Paper 5- Financial Accounting

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.
Working Notes should form part of your answer

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

Section – A

1 **Answer the following questions (give workings)** **[2 x 10]**

(i) In a production process, normal waste 5% of input, 5,000 MT of input were put in process resulting in a wastage of 300 MT. Costs per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?

(ii)

Cost of Machine	₹ 1,30,000
Residual value	Nil
Useful Life	10 years
Method of Depreciation in use	Straight Line method
After 8 years, the machine was revalued to	₹ 80,000

Computation of Depreciation as per AS – 6.

(iii) A computerized machinery was purchased by two companies jointly. The price shared equally. It was also agreed that they would use the machinery equally and show in their Balance Sheets, 50% of the value of machinery and charge 50% of the depreciation in their respective books of account. Whether the accounting treatment followed by the companies is correct or not.

(iv) On 1st April 2012, a head office purchased a plant costing ₹ 66,000 for the branch. On 1st January 2013, the branch purchased furniture for ₹10,000. The rate of depreciation on plant is 33-1/3% p.a. and on furniture 10% p.a. The accounting year of the head office and branch is the financial year.
Required: Give the necessary journal entries in the books of H.O., if fixed assets accounts are maintained at Head Office

(v) Sterling Ltd. purchased a plant for US $20,000 on 31st December, 2012 payable after 4 months. The company entered into a forward contract for 4 months @₹ 48.85 per dollar. On 31st December, 2012, the exchange rate was ₹47.50 per dollar.
How will you recognize the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2013.

(vi) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2012. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2013. What is the amount to be charged for the year ended 31.3.2013 to record the borrowing cost of loan as per AS 16.

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

[₹ in crores]

Particulars	Marine	Fire	Misc
Premia Collected From: **(a)** Insureds in respect of policies issued **(b)** Other insurance companies in respect of risks undertaken	 18.0 7.0	 43.0 5.0	 12.0 4.0
Premia paid/ payable to other insurance companies on business ceded	6.7	4.3	7.0

Calculate the Net premium Income

(viii) Earth Traders sells goods on hire purchase basis @ cost plus 33 1/3% and provides you the following particulars for the year:

	Opening ₹	Closing ₹
Stock out on Hire	40,000	46,000
Stock at shop	5,000	7,000
Installments Due (Customer still paying)	3,000	5,000

Cash received from hire purchaser during the year amounted to ₹ 80,000. Prepare Goods Sold on Hire Purchase Account.

(ix) From the following information, calculate the profit or loss on sale of debentures, if method of valuation is Weighted Average:
1.4.2013 Balance: 100, 12% Debentures of ₹ 100 each @ ₹ 95
5.4.2013 Purchased: 150, 12% Debentures of ₹ 100 each @ ₹ 90 Ex.
6.4.2013 Sold: 200, 12% Debentures of ₹ 100 each @ ₹ 93 Ex.

(x) On 12th June, 2013, a fire occurred in the premises of Amit, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 20,000. Estimated value of the stock at the date of fire is ₹ 1,60,000. Amit has insured his stock for ₹ 1,20,000. Compute the amount of the claim .

Section – B
[Answer any 5 questions]

2 (a) The Income and Expenditure Account of the Bombay Club for the year 2013 is as follows:

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

The account has been prepared after the following adjustments:

Subscriptions outstanding on 31.12.2012	16,000	The club owned a building since 2012	1,90,000
Subscriptions outstanding on 31.12.2013	18,000	The club had sports equipments on 31.12.2012 valued at	52,000
Subscriptions received in advance on 31.12.2012	13,000	At the end of the year after depreciation of ₹ 7,000 equipments amounted to	63,000
Subscriptions received in advance on 31.12.2013	8,400		
Salary outstanding on 31.12.2012	6,000	In 2012, the club had raised a bank loan which is still unpaid	30,000
Salary outstanding on 31.12.2013	8,000	Cash in hand on 31.12.2013	28,500
		Audit fees for 2013 not paid	2,500
Audit fees for 2006 paid during 2013	2,000		

Prepare the Receipts and Payments Account of the Club for 2013 and the Balance Sheet as on 31st December, 2013. All workings should form part of your answer.

