Paper-5: FINANCIAL ACCOUNTING

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

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.
Working Notes should be 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): [2×10]

(i) X, Y and Z are sharing Profits and losses in the ratio of 5: 3 : 2. Calculate the new profit sharing ratio and the sacrificing ratio if Z acquires 1/10 th share equity from X and Y.

(ii) A trader purchased goods for ₹ 3,25,000. The opening stock of inventory prior to the said purchase was ₹ 50,000. His sale was ₹ 4,00,000. Find out the closing stock of inventory if the gross profit margin is 25% on cost.

(iii) Comptronics sells computers on Hire Purchase basis at cost plus 20%. Terms of sale are ₹ 12,000 down payment and eight monthly instalments of ₹ 6,000 for each computer. Three computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

(iv) Given below are details of interest on advances of CAS Ltd. a Commercial bank as on 31.03.2013

Assets	Interest Earned (₹ in lakhs)	Interest Received (₹ in lakhs)
Performing Assets:		
Term Loan	240	160
Cash credit and overdraft	1,500	1,240
Bills purchased and discounted	300	300
Non- performing Assets:		
Term Loan	150	10
Cash credit and overdraft	300	24
Bills purchased and discounted	200	40

Required: Find out the Income to be recognized for the year ended 31.03.2013.

(v) S Ltd. acquired a patent at a cost of ₹8,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹1,00,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹3,60,000,₹4,60,000, ₹4,40,000, ₹4,00,000 and ₹3,40,000. Find out the amortization cost of the patent for each of the years.

(vi) How will you deal with the following items while preparing the Income and Expenditure Account for the year ending on March 31, 2013?

	As at 1.4.2012 ₹	As at 31.3.2013 ₹
Creditors for Sports Materials	4,600	11,800
Stock of Sports Materials	15,000	30,400

During 2012 – 2013, the payments made to these Creditors amounted to ₹ 56,800 and Cash Purchases amounted to ₹ 16,000.

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

	Amt. (₹)
Fair market value of plan assets (beginning of year)	70,000
Employer Contribution	10,000
Actual return on plan assets	5,000
Benefit payments to retirees	4,000

(viii) From the following particulars prepare a Consignment Account:

Particulars	Amount (₹)
Opening stock	-
Add: Goods sent on consignment	1,00,000
	1,00,000
Add: Consignor's Expenses	10,000
	1,10,000
	1,10,000
Less: Abnormal Loss	20,000
	90,000
Add: Non –recurring expenses	10,000
	1,00,00
Less: Unsold Stock	30,000
Cost of Goods sold	70,000
Add: profit at 25% of cost	17,500
Sales	87,500

(ix) Mr. Amit sales during the 2013 were ₹ 10,000 more than purchases during the year. His closing stock was valued at ₹ 10,000 . Rate of gross profit on sales was @ 40%. Draw up his Trading Account for the year ended 31st December,2013.

(x) The Trial Balance of S. Kumar as on 31.12.2013 showed a difference and the difference was transferred to a Suspense Account. Subsequently the following errors were detected:
(i) The total of one page of the Sales Day Book was carried forward to the next page as ₹ 4,513 instead of ₹ 4,531.
(ii) The total of the Purchase Day Book was undercast by ₹400.
(iii) A Cash discount of ₹ 150 received from a creditor was debited to Discount Account.
(iv) ₹1,450 spent on repairs of Delivery Van was debited to Motor Vehicles Account.

Section B

Answer any 5 questions from the following

2. (a) The following is the Trial Balance of M/s. Roy Traders as at 31st Dec., 2013. You are asked to prepare the Trading and Profit & Loss Account for the year ended 31st Dec., 2013 and Balance Sheet as on that date :

