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) Beta Ltd. entered into an agreement to sell its immovable property included in the Balance Sheet at ₹ 50 lakhs to another company for ₹ 65 lakhs. The agreement to sell was concluded on 28th Feb, 2014 and the sale deed was registered on 30th April, 2014.
How should this event be recorded?

(ii) ABC Ltd. paid an interim dividend of ₹ 1 lakh during financial year 2012-2013 and also paid ₹ 10,200 as Corporate Dividend Tax.ABC Ltd. classified dividend as financing activities and Corporate Dividend Tax as Operating Activities while preparing cash flow statement for 2012-2013. Answer in framework with AS-3.

(iii) Discuss the importance of National Advisory Committee on Accounting Standard.

(iv) A&Co. closed their books on 31st March, 2013. On that date they detected that
(a) Material from store ₹ 9000 and wages ₹ 3500 have been used in making loose tools for use in own factory. But no adjustments were made in the books.
(b) ₹ 4500 paid in installments to an injured worker was debited to Wages Account, pending the settlement of workmen's compensation claim against insurance company.
Pass the necessary Journal Entries to rectify the above errors.

(v) Classify the following between Capital and Revenue giving reasons
(a) Old machinery of book value of ₹ 10,000 worn out, dismantled at a cost ₹ 2,500 and scraps realized for ₹ 500.
(b) A firm of builders spent ₹ 4, 00,000 for purchasing a plot of land and erected its own office over 1/4th of the site. The remaining area was developed for sale to public.

(vi) Calculate the amount of Insurance claim to be lodged based on the following information:

Value of stock destroyed by fire	**₹ 90,000**
Insurance policy amount (subject to average clause)	**₹ 65,000**
Value of stock salvaged from fire	**₹ 40,000**

(vii) S Ltd. recognizes Goodwill at ₹ 25 lakhs in the Balance Sheet. An amount of ₹ 9 lakhs is allocable on a reasonable and consistent basis to a Cash Generating Unit. The carrying amount of the CGU is ₹ 27 lakhs before allocation of goodwill. What will be the treatment of impairment loss if the recoverable amount of the CGU is ₹ 22 lakhs.

(viii) Describe Going Concern Concept of Accounting

(ix) Discuss when closing stock is included/not included in a trial balance.

(x) D Ltd. sold 3000, 12% Debentures (Face value ₹ 100 each) from S Ltd. at ₹ 105 cum-interest on 01.09.2013.Interest is payable on 30th June and 31st December every year. Find out the actual amount to be received.

SECTION B

2. (a) Mr. S who keeps financial records in single entry mode provides the following data for the year ended 31st March, 2014. [12]

Gross Profit Ratio	40% on sales	Net Profit Ratio	10% on sales
Debtors Turnover Ratio	2Months	Other Expenses (Administrative)	₹ 25 lakhs
Creditors Turnover Ratio	1.5Months	Depreciation	₹ 5 lakhs
Inventory Turnover Ratio	2Months	Debentures to Equity share capital	10%
Current Ratio	2.5Months		

Opening Stock was less than the Closing Stock by ₹ 4 lakhs. The ratio of cash sales to credit sales was 16:9. Depreciation was charged on Fixed Asset at 20%. Other expenses include the payment of interest on debentures. No dividends were declared during the year. Ignore taxation. By application of ratios compute Sales, Gross Profit, Net Profit, Credit sales, Closing Stock, Purchases, Debtors, Creditors, Current Assets, Fixed Assets and Debentures.

(b) The following particulars are available from the books of Mascot Ltd. : [4]
April 1, 2012 Provision for Bad Debts ₹ 1,750.
During 2012 Bad Debts written off ₹ 1,500.
On 31st March 2013 balance of Sundry Debtors ₹ 64,800. Further bad debts to be written off amounted ₹ 800. It realized ₹ 980 written off as bad in 2010 and a provision of 5% was to be made on 31.03.2013. Show the Bad Debts Account for the year 2012-2013 assuming that the concern adjusts provision through the Bad Debts Account.

