00{,}000} = ₹\ 1{,}40{,}000.$

(c) ABQR Co. has taken a transit insurance policy. Suddenly, in the year 2011-12, the percentage of accident has gone up to 8% and the company wants to recognize insurance claim as revenue in 2011-12. In accordance with relevant accounting standard. Do you agree? [4]

Answer:

As per AS 9, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collections, revenue is recognized at the time of sale or rendering services. Moreover, consideration receivable should reasonably be determinable. Revenue recognition is postponed if not determinable within a reasonable limit.
Thus, in this case, since there are uncertainties, recognition of revenue should be postponed by the company.

(d) Given below are details of interest on advance of a Commercial Bank as on 31.03.2012:

(₹ in Lakhs)

Particulars	**Interest Earned (₹)**	**Interest Received (₹)**
Performing Assets		
Term Loan	**720**	**480**
Cash Credit and Overdraft	**4,500**	**3,720**
Bills Purchased and Discounted	**900**	**900**
Non-Performing Assets		
Term Loan	**450**	**30**
Cash Credit and Overdraft	**900**	**72**
Bills Purchased and Discounted	**600**	**120**

Find out the income to be recognized for the year ended 31st March 2012. [2]

Answer:

As per RBI Circular, interest on non-performing assets are considered on Cash Basis whereas interest on performing assets are considered on Accrual Basis.

Statement Showing the Recognition of Income

Particulars	Amount ₹	Amount ₹
A. Interest on Term Loans		
(i) Performing Assets	720	
(ii) Non-performing Assets	30	750
B. Interest on Csah Credit and Overdraft		
(i) Performing Assets	4,500	
(ii) Non-performing Assets	72	4,572
C. Interest on Bills Purchased and Discounted		
(i) Performing Assets	900	
(ii) Non-performing Assets	120	1,020
Income to be Recognised		6,342