Accounting Exam Solutions

Question 1

(a) Contingent Assets and Provision Measurement (AS 29)

Contingent Assets are possible assets that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. They are not recognized in financial statements but disclosed when inflow of economic benefits is probable.

Principles for measurement of provision (AS 29):

1. Best estimate of expenditure required to settle present obligation
2. Consider risks and uncertainties
3. Discount to present value if time value of money is material
4. Consider future events if there is sufficient objective evidence
5. Expected disposal of assets should not be considered
6. Review and adjust provisions at each balance sheet date

(b) Short Notes

(i) Convention of Full Disclosure: This accounting convention requires that all material and relevant information about the financial performance and position of the business should be completely and clearly disclosed in the financial statements and accompanying notes. This includes both favorable and unfavorable information that would influence the decision-making of users.

(ii) Cost Concept: The cost concept states that assets should be recorded at their original purchase cost and this basis should be maintained throughout the accounting process. It provides objectivity and verifiability to financial statements, though it may not reflect current market values.

(c) Accounting Principles

(i) **Business Entity Principle** - Owner's personal transactions are separate from business transactions

(ii) **Going Concern Principle** - Assumption that business will continue operations

(iii) **Prudence Principle** - Revenue recognized only when earned

(iv) **Accounting Period Principle** - Business life divided into periods

(v) **Materiality Principle** - Small items can be treated as expenses

(vi) **Dual Aspect Principle** - Every transaction has two equal effects

OR

(a) IFRS and Convergence Need

IFRS are International Financial Reporting Standards issued by the IASB to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

Need for convergence:

1. Globalization of business and capital markets
2. Facilitates cross-border investments
3. Reduces compliance costs for multinational companies
4. Improves comparability of financial statements
5. Enhances transparency and accountability
6. Attracts foreign investments
7. Reduces information asymmetry
8. Facilitates international mergers and acquisitions

(b) Accounting Policies (AS 1)

Accounting Policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Selection considerations:

1. True and fair view
2. Prudence

3. Substance over form
4. Materiality

Conditions for change:

1. Required by statute
2. Required by accounting standard
3. Change results in more appropriate presentation

(c) Mercantile Basis of Accounting

The mercantile system recognizes revenues when earned (whether received or not) and expenses when incurred (whether paid or not). It follows the accrual concept and provides a more accurate picture of profitability compared to cash basis. It matches revenues with related expenses in the same accounting period.

Question 2

(a) Machinery Account

Workings:

1. Opening balance (WDV) = rs4,86,000
2. Depreciation for full year on opening balance @ 8% SLM = rs38,880
3. Machine purchased 1.4.2020 (original cost rs60,000)
   - WDV on 1.4.2022 = rs60,000 × 0.9 × 0.9 = rs48,600
   - Depreciation till 1.10.2022 (6 months) = rs48,600 × 8% × 6/12 = rs1,944
   - WDV on date of sale = rs48,600 - rs1,944 = rs46,656
   - Loss on sale = rs46,656 - rs40,000 = rs6,656
4. New machinery cost = rs70,000 + rs5,000 = rs75,000
   - Depreciation (6 months) = rs75,000 × 8% × 6/12 = rs3,000

Machinery Account:

Dr.		Cr.	
To Balance b/d	4,86,000	By Bank (Sale)	40,000
To Bank (Purchase)	75,000	By P&L (Loss)	6,656
		By Depreciation	43,824
		By Balance c/d	4,70,520
Total	5,61,000	Total	5,61,000

(b) FIFO Inventory Valuation

(i) Closing Inventory Value:

- From June 30 purchase: 1,00,000 × rs3.03 = rs3,03,000
- From June 1 purchase: 30,000 × rs2.85 = rs85,500
- Total = rs3,03,000 + rs85,500 = rs3,88,500

(ii) Cost of Goods Sold:

- Opening stock: 1,00,000 × rs3 = rs3,00,000
- Purchases: (2,00,000 × rs2.85) + (1,00,000 × rs3.03) = rs8,73,000
- Total available = rs3,00,000 + rs8,73,000 = rs11,73,000
- Less closing stock = rs3,88,500
- COGS = rs11,73,000 - rs3,88,500 = rs7,84,500

(iii) Profit/Loss:

- Sales = rs9,45,000
- COGS = rs7,84,500
- Gross Profit = rs1,60,500
- Less overheads = rs25,000
- Net Profit = rs1,35,500

(c) AS 9 Non-Applicable Revenue Sources

1. Insurance company revenue from insurance contracts
2. Revenue from hire purchase/lease agreements
3. Revenue from government grants/subsidies
4. Revenue from changes in value of current assets

OR

(a) Revenue Recognition (AS 9)

(i) Magazine Advertising:

- rs1,50,000 + rs50,000 = rs2,00,000 recognized in March 2024 issue as service was rendered in March.

