

INTERMEDIATE EXAMINATION

June 2014

P-5(FAC)

Syllabus 2012

Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Section A is compulsory and answer any five questions from Section B.

Working Notes should form part of answer. Whenever necessary, suitable assumptions may be made and same to be clearly indicated in the answer by the candidates.

SECTION A

1. Answer the following questions (give workings):

2×10=20

(i) Babbu and Dabbu are partners, sharing profit or loss in the ratio 3 : 2. They admit Kachari for $\frac{1}{6}$ th share of profits in the firms of which she takes $\frac{2}{3}$ rd from Babbu and $\frac{1}{3}$ rd from Dabbu. Find the new profit sharing ratio.

(ii) How will you deal with the following as per AS-2?

On 31st March, 2014, the closing stock of X Ltd. includes 13000 units costing ₹ 14 per unit. But the current market price as on that date was ₹ 12 per unit.

(iii) Following informations are obtained from the books of a club:

(a) Subscription received during the year ending 31st March, 2014 ₹ 2,56,000, out of which ₹ 8,000 was for the year 2014-15 and ₹ 11,000 for the year 2012-13.

(b) Subscription was outstanding on 01.04.2013 ₹ 18,000 and on 31.03.2014 for 2013-14 ₹ 21,000. Calculate the amount of subscription to be credited to Income and Expenditure Account for the year ending 31.03.2014.

(iv) Shiva's debtors ledger include ₹ 18,000 due from Mayank & Co. whereas creditors ledger include ₹ 13,000 due to Mayank & Co. Give the transfer entry to set-off the suitable amount in the books of Shiva.

(v) Prabhu, lessee of a coal mine with rent of ₹ 15,000 a year and with a rate of royalty at ₹ 5 per ton of coal extracted. If the production in the first year is 2000 tons, find rent payable.

(vi) Bholu sold 2500, 9% debenture (Face value ₹ 100 each) of Madhu Ltd. at ₹ 135 Ex-interest on 01.04.2014. Interest is payable on 30th June and 31st December in every year. Find out the actual amount creditable to the investment account.

(vii) Sahookar Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any interest since March 2008:

Balance outstanding out off term loan on 31.03.2014 ₹ 45 Lakhs

DICGC Cover 40%

Securities held ₹ 20 Lakhs

Realizable value of securities ₹ 18 Lakhs

You are required to compute the necessary provisions to be made for the year ended 31st March, 2014.

(viii) Calculate the average collection period from the following details by adopting 360 days an year.

Average Inventory	— ₹ 10,80,000	Gross Profit Ratio	— 10%
Debtors	— ₹ 6,90,000	Credit sales to total sales	— 20%
Inventory Turnover ratio	— 6 Times	1 year	— 360 days

Please Turn Over

(ix)	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

PTP - Jun '14 - Set 1.
1 (v)

Compute Depreciation as per AS-6.

- (x) ₹ 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.

SECTION B

2. (a) On 1st April, 2013 the balance of provision for bad and doubtful debts was ₹ 13,000. The bad debts during the year 2013-14 were ₹ 9,500. The sundry debtors as on 31st March, 2014 stood at ₹ 3,25,000 out of these debtors of ₹ 2,500 are bad and cannot be realized. The provision for bad and doubtful debts is to be raised to 5% on sundry debtors.

(i) Pass necessary adjustment entries for bad debts and its provision on 31st March, 2014.

(ii) Prepare the necessary ledger accounts.

(iii) Show the relevant items in the profit and loss account and Balance Sheet.

(3+3+2=8)

- (b) The following information and details are provided to you by the Mahi Electricity Supply Company for the year ending 31st March, 2014:

	₹
8% Investments of the reserve fund	2,10,00,000
8% Investments of the contingencies reserve	1,90,00,000
14% Debentures	1,80,00,000
Development Reserve	15,60,000
Loan from Electricity Board	3,50,00,000
Capital Base	6,57,25,000
RBI rate of the relevant date	8%
Profit before debenture interest	1,14,65,300

You are required to calculate the reasonable return and show the disposal of surplus.

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3. (a) Mr. Rustagi closes his books of accounts on 30th June every year. Due to some unprecedented circumstances, he could not take his stock on that very date, i.e. 30.06.2013 for which the stock was taken on 07.07.2013 and which was valued at ₹ 22,500.

Compute the value of stock on 30.06.2013. The following relevant transactions took place from 1st July to 7th July, 2013.

- > Sales amounting to ₹ 1,250 made on 6th July has been delivered on 8th July.
- > Sales during the period amounted to ₹ 5,100. These goods were sold at a profit of 25% on cost with the exception of one sale of ₹ 600 which has been sold at a profit of 20% on cost.
- > Purchase during the period was ₹ 4,000 of which goods costing ₹ 3,500 were delivered on or before 7th July.
- > Returns Inwards during the period amounted to ₹ 400 including ₹ 300 out of sales period to 30th June, 2012 at a profit of 25% on cost.
- > Goods sold on sale or return basis for ₹ 2,250 on 7th July were not included in the sales stated above.
- > Mr. Rustagi received goods on consignment basis which was invoiced at ₹ 2,500 for Mr. Behara to be sold on his behalf on 6th July.