	Dr.	Cr.
	₹	₹
Roy's Capital	-	2,16,000

Stock as on 1st January, '13	93,600	-
Sales and Sales Returns	17,200	5,79,200
Purchases and Purchases Returns	4,86,200	11,600
Freight and Carriage	37,200	-
Rent and Tax	11,400	-
Salaries and Wages	18,600	-
Sundry Debtors	48,000	-
Sundry Creditors	-	29,600
Bank Loan (at 12% p.a.)	-	40,000
Bank Interest on above	3,800	-
Printing & Advertisement	20,200	-
Income from Investments	-	500
Cash at Bank (Cr.)	-	23,000
Discount Received	-	8,560
Investments	10,000	-
Furniture & Fittings	13,600	-
Discount allowed	5,080	-
General Expenses	7,820	-
Audit Fees	2,600	-
Travelling Expenses	4,660	-
Postage & Telegram	1,740	-
Cash in Hand	20,760	-
Fixed Deposit with State Bank of India	86,000	-
Drawings	20,000	-
	9,08,460	9,08,460

Additional Information:

(i) Closing Stock as on 31.12.13 ₹1,57,200.

(ii) The effect of advertisement being not yet expired, a quarter of the amount of "Printing and Advertisement" is to be carried forward to the next year.

(iii) Provide 2% for Discount on Debtors and create a provision for Bad and Doubtful Debts at 5% on Debtors.

(iv) Depreciation of 10% is to be written off on Furniture and Fittings.

(v) Furniture which stood at ₹ 1,200 in the books on 1st January, 2013 was disposed of at ₹ 580 on 30th June, 2013 in part exchange for a new furniture costing ₹ 1,040. The net amount payable ₹ 460 was passed through the Purchase Book by mistake.

(vi) Two dishonoured cheques for ₹ 400 and ₹ 600 respectively had not been entered in the cash book. The first for ₹ 400 is known to be bad. In the case of the second cheque for ₹ 600, it is expected that the Debtors would be in a position to pay a dividend of 60 paise in the rupee.

(vii) Interest receivable from Fixed Deposit with State Bank of India @ 12% p.a. and provide for interest on Bank Loan for the whole year (working notes must be shown).

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3.(a) Ram, Laxman and Bharat were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2013, Balance Sheet of the firm stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c's		Buildings	1,37,500
Ram	1,25,000	Furniture	62,500
Laxman	1,00,000	Stock	1,05,000
Bharat	70,000	Debtors	50,000
Creditors	83,750	Cash at Bank	28,000
Outstanding Expenses	4,250		
	3,83,000		3,83,000

On 31st March, 2013 Ram decided to retire and Laxman and Bharat decided to continue as equal partners. Other terms of retirement were as follows:

(i) Building be appreciated by 20%

(ii) Furniture be depreciated by 10%

(iii) A provision of 5% be created for bad debts on debtors.

(iv) Goodwill be valued at two years purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March 2013 was ₹ 62,500. No goodwill account is to be raised in the books of accounts.

(v) Fresh capital be introduced by Laxman and Bharat to the extent of ₹ 25,000 ₹ 87,500 respectively

(vi) Out of sum payable to retiring partner Ram, a sum of ₹ 1,12,500 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% p.a. The loan is to be paid off by 31st March 2015.

One month after Ram's retirement Laxman and Bharat agreed to admit Ram's son Lav as a partner with 1/4th share in profit / losses. Ram agreed that the balance in his loan account be converted into Lav's capital. Ram also agreed to forgo one month's interest on his loan. It was also agreed that Lav will bring in, his share of goodwill through book adjustment, valued at the price on the date of Ram's retirement. No goodwill account is to be raised in the books.

You are required to pass necessary Journal Entries to give effect to the above transactions and prepare Partner's Capital.

(b) The financial year of Mr. C ends on 31st March, 2013 but the stock in hand was physically verified only on 8th April, 2013. You are required to determine the value of Closing Stock (at cost) as at 31st March, 2013 from the following information.

(i) The stock (valued at cost) as verified on 8th April, 2013 was ₹ 37,500.

(ii) Sales have been entered in the Sales Day Book only after the despatch of goods and sales returns only on receipt of goods.

(iii) Purchases have been entered in the Purchase Day Book on receipt of the purchase invoice irrespective of the date of receipt of the goods.

(iv) Sales as per the sales day book for the period 1st April, 2013 to 8th April, 2013 (before the actual verification) amounted to ₹ 15,000 of which goods of a sale value of ₹ 2,500 had not been delivered at the time of verification.