(b) NDA Limited purchased a machine of ₹ 20 lakhs including excise duty of ₹ 4 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 ₹ 4 lakhs be treated?

(c) Describe the objectivity and applicability of AS -7. **[10+3+3]**

3 (a) From the following two statements, prepare Consignment A/c and Consignee's A/c in the books of Consignor, presuming that the goods were invoiced at 20% above cost.

M/s Vijay & Company To: M/s Jyoti Electric House
Mumbai Pune
No 2355 Date: 21st April 2013

Proforma Invoice

Particulars of goods sent on consignment:	Amount (₹)	Amount (₹)
800 Fans @ ₹ 1680 per fan		13,44,000
Add: Expenses Paid:		12,000
Freight	4000	
Insurance	6000	
Sundries	2000	
Total		13,56,000
E & O E sd/-		
Mumbai For Vijay & Company		

<table>
<tr><td colspan="3">M/s Jyoti Electric House To: M/s Vijay & Company
Pune Mumbai
(Account sales of 800 fans received from Vijay & Company, Mumbai)
Date: 21st September 2013</td></tr>
<tr><td></td><td>Amount (₹)</td><td>Amount (₹)</td></tr>
<tr><td>Sale proceeds of 600 Fans @ ₹ 2000 per fan
Less: Expenses Paid :
Advertising
Insurance
Octroi
Commission @10%</td><td>
4,500
1,500
12,000
1,20,000</td><td>12,00,000

(1,38,000)</td></tr>
<tr><td>Total</td><td></td><td>10,62,000</td></tr>
<tr><td>Less: Bill Accepted</td><td></td><td>7,50,000</td></tr>
<tr><td>Bank draft enclosed</td><td></td><td>3,12,000</td></tr>
<tr><td>E & O E sd/-
Mumbai Jyoti Electric House</td><td></td><td></td></tr>
</table>

(b) Distinguish between Bills of exchange and Promissory Note.

(c) NDA Ltd. entered into an agreement with UPA Ltd. for sale of goods costing ₹ 5,00,000 at a profit of 20% on sale. The sale transaction took place on 1st February, 2013. On the same day NDA Ltd. entered into another agreement with UPA Ltd. for repurchasing the same goods at ₹ 7,00,000 on 1st August, 2013. State the treatment of above transaction in the financial statements of NDA Ltd. for the year 2012-13. The predetermined repurchasing price covers, inter alia, the holding cost of UPA Ltd. **[8+4+4]**

4 (a) X, Y and Z were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. No interest was to be allowed on current or capital accounts of the partner but their loan accounts were to carry an interest of 10% p.a.

Due to persistent losses and the continued illness of Y, the firm decided to get dissolved on 31st March 2013. Its accounts were closed for the last time on 31st Dec. 2012 on which date its Balance Sheet was:

Particulars		Amount	Particulars	Amount (₹)
	₹		Plant and Machinery	60,000
Capital Account			Furniture & Fittings	10,000
X	48,000		Motor Cars	40,000
Y	33,000	81,000	Stock	55,000
Loan A/C — X		22,000	Sundry Debtors	40,000
Trade Creditors		80,000	Capital A/c	
Bank Overdraft		30,000	Z	8,000
		2,13,0		2,13,000

Between 31st Dec. 2012 and 31st March 2013, goods to the value of ₹ 30,000 were purchased and sales amounted to ₹ 45,000. In addition to payment to trade creditors, payments made were for Salaries, Wages ₹ 12,000 and for general and office expenses ₹ 6,000. Drawings of each partner were ₹ 800 p.m. On 31st March 2012, debtors, creditors and stock-in-trade were ₹ 60,000; ₹ 70,000 and ₹ 45,000, respectively. In dissolution proceedings the partners agreed to transfer the entire business (with all assets and liabilities including partners' loan) as a going concern to D for a consideration of ₹ 90,000. Cost of dissolution amounted to ₹ 2,800 which were met by X.