3. (a) Gupta Limited, an Indian Company has a branch at New York (USA). The trial balance of the branch as at 31st March, 2013 is as follows:

Particulars	US$	
	Dr.	Cr.
Fixed Assets	51,200	-
Opening Stock	22,400	-
Purchases/ Sales	96,000	1,66,400
Goods Sent from HO	32,000	-
Carriage Inward	600	-
Branch Expenses	4,800	-
H.O. Account	-	45,600
Sundry Debtors / Creditors	9,600	6,800
Cash at Bank	2,200	-
	2,18,800	2,18,800

The following further information's are given:

(i) Expenses outstanding $ 400.
(ii) Depreciation charged on Fixed Assets @10% p.a. at W.D.V.
(iii) The H.O. sent goods to Branch for ₹ 15,80,000.
(iv) The H.O. shown an amount of ₹ 20,50,000 due from branch.
(v) Closing Stock $ 21,500.
(vi) There were no transit items either at the start or at the end of the year. On April 1, 2011 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 2012 the rate was ₹47 per $. On March 31, 2012 the rate was ₹50 per $. Average rate during year was ₹45 to one $.

Assuming that the branch is an Integral Foreign Operation of the Indian Company.

Calculate the Difference in Exchange and show its Accounting treatment as per AS 11.

(b) What are the disclosure requirement as per Accounting Standard 10? [3]

(c) G Insurance Company Ltd. furnishes the following information:

(i) On 31.03.2013 it had reserve for unexpired risks to the tune of ₹86 crore. It comprised ₹32 crore in respect of Marine Insurance business, ₹40 crore in respect of Fire Insurance business and ₹14 crore for Miscellaneous Insurance business.

(ii) It is the practice of G Insurance Company Ltd. to create reserve at 100% of net premium income in respect of Marine Insurance policies and 50% of net premium in respect of Fire and Miscellaneous Insurance business.

(iii) During year ended 31st March, 2014 the following business was conducted:

Particulars	Marine	Fire	Miscellaneous
	₹ crore	₹ crore	₹ crore
Premia collected from			
Insured(other than insurance companies) in respect of policies issued	40	84.6	30
Other insurance companies in respect of risk undertaken	16	18	10
Premia paid/payable to other insurance companies on business ceded	12.6	8.6	15

Pass journal entries in the books of G Insurance Company Ltd. relating to "Unexpired Risks Reserve" [6]

4. (a) The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

Opening balance (face value) ₹ 1,20,000, Cost ₹ 1,18,000 (Face value of each unit is ₹ 100).

01.03.2012	Purchased 200 units, ex-interest at ₹ 98.
01.07.2012	Sold 500 units, ex-interest out of original holding at ₹ 100
01.10.2012	Purchased 150 units at ₹ 98, cum interest.
01.11.2012	Sold 300 units, ex-interest at ₹ 99 out of original holdings.

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. [10]

(b) During the year ended 31st March 2013, Sourav Cricket Club received subscriptions as follows: [3+3]

	(₹)
For year ended 31st March,2012	12,000
For year ended 31st March,2013	6,15,000
For the year 2013-14	18,000
Total	6,45,000

There are 700 members and annual subscription is ₹ 1,000 per member.

On 31st March, 2013, a sum of ₹ 15,000 was still in arrear for subscription for the year ended 31st March, 2012.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March,2013.Also show how the items would appear in the Balance Sheet as on 31st March,2012 and the Balance Sheet as on 31st March,2013.

5. (a) From the following information, compute the amount of provision to be made against the advances of a commercial bank [6]

(₹ in '00,000)

Particulars	Amount ₹
Advance fully secured	140
Advance overdue for 15 months	40
Advance overdue for more than 2.5 year but less than 3 years	20
(Secured by mortgage of land & building valued ₹ 10 lakhs)	-
Unsecured advance not recoverable	40
Total amount of Loans & Advances	240

(b) DESC Limited decided to replace one of its old plants by an improved plant. This plant was built in 1974 for ₹ 33,75,000. To build a new plant of the same size and capacity it would now cost ₹ 50,00,000. The cost of the new plant with larger capacity was ₹ 1,06,25,000 and in addition, materials of the old plant valued at ₹ 3,43,750 were used in the construction of the new plant. The balance of the old plant was sold for ₹ 1,87,500.
You are required to calculate the amount to be charged to Revenue Account and the amount to be capitalized. Also show the Plant Account and the Replacement Account. [2+2+3+3]