(v) Purchases as per the purchase day book for the period 1st April, 2013 to 8th April, 2013 (before the actual verification) amounted to ₹ 15,000 of which goods for purchases of ₹ 3,750 had not been received at the date of verification and goods for purchases of ₹ 5,000 had been received prior to 31st March, 2013.

(vi) In respect of goods costing ₹ 12,500 received prior to 31st March, 2013, invoices had not been received up to the date of verification of stocks.

(vii) The gross profit is 20% on sales.

(c) Amit Industries Ltd. is in the business of manufacturing and export. In 2011, the Government put a restriction on export of goods exported by Amit Industries Ltd leading to impairment of its assets. Amit Industries acquired at the end of 2007, identifiable assets worth ₹800 Lakhs for ₹1,200 lakhs, the balance being treated as Goodwill. The useful life of the identifiable assets is 15 years and depreciated on straight – line basis. When Government put the restriction at the end of 2011, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹544 Lakhs. In 2013, the "restriction" was withdrawn by the Government and due to this favourable change, Amit Industries Ltd estimates its recoverable amount at ₹684 Lakhs.

(i) Calculate and allocate Impairment Loss in 2011.

(ii) Compute reversal of Impairment Loss and its allocation in 2013. **[8+4+4]**

4. (a) Samar Ltd. took on lease a land from Bhumi for running a Super bazer on 01.01.2009 on the following conditions:

(i) A fixed rent of ₹8,000 to be paid per month.

(ii) A variable rent at the undernoted percentages on sales would be paid subject to a minimum annual payment of ₹50,000:

Sales Volume

(a) ₹ 1 to ₹50,00,000

(b) Over ₹50,00,000 and up to ₹1,00,00,000

(c) Above ₹1,00,00,000

Variable rent

(a) 1% of Sales of this category

(b) 0.75% on sales of sales of this category

(c) 0.5% on sales of sales of this category

(iii) In case the variable rent falls short of ₹50,000 in any year, the shortfall could be recovered out of excess variable rent of the following two years.

(iv) If normal activities are hampered due to any external reason, the fixed rent will remain suspended for that period.

The annual sales for the first 5 years have been:

Year	Sales by Samar ₹	
2009	30,00,000	
2010	45,00,000	
2011	65,00,000	
2012	80,00,000	[Water logging due to heavy shower for one month]
2013	1,20,00,000	

Show the important ledger accounts in the books of Samar Ltd.

(b) Prepare a Sales Ledger Adjustment Account and a Purchase Ledger adjustment accounting in the General Ledger, for the year ended 31st March, 2013 from the following information:

Particulars	₹	Particulars	₹
Customers' Account debit balance as on 01.04.2012	2,300	Goods returns by debtors	2,000
Customers' Account credit balance as on 01.04.2012	200	Cash discount allowed to debtors	600
Suppliers' Account credit balance as on 01.04.2012	4,000	Cash discount received from creditors	130
Suppliers' Account debit balance as on 01.04.2012	540	Trade discount received from the suppliers	8,000
Credit sales during the year	29,400	Bad debts written- off during the year	400
Credit purchases during the year	27,800	Bad debts recovered during the year	80
Cash sales during the year	22,600	Transfer from creditors ledger to debtors ledger	240
Cash Purchases during the year	5,800	Bills receivable dishonoured	320
Cheques received from credit customers	18,000	Bills payable dishonoured	180
Cash received from credit customers	2,000	Cheqes recd from debtors returned dishnoured	750
Cheques issued to the creditors during the year	21,000	Cheqes issued to creditors returned dishnoured	290
Gods returned to the creditors	1,400	Customers' Account credit balance as on 31.03.2013	310
Bills payable accepted during the year	1,800	Supplier's Account debt balance as on 31.03.2013	420
Bills received during the year	1,500		

(c) State the features of a Trial Balance **[8+5+3]**

5. (a) A Head Office of Bombay has a Branch at Madras in charge of a manager. The ratio of gross profit on turnover at the Breach was 25 per cent throughout the year. The Branch Manager is entitled to a commission of 10% of the profit earned by the Branch calculated before charging his commission, but subject to a deduction from such commission a sum equal to 50% of any ascertained deficiency on Branch Stock. All goods were supplied by the Head Office to the Branch.