Show the necessary entries for the dissolution of the firm and also the capital account of the partners, assuming that all of them are solvent.

(b) Prepare a Bank Reconciliation Statement from the following data as on 30.11.2013:

(i) Balance as per Pass Book on 30.11.2013, overdrawn ₹ 9,204.

(ii) Cheques drawn on 30.11.2013 but not cleared till December 2013, ₹3,225; ₹ 745 and ₹926.

(iii) Bank Overdraft interest charged on 28.11.2013, not entered in Cash Book ₹ 1,610.

(iv) Cheques received on 29.11.2013 entered in Cash Book but not deposited to Bank till 3rd December 2013, ₹11,322 and ₹1,730.

(v) Cheque received amounting to ₹35 entered in the Cash Book twice.

(vi) Bills Receivable due on 29.11.13 was sent to Bank for collection on 28.11.13, and was entered in Cash Book forthwith but the proceeds were not credited in Bank Pass Book till 3rd Dec. 2013, ₹ 2,980.

(vii) A periodic payment by Bank for ₹ 80 understanding instruction not entered in Cash Book.

(viii) Cheque deposited on 30th Nov.2013 dishonoured but the entry, therefore, was not made in the Cash Book ₹ 1,890.

(c) A second-hand machine was purchased on 1.1.2010 for ₹4,00,000. Overhauling and installation expenses for the same machine amounted to ₹1,00,000. Another machine was purchased for ₹2,00,000 on 1.7.2010.

On 1.7.1972, the machine installed on 1.1.2010 was sold for ₹ 2,50,000. Dismantling charge for the machine sold on 1.7.2012 were ₹10,000. On the same date another machine was purchased for ₹8,00,000 and was commissioned on 30.9.2012. The company has adopted calendar year as its financial year. Under the existing practice, the company provides depreciation @ 10% p.a. on original cost. In 2013, it has been decided that depreciation will be charged on the diminishing balance @ 15% p.a. The change is not to be made with retrospective effect.

Show the statement of depreciation from 2010 to 2013. Also show Asset Disposal Account

[8+4+4]

5 (a) Transport Company Ltd. purchased 2 Vans costing ₹ 40,000 each from Auto Distributors on 1st January, 2011 on Hire Purchase System on the following terms:

Payment of ₹ 10,000 is to be made for each van on delivery. Remainder is to be paid in three equal installments together with interest at 10% per annum at the end of each year. The buyer writes off 25% depreciation each year on diminishing balance method. It makes payment for the two installments but cannot pay the final installment. Thereupon the vendor repossess one van adjusting its value against the amount due. The repossession done on the basis of 30% depreciation on diminishing balance method. Write up the ledger accounts in the books of Transport Company Ltd.

(b) X & Co. has produced a Trial Balance as on March 31, 2013 which does not balance, the difference of ₹1,760 being transferred to the Suspense account. An examination of the Company's books disclose the following errors:

(i) The Sales Day Book has been under cast by ₹800 and posted to the Debtors Control Account accordingly.
(ii) Goods received from XYZ Limited on March 31, 2013 costing ₹9,690 have been included in stock but the invoice has not been received.
(iii) Sales Account in the General Ledger has been credited with a credit note for ₹950 being trade-in allowance given on a company van. This amount had already been taken into account when dealing with the replacement in the Motor Van Account.
(iv) An invoice from Joseph & Co. amounting ₹4,450 for goods purchased has been omitted from the Purchase Day Book and posted direct to Purchase Account in the General Ledger and Joseph & Co. Account in the Suppliers' Ledger but had not been included in the Suppliers' Ledger Control Account in the Trial Balance.
(v) Discount allowed for the month of March amounting to ₹1,740 has not been posted to Discount Allowed Account in the General Ledger.
(vi) A cheque for ₹1,920 received from Jolly Limited, a debtor, has been posted directly to the Sales Account in the General Ledger.