6. P, Q and R were carrying on business in partnership, sharing profits and losses in the ratio of 5:4:3 respectively. The trial balance of the firm as on 31st March, 2013 was the following:

Particulars	Debit (₹)	Credit (₹)
Plant and Machinery	85,000	---
Stock	64,200	---
Sundry Debtors	66,500	---
Sundry Creditors	---	84,700
Capital Accounts: P	---	63,000
Q	---	42,000
R	---	21,000
Drawings Accounts: P	20,000	---
Q	20,000	---
R	15,000	---
Depreciation on Plant and Machinery	---	25,000
Trading profit for the year	---	1,23,300
Cash at Bank	88,300	---
	3,59,000	3,59,000

Interest on Capital accounts @ 5% p.a. on the amount standing to the credit of partner's Capital Account at the beginning of the year was not provided before preparing the above Trial Balance. On 31st March, they formed a Private Limited Co. with an authorized share capital of ₹ 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of partnership.
You are informed as under.
(a) Plant and Machinery is to be transferred at ₹ 66,000.
(b) Shares in the company are to be issued to the partners, in such numbers and such classes as will give the partners, by reason of their share holdings alone, the same rights as regards interest on capitals and the sharing of profit and losses as they had in the partnership.
(c) Before transferring the business, the partners wish to draw from the partnership their profit to such an extent that the Bank balance is reduced to ₹ 50,000. For this purpose, sufficient profits of the year are to be retained in profit sharing ratio.
(d) All assets and liabilities except plant and machinery and the bank balance are to be transferred at their values in the books of the partnership as on 31st March.

You are required to prepare:
(i) Profit and Loss Account for the year ending on 31.03.2013.

(ii) Capital Accounts showing all the adjustments required to dissolve the partnership.
(iii) A statement showing the number of shares of each class to be issued by the company to each of the partners and details of rights attaching to those shares.
(iv) The Balance Sheet of the company immediately after acquiring the partnership and issuing of shares. [2+5+2+6]

7. (a) The net total balances extracted from purchases ledger of Mr. P on 31st March, 2012 amounted to ₹ 12,560 which did not agree with balance on the purchase Ledger Control Account.
The Audit revealed the following errors which were appropriately adjusted to make the books balances:

1. **A debit balance of ₹ 40 in the Purchase Ledger had been recorded as a credit balance**
2. **Mr. X had been debited for goods returned to him ₹ 90 but no other entry was made.**
3. **The Purchase Day Book had been overcast by ₹ 100.**
4. **Credit Balance on the Purchase Ledger amounting to ₹ 480 and the debit balance amounting to ₹ 20 had been omitted from the list of the balances.**
5. **A payment of ₹ 8 to Mr. Y for a cash purchase of goods had been recorded in the petty cash book and posted to this account in the purchase ledger, no other entry having been made.**
6. **The transfer of ₹ 120 from Mr. Z's account in the Sales Ledger to the credit of his account in the Purchase Ledger had not been entered in the Control Account.**

You are to prepare

a. **Statement reconciling the original net balance extracted from the Purchase Ledger with the corrected balance on the Purchase Ledger Control Account**
b. **Purchase Ledger Control Account showing the balance just before the correction of the errors and the adjustments made thereon. [5+6]**

(b) State the specified revenue or gain where Accounting Standard 9 is not applicable [5]

8. (a) On 01.07.2013 Anil, for mutual accommodation of himself and Sunil, drew on the other a bill for ₹ 10,000 payable at 3 months date. The bill was discounted with Punjab National Bank at 5% and half of the proceeds were remitted to Sunil on 02.07.2013. On 02.07.2013, Sunil drew a bill on Anil for ₹ 4,000 payable at 3 months date. He discounted the bill with Central Bank of India at 10% and remitted half of the proceeds to Anil. Sunil became bankrupt on 31.08.2013 and only 25% was received by Anil on 20.09.2013 as the first and final dividend from his estate. Show the journal entries in the books of Anil. [10]

(b) Describe Level I Entities for applicability of accounting standards [6]