From the following figures extracted from the Branch Books, calculate the commission due to the manager for the year ended 31st December, 2013.

	₹
Stock on 1.1.13 at Selling Price	20,806

Goods received from Head Office at Cost	54,360
Sales	73,200
Establishment Expenses	11,250
Drawings by Manager against commission	500
Stock on 31.12.13 at selling price	19,900

(b) A firm sells goods on sale or return basis, customers, having the choice of returning the goods within a month. During April 2013, the following are the details of the goods sent:

2013 April	Customer	Value ₹	Proforma Invoice No.
2	A	10,000	004
4	B	18,000	007
16	C	25,000	023
20	D	8,000	032
24	E	21,000	041
28	F	30,000	049

Within the stipulated time A and C returned the goods while B, D and E signified that they have accepted the goods. Show the following accounts in the books of the firm: sale on Approval Account and customers for sale on Approval Account as on 15th May 2013.

(c) Best Ltd. gives you the following information to find out Total Sales and Total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 01.01.2012	65,000	Discount allowed by suppliers	8,000
Creditors as on 01.04.2012	80,000	Discount allowed to customers	10,000
Bills receivable received during the year	45,000	Endorsed bills receivable dishonoured	5,000
Bills receivable issued during the year	52,000	Sales return	9,000
Cash received from customer	1,55,000	Bills receivable discounted	8,000
Cash paid to suppliers	1,70,000	Discounted bills receivable dishonoured	3,000
Bad debts recovered	16,000	Cash sales	1,68,000
Bills receivables endorsed to creditors	28,000	Cash purchase	1,95,000
Bills receivables dishonoured by customers	6,000	Debtors as on 31.03.2013	83,000
		Creditors as on 31.03.2013	95,000

[6+5+5]

6. (a) Das & Co. suffered a loss of stock due to fire on 16.8.2013. From the following information prepare a statement showing claim for the loss to be submitted:

Stock at Cost 1.1.12	1,83,750
Stock at Cost 31.12.12	1,99,000
Purchases less returns for the year ended 31.12.12	9,95,000
Sales less returns for the year ended 31.12.12	12,17,500
Purchases less returns from 1.1.13 to 16.8.13	1,62,000
Sales less returns from 1.1.13 to 16.8.13	2,31,200

In Valuing Stock of Balance Sheet on 31st December, 2012, ₹ 5,750, had been written off certain stock which was a poor selling line, having cost ₹ 17,250. A portion of these goods was sold in March, 2013 at a loss of ₹ 750 on the original cost of ₹ 8,750. The remainder of this stock was now estimated to be worth the original cost, subject to the above exception, gross profit had remained at a uniform rate throughout. The company had a fire policy of ₹ 1,08,750 covering its stock of goods in the godown. The Policy is subject to Average Clause .The stock salvaged from fire was valued at ₹15,000.

(b) Ghuri Ltd undertook a Contract to construct a building for ₹ 85 Lakhs. At the end of the financial year, the Company found that it had already spent ₹ 65,99,000 on Construction. Prudent estimate of the additional cost for completion was ₹ 33,01,000. What is the additional provision for foreseeable loss which must be made in the final accounts for the year ended 31st March? If the progress billings received were ₹ 50 Lakhs on 31st March, what is the amount due from / to customers?

(c) State the basic features of a Joint Venture **[6+7+3]**

7. (a) ICICI Lombard, a Insurance Company commenced its business on 1.4.2012. It submits you the following information for the year ended 31.3.2013:

	₹
Premium received	15,00,000
Re-insurance premium paid	1,00,000
Claim paid	7,00,000
Expenses of Management	2,50,000
Commission paid	1,00,000
Claims outstanding on 31.3.2013	1,00,000

Create reasons for unexpired risk @ 40%.
Prepare Revenue Account for the year ended 31st March, 2013.