You are required : (i) to give the journal entries, where necessary, to correct these errors, or if no Journal entry is required, state how they will be corrected; (ii) to prepare a statement showing the effect the corrections would have on the company's profit for the year; and (iii) to prepare Suspense Account.

(c) Difference between Capital and Revenue Expenditure. **[8+4+4]**

6 (a) Sourav and Sachin entered into a joint venture for buying and selling plastic goods and agreed to share profits and losses in the ratio of 3 : 2.
On October 1, 2012, Sourav purchased goods at a cost of ₹ 60,000 and half of the goods were handed over to Sachin. On October 15, he again purchased goods worth ₹ 20,000. He incurred expenses ₹ 2,000.
On October 15, Sachin also made a purchase of ₹ 37,500 and, on the same day, he sent to Sourav goods worth ₹ 15,000. He incurred expenses of ₹ 900. On October 20, Sourav in, order to help Sachin, sent ₹ 16,000 to him. Both the parties sold goods at a profit of 25% on Sale.
On March 31, 2012; Sourav had unsold stock of goods of ₹ 12,500, of these, goods costing ₹ 5,000 were taken away by him and the remainder sold for ₹ 8,000. Sachin was able to sell away complete goods excepting goods costing ₹ 2,500 which were badly damaged and were treated as un saleable. ₹ 3,000 owing to Sourav were unrecoverable and treated as joint loss.
On March 31, 2013 both the parties decided to close the books. You are required to prepare:
(i) The Joint Venture Account as it would appear in the books of Sourav recording his own transactions, and
(ii) A Memorandum Joint Venture Account, showing the profits of the business.

(b) Saturday and Sunday are two partners of a firm. They have drawn the following amounts from the firm in the year ending 31st March 2013:

Saturday		
Year	Date	₹
2012	1st July 30th Sept. 1st Nov.	300 500 800
2013	28th February	200

Sunday		
Year	Date	₹
2012	1st June 1st August	500 400
2013	1st February 1st march	400 900

Interest at 6% is charged on all drawings. Calculate interest chargeable under Average Due date System. (Calculation to be made in months.)

(c) Sandip Ltd. had the following condensed trial balance as on 31st March 2012:

Dr. Cr.

Particulars	(₹)	Particulars	(₹)
Cash	7,500	Current Liabilities	15,000
Accounts Receivable	30,000	Long-term Notes Payable	25,500
Investments	20,000	Bonds Payable	25,000
Plant Assets	67,500	Share Capital	75,000
Land	40,000	Retained Earnings	24,500
	1,65,000		1,65,000

Additional Information:

During 2012-13, the following transactions took place:

(i) A tract of land was purchased for a cash of ₹ 7,750.
(ii) Bonds payable in the amount of ₹ 6,000 were retired for cash at face value.
(iii) An additional ₹ 20,000 equity shares were issued at par for cash.
(iv) Dividends totaling ₹ 9,375 were paid.
(v) Net income for 2012-13 was ₹ 28,450 after allowing for a depreciation of ₹ 9,500.
(vi) Land was purchased through the issuance of ₹ 22,500 in bonds.
(vii) Sandip Ltd sold a part of its investments portfolio for ₹ 12,875 cash. The transaction resulted in a gain of ₹ 1,375 for the firm.
(viii) Current Liabilities increased to ₹ 18,000 on 31st March 2003.
(ix) Accounts receivable on 31st March 2003 totaled to ₹ 38,000.