(ii) Goods on Approval:

- 60% of rs3,50,000 = rs2,10,000 recognized as approval received by 30.1.2024
- Remaining 40% not recognized as no approval/disapproval received

(iii) Delayed Delivery:

- rs6,00,000 not recognized as significant risks/rewards not transferred until delivery on 20.4.2024

(iv) Consignment:

- 70% of rs1,00,000 = rs70,000 recognized as goods sold
- 30% not recognized as goods still with consignee

(b) Revaluation Journal Entries

(i) Revaluation Gain:

```
Property, Plant & Equipment A/c Dr. 4,00,000
  To Revaluation Reserve A/c         4,00,000
```

(ii) Previous Impairment in P&L:

```
Property, Plant & Equipment A/c Dr. 4,00,000
  To Profit & Loss A/c              4,00,000 (reversal of impairment)

Property, Plant & Equipment A/c Dr. 4,00,000
  To Revaluation Reserve A/c         4,00,000 (excess over original cost)
```

(iii) Partial Impairment:

```
Property, Plant & Equipment A/c Dr. 3,00,000
  To Profit & Loss A/c              3,00,000 (reversal of impairment)

Property, Plant & Equipment A/c Dr. 1,00,000
  To Revaluation Reserve A/c         1,00,000 (balance to revaluation reserve)
```

(c) Patent Amortization

Workings:

- Original cost: rs20,00,000
- Accumulated amortization for 2 years: rs5,00,000
- WDV: rs15,00,000
- Revised life: 5 more years
- Total expected cash flows: rs50,00,000

Amortization based on cash flows:

- Year 3: $(9{,}00{,}000/50{,}00{,}000) \times 15{,}00{,}000 =$ rs2,70,000
- Year 4: $(11{,}50{,}000/50{,}00{,}000) \times 15{,}00{,}000 =$ rs3,45,000
- Year 5: $(11{,}00{,}000/50{,}00{,}000) \times 15{,}00{,}000 =$ rs3,30,000
- Year 6: $(10{,}00{,}000/50{,}00{,}000) \times 15{,}00{,}000 =$ rs3,00,000
- Year 7: $(8{,}50{,}000/50{,}00{,}000) \times 15{,}00{,}000 =$ rs2,55,000

Question 3

Trading and P&L Account

Trading Account:

Dr.		Cr.	
To Opening Stock	46,800	By Sales	3,89,600
To Purchases	3,21,700	Less: Returns	(8,600)
Add: Omitted	400		3,81,000
	3,22,100	By Closing Stock	78,600
To Freight	18,600		
To Gross Profit c/d	80,100		
Total	4,67,600	Total	4,67,600

P&L Account:

Dr.		Cr.	
To Rent & Taxes	5,700	By Gross Profit b/d	80,100
To Salaries	9,300	By Misc. Income	250
To Bank Interest	900	By Discount Earned	4,190
To Printing (3/4)	10,950		
To Discount Allowed	1,800		
To General Expenses	11,450		
To Insurance	1,300		
To Postage	2,330		
To Travelling	870		
To Depreciation (Furniture)	500		
To Provision for Doubtful Debts	1,200		
To Discount on Debtors	480		
To Interest on Loan	1,200		
To Net Profit	38,310		
Total	84,390	Total	84,390

Balance Sheet

Assets:

- Furniture (5,000 - 500) = 4,500
- Stock = 78,600
- Debtors = 24,000
  - Less: Provision (1,200)
  - Less: Discount (480) = 22,320
- Cash at Bank = 8,000
- Cash in Hand = 380
- Input CGST = 3,000
- Input SGST = 3,000
- Total Assets = 1,19,800

Liabilities:

- Capital (86,690 + 38,310 - 40,000 - 600) = 84,400
- Creditors (14,800 + 400) = 15,200
- Bank Loan = 20,000
- Output CGST = 2,000

- Output SGST = 4,000
- Total Liabilities = 1,25,600

Note: There appears to be a discrepancy of rs5,800 which may need reconciliation.