(b) Two partnership firms, carrying on business under the name of B&Co and W&Co respectively, decided to amalgamate into G & Co. with effect from 1st January 2014. The respective Balance Sheets are:

Balance Sheet of B & Co. as on 31st December, 2013

Liabilities	₹	Assets	₹
Mr. B's Capital Accounts	38,000	Plant and Machinery	20,000
Sundry Creditors	20,000	Stock-in-trade	40,000
Bank Overdraft	30,000	Sundry Debtors	20,000
		Mr. A's Capital Account	8,000
	88,000		88,000

A and B share profits and losses in the proportion of 1: 2.

Balance Sheet of W & Co. as on 31st December, 2013

Liabilities	₹	Assets	₹
Mr. X's Capital Account	20,000	Investment	10,000
Mr. Y's Capital Account	4,000	Stock-in-trade	10,000
Sundry Creditors	19,000	Sundry Debtors	20,000
		Cash in hand	3,000
	43,000		43,000

X and Y share profit and losses equally. The following further information is given:

(i) All fixed assets are to be devalued by 20%.
(ii) All stock in trade is to be appreciated by 50%.
(iii) B & Co. owes ₹ 10,000 to W & Co. as on 31st December 2013. This debit is settled at ₹ 4,000
(iv) Investment is to be ignored for the purpose of amalgamation, being valueless.
(v) The fixed capital accounts in the new firm are to be : Mr. A ₹ 4,000; Mr. B₹ 6,000 Mr. X ₹ 2,000 Mr. Y ₹ 8,000

(vi) Mr. B takes over bank overdraft of B & Co. and gifts to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.

(vii) Mr. X is paid off in cash from W & Co. and Mr. Y brings in sufficient cash to make up his required capital contribution.

Pass necessary Journal Entries to close the books of both the firms as on 31st December 2013. **[6+10]**

8.(a) Khan draws a bill for ₹ 1,20,000 and Sumit accepts the same for mutual accommodation of both of them to the extent of Khan 2/3rd and Sumit 1/3rd. Khan discounts it with bank for ₹ 1,12,800 and remits 1/3rd share to Sumit. Before the due date, Sumit draws another bill for ₹ 1,68,000 on Khan in order to provide funds to meet the first bill on same sharing basis. The second bill is discounted at ₹ 1,63,200. With these proceeds, the first bill is settled and ₹28,800 were remitted to Khan. Before the due date of the second bill, Khan becomes insolvent and Sumit receives a dividend of only 50 paise in a rupee in full settlement.

Pass journal entries in the books of Khan.

(b) On 1st April ,2012 X has 50,000 equity shares of A Ltd at a book value of ₹15 per share (face value ₹10 per share). Company provides you the further information:

(i) On 20th June ,2012 he purchased another 10,000 shares of A Ltd at ₹ 16 per share.

(ii) On 1st August 2012, A Ltd. issued one equity bonus share for every six shares held by the shareholders.

(iii) On 31st October, 2012, the directors of A Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹ 15 per shar. Shareholders can transfer their rights in full or in part.

X sold 1/3rd of entitlement to U for a consideration of ₹ 2 per share and subscribe the rest on 5th November, 2012.

You are required to prepare investment Account in the books of X for the year 31st March, 2013.

(c) X –Ray Ltd gives you the following information for the year ended 31st March, 2013 :

(i) Sales for the year ₹ 48,50,000. The company sold goods for cash only.

(ii) Cost of goods sold was 75% of sales.

(iii) Closing inventory was higher than opening inventory by ₹ 50,000.

(iv) Trade creditors on 31.3.2013 exceed the outstanding on 31.3.2012 by ₹ 1,00,000.

(v) Tax paid during the year amounts to ₹ 2,00,000.

(vi) Amounts paid to trade creditors during the year ₹ 35,60,000.

(vii) Administrative and selling expenses paid ₹ 3,50,000.

(viii) One new machinery was acquired in December, 2012 for ₹ 6,50,000.

(ix) Dividend paid during the year ₹ 70,000.

(x) Cash in hand and at Bank on 31.3.2013 ₹ 90,000.

(xi) Cash in hand and at Bank on 1.4.2012 ₹ 70,000.

Prepare Cash Flow Statement for the period ended 31.3.2013 as per the prescribed Accounting Standard. **[6+5+5]**