Prepare a Statement of Cash Flows from Operating Activities and Financing Activities for 2012-13, using indirect method, as per AS-3 (Revised). **[6+4+6]**

7 (a) Calcutta Electric Co. decides to replace its old plants with a modern one with a larger capacity. The plant was installed in 1940 at a cost of 40 lakhs. The components of materials, labour overhead were in the ratio of 5 : 3 : 2. It is ascertained that the cost of materials and labour have gone up by 50% and 100% respectively. The proportion of overheads to total costs is expected to remain the same as before.

The cost of the new plant as per the improved design is ₹ 90 lakhs in addition, materials recovered from the old plant having value of ₹ 2,00,000 was used in the construction of new plant. The old plant was scrapped and sold for ₹ 7,50,000.

The accounts of the company are maintained under Double Account System.

Show the Journal Entries in the books of Calcutta Electric Co.

(b) Ocean and Kite are two department of Red Company of Calcutta. Ocean department sells goods to Kite Department at normal market price. From the following particulars, prepare a Trading and Profit and Loss Account of the two departments for the year ended 31st March, 2013.

	Dept. Ocean ₹	Dept. Kite ₹	General ₹
Stock on April 1, 2012	12,000	Nil	
Purchases	2,76,000	24,000	
Goods from Ocean Department	---	84,000	
Wages	12,000	19,200	
Salaries	8,000	5,000	
Stock on 31st March, 2013, at Cost	60,000	21,600	
Sales	2,76,000	1,74,000	
Stationary & Printing	2,560	1,960	
Plant & Machinery	---	14,400	
Salaries (General)			18,000
Miscellaneous Expenses			3,600
Advertisement			9,600
Bank Charges			2,400

Depreciate Plant and Machinery by 10%. The general unallocated expenses are to be apportioned in the ratio Ocean: 3, Kite: 2. **[8+8]**

8 (a) Mr. Ashok keeps his books in single entry system. From the following information, prepare Trading and Profit and Loss Account for the year ended 31 March, 2013 and the Balance Sheet as on that date :

Assets and Liabilities	31.3.20 (₹)	31.3.2 (₹)
Sundry Creditors	30,000	25,000
Outstanding Expenses	1,000	500
Fixed Assets	23,000	22,000
Stock	16,000	22,500
Cash in Hand and at Bank	14,000	16,000
Sundry Debtors	?	36,000

Following further details are available for the current year :

Particulars	₹	Particulars	₹
Total receipts from	1,30,00	Cash Purchases	2,000
Debtors	0	Fixed Assets Purchased and	1,000
Returns Inward	3,000	Paid by Cheque	
Bad Debts	1,000	Drawings by Cheques	6,500
Total Sales	1,50,00	Deposited into Bank	10,000
Discount Received	0	Withdrawn from Bank	18,500
Return Outwards	1,500	Cash in Hand at the End	2,500
Capital Introduced (Paid	1,000	Paid to Creditors by Cheques	1,20,000
into Bank)	15,000	Expenses Paid	20,000
Cheques received from	1,25,00		
Debtors	0		

(b) It was decided to make specific provisions in the accounts for the year ended 31.03.13 for the following doubtful debts after examining the sales ledger of the firm:
A ₹ 1,900; B ₹ 300 ; C ₹ 2,680 and D ₹ 1,380.
It was decided to make also a general provision of 5% on the other debtors who were on 31st March 2012 amounted to ₹ 2,16,000.
No other transaction relating to the debtors were made but successors of A and D sent final dividend of ₹ 600 and ₹ 840 respectively and C paid his debt in full.
On 31.03.2013, it was decided to maintain the provision against B's debt and make further provision for the following debts considered doubtful:
E ₹ 1,300; F ₹ 680 and G ₹ 1,020.
The other debtors amounted to ₹ 2,60,000 and it was required to make the general provisions for doubtful debts equal to 5% of these debts. Show Bad Debts Account and Provision for Bad Debts Account. **[10+6]**