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PTP - Dec '13 - Set 2
1 (a)

PTP - Jun '14 - Set 3
2 (b)
Similar.

RTP - Dec '13 - 24 (b)
Similar

- (b) Describe the principal accounting policies for a Banking Company in respect of foreign exchange transactions. 2
(c) The following is a summary from Cash Book of M/s. Mitra Trading for the month of September, 2012:

PTP- Dec 13-Set 2
2(b)

Particulars	(₹)	Particulars	(₹)
Balance b/d	1,507	Payment	15,520
Receipt	<u>15,073</u>	Balance b/d	<u>1,060</u>
	16,580		16,580

On investigation it was found that

- Bank charges of ₹ 35 were not entered in the cash book.
- A cheque of ₹ 47 issued to supplier was entered by mistake as a receipt in the cash book.
- A cheque of ₹ 81 was returned by the Bank marked as 'refer to drawer' but it's not entered in cash book.
- The Balance brought forward in September 2012 should have been ₹ 1,570.
- Cheque paid to suppliers ₹ 214, ₹ 70 and ₹ 330 have not been presented for payment.
- Deposits of ₹ 1,542 on 30th September were cleared by the Bank on 2nd October.
- The Bank charged a cheque wrongly to Mitra Trading ₹ 92.
- Bank statement shows overdraft of ₹ 107 as on 30th September, 2012.

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

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

PTP- Dec 13-Set 2
5(b)

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Land and Buildings		50,000
A	40,000				
B	30,000				
C	<u>20,000</u>	90,000	Plant and Machinery		17,000
Creditors		13,800	Stock		16,000
			Debtors	10,000	
			Less: Provision	<u>200</u>	9,800
			Cash at Bank		<u>11,000</u>
		<u>1,03,800</u>			<u>1,03,800</u>

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

- The stock be depreciated by 6%.
- That the provision for doubtful debts be brought up to 5% on Debtors.
- That the Land and Buildings be appreciated by 20%.
- That a provision for ₹ 1,540 be made in respect of outstanding legal charges.
- 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.
- That the assets and liabilities (except Cash at Bank) were to appear in the Balance Sheet at their old figures.
- 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.

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Please Turn Over

- (b) Big owes Fast ₹ 12,000 for which the former accepts a three months' bill drawn by the latter. Fast immediately discounts the bill with his banker, Strong Bank, at 12% p.a. On the due date the bill is dishonored and Strong Bank pays ₹ 40 as noting charges. Big pays ₹ 2,360 including interest of ₹ 400 and gives another bill at three months' for the balance. Fast endorses the bill to his creditor Thin in full settlement of his debt for ₹ 10,200. Thin discounts the bill with banker Strong Bank who charges ₹ 80 as discount. Before maturity Big becomes bankrupt and first and final dividend of 20 paise in a ₹ is realized from his estate.

Show the journal entries in the books of Thin and Strong Bank and the ledger account of Big in the books of Fast.

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5. (a) A Town Club provides you information relating to assets and liabilities as on 01.01.14. Calculate (i) Receipts and Payment Account, (ii) Income and Expenditure Account for the year ended 31.12.2013 and (iii) a Balance Sheet as on date. (4+4+2)=10

Cash in hand ₹ 4,000, subscription receivable ₹ 400, furniture ₹ 2,000, sport material ₹ 1,200, investments ₹ 5,000, buildings ₹ 10,000 and outstanding creditors for supplies ₹ 600. During the year 2013, the club did the following business.

- (i) Subscription received including the arrears ₹ 6,000, (ii) subscription due ₹ 600, (iii) paid the outstanding creditors for supplies ₹ 600, (iv) subscriptions to newspapers ₹ 1,000, (v) sports materials purchased ₹ 2,000, (vi) sale of old newspapers ₹ 100, (vii) meeting expenses ₹ 900, (viii) lighting charges ₹ 800, (ix) Establishment salaries ₹ 2,000, (x) stock of sport materials at the end ₹ 1,000, (xi) Interest received on investments ₹ 150 (outstanding ₹ 50), (xii) borrowings ₹ 4,000, (xiii) purchased furniture (31-12-2013) ₹ 800, (xiv) expenditure on annual function ₹ 750 and (xv) donations received ₹ 3,600 (half to be capitalised). Provide depreciation at 5% on furniture and buildings.

- (b) Prepare Branch account in the books of the Head Office and also debtors account from the following information given below: for the year 2013 (4+2)=6

The Unique Shoe Stores has an old branch at Kanpur. Goods are invoiced at the branch at 25% profit on cost price. The branch has been instructed to send all cash daily to the Head Office. All expenses are paid by the Head Office except petty expenses which are met by the Branch Manager.

	₹
Stock on 01.01.2013 (invoice price)	15,000
Sundry debtors on 01.01.2013	9,000
Cash in hand on 01.01.2013	400
Office furniture on 01.01.2013	1,200
Goods supplied by the Head Office (invoice price) for year	80,000
Goods returned to Head Office for year	1,000
Goods returned by debtors at the end of year	480
Debtors at the end of year	8,220
Cash sales for year	50,000
Credit sales for year	30,000
Discount allowed for year	300
Expenses paid by Head Office: for year	₹
Rent	1,200
Salary	2,400
Stationery	300
Petty expenses paid by Branch Manager during year	280
Stock on 31.12.2013	14,000
Provide depreciation on furniture at 10% per year	

5. (a) The following details are obtained from the books of Dafali Enterprise relating to the debtors:

- (i) Total debtors at the beginning for the year was ₹ 42,500.
(ii) Transactions during the years were as follows:

Debtors	Goods sold	Goods returned	Cash and Cheques received	Discount Allowed	Bad debts	Bill of Exchange Received
	₹	₹	₹	₹	₹	₹
A	25,000	3,000	15,000	2,000	—	—
B	20,000	1,500	14,000	—	4,500	—
C	45,000	—	28,000	1,800	—	5,000
D	30,000	4,000	20,000	1,000	—	—
E	60,000	6,000	30,000	4,500	—	10,000
F	50,000	2,000	35,000	4,000	—	—
G	55,000	5,000	32,000	2,500	—	8,000

(iii) One bill for ₹ 3,000 out of bills received from 'C' was endorsed to 'P' during the year and out of E's bills, a bill for ₹ 4,000 was dishonored, noting charges amounting to ₹ 200. Prepare Debtors Ledger Adjustment Account in General Ledger and General Ledger Adjustment Account in Debtors Ledger. 8

(b) Shiv Buildcom Ltd. obtained a contract to construct a bridge for ₹ 50,00,000. The contract will be completed within 4 years. The details are as follows:

Particulars	Years				(₹ in 000)
	I	II	III	IV	
	Total Cost incurred	800	2,100	3,000	4,200
Estimated Cost to be incurred for completion	2,200	1,400	800	—	
Progress payment to be received	560	1,800	2,400	3,600	

The company seeks your advice in presentation of accounts keeping in view the requirement of AS-7. 8

7. (a) From the following information, calculate a consequential loss claim:

- (i) Financial year ends on 31st March.
(ii) Fire occurs on December 1 following.
(iii) Period of disruption : December 1 to March 31.
(iv) Period of indemnity : 6 months.
(v) Net profit for previous financial year ₹ 15,00,000
(vi) Insured standing charges ₹ 25,00,000
(vii) Uninsured standing charges ₹ 4,00,000
(viii) Increase in the cost of working ₹ 3,20,000
(ix) Saving in insured standing charges ₹ 1,00,000
(x) Reduced turnover avoided through increased cost of workings : ₹ 8,00,000

Please Turn Over

(xi) 'Special circumstances clause' stipulated:

- (a) Increase in turnover (standard and annual) : 20%
(b) Increase in rate of gross profit : 5%

(xii) Turnover for the four months ending	31st July	30th Nov.	31st March
I Year (₹)	40,00,000	90,00,000	70,00,000
II Year (₹)	60,00,000	1,10,00,000	20,00,000

(xiii) Sum insured : ₹ 50,00,000.

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(b) State what are the costs of internally generated software. What are the components which are not included in the cost of internally generated software? (4+4)=8

8. (a) On 1st July, 2013 B. Dutta of Kolkata consigned 250 Computers costing ₹ 28,000 each to T. Ramasami, Chennai. Expenses of ₹ 17,000 were met by the consignor. T. Ramasami spent ₹ 14,500 for clearance on 31st July, 2013 and selling expenses were ₹ 1,500 per computer as and when the sale made by consignee. T. Ramasami sold on 4th September, 2013, 150 computers at ₹ 40,000 per computer and again on 21st September, 75 computers at ₹ 42,500.

Mr. Ramasami was entitled to a commission of ₹ 1,500 per computer sold plus one-fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of ₹ 35,000 per computer sold. T. Ramasami sent the account sale and the amount due to B. Dutta on 30th September, 2013 by bank demand draft.

You are required to show the consignment account and T. Ramasami's account in the books of B. Dutta. 8

(b) A Life Insurance Company gets its valuation made once in every two years. Its life assurance fund on 31st Dec. 2012 stood at ₹ 55,55,000 before providing for ₹ 55,000 being the shareholders' dividend for 2012. Its actuarial valuation on 31st Dec. 2012 disclose a net liability of ₹ 35,00,000. An interim bonus of ₹ 1,00,000 was paid to the policyholders during the previous two years.

You are required to show:

- (i) Valuation Balance Sheet.
(ii) New Profit for the period.
(iii) The Distribution of the surplus.

PTP - Dec'13 - Set 1 - 6(b) (Part)

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