OR

(a) Titan Club Accounts

Income & Expenditure Account (Extract):

```
Income:
- Interest on General Fund Investments 30,000

Expenses:
- Sports Events Expenses 4,000
- Prizes Awarded 7,000
```

Balance Sheet (Extract):

```
Assets:
- Sports Fund Investments 2,00,000

Liabilities:
- Prize Fund (1,00,000 + 18,000 + 12,000 - 7,000) 1,23,000
- Sports Fund (1,00,000 + 20,000 interest - 4,000) 1,16,000
```

(b) Subscription Account

Dr.		Cr.	
To Arrears b/d	17,400	By Received	2,06,200
To Income & Exp.	2,14,600	By Advance c/d	10,600
To Advance b/d	14,200		
Total	2,46,200	Total	2,46,200

Subscription to be credited to I&E A/c = rs2,14,600

(c) Stationery Accounting

Total Purchases:

- Payments to creditors = rs3,00,000 (80% of total)
- Cash purchases = rs75,000 (20% of total)
- Total purchases = rs3,75,000

Consumption:

- Opening stock = rs90,000
- Purchases = rs3,75,000
- Closing stock = rs70,000
- Consumption = rs3,95,000

Income & Expenditure Account:

- Stationery Consumed rs3,95,000

Balance Sheet:

- Stock of Stationery rs70,000
- Creditors for Stationery rs50,000

Question 4

Jaipur Branch Account

Workings:

1. **Goods Sent to Branch:**
   - Received: rs1,95,000
   - In transit: rs15,000
   - Total: rs2,10,000 at selling price (Cost = rs1,40,000)
2. **Stock Reserve:**
   - Opening: rs60,000 × 50/150 = rs20,000
   - Closing: (Calculate from branch stock account)
3. **Branch Stock Account:**

Dr.		**Cr.**	
To Balance b/d	60,000	By Cash Sales	1,10,000
To Goods from HO	1,40,000	By Credit Sales	80,000
To Local Purchases	18,000	By Transfer to Agra	16,000
		By Returns to HO	4,000
		By Closing Stock	?
Total	2,18,000	Total	2,18,000

4. **Branch Debtors Account:**

Dr.		Cr.	
To Balance b/d	10,000	By Cash Received	55,000
To Credit Sales	80,000	By Bad Debts	2,000
To Returns	3,000	By Closing Balance	?
Total	93,000	Total	93,000

Final Branch Account:

Dr.		Cr.	
To Balance b/d (Stock)	60,000	By HO (Goods)	1,95,000
To HO (Goods)	1,95,000	Less: Returns	(6,000)
			1,89,000
To HO (Expenses)	10,600	By Balance c/d	?
To Profit & Loss	?		
Total	2,65,600	Total	2,65,600

OR

Mumbai Branch Accounts

Workings:

1. **List Price = Cost + 50% = Invoice Price + 20%**
   - If Cost = 100, Invoice = 80, List = 120
2. **Goods Sent to Branch:**
   - At cost to Delhi: rs2,20,000
   - At invoice price: rs1,76,000 (2,20,000 × 80%)
3. **Sales:**
   - Let credit sales = x
   - Cash sales = 0.6x
   - Total sales = 1.6x
   - From debtors account: 20,000 + x - 75,000 - 27,000 - 1,73,000 = 45,000
   - Solving: x = 3,00,000 (credit sales), cash sales = 1,80,000

Branch Stock Account:

Dr.		Cr.	
To Balance b/d	1,80,000	By Credit Sales (at list)	3,00,000
To Goods from HO	1,76,000	By Cash Sales (at invoice)	1,80,000
		By Returns to HO	84,000
		By Pilferage (list)	6,000
		By Fire (invoice)	6,000
		By Closing Stock	?
Total	3,56,000	Total	3,56,000

Branch Profit & Loss Account:

Dr.		Cr.	
To Expenses	19,000	By Gross Profit	?
To Outstanding	3,625		
To Insurance (prepaid)	1,000		
To Manager's Commission			
To Net Profit			
Total		Total	

Question 5

(a) Lease Accounting

(i) Finance Lease Identification:

- Lease term (5 years) covers major part (33%) of useful life (15 years)
- Present value test:
  - PV of lease payments = (3,00,000×0.8696) + (2,00,000×0.7561) + (1,00,000×0.6575) + (50,000×0.5718) + (30,000×0.4972) = rs5,68,486
  - PV is 16.24% of fair value (not substantially all), but considering other factors like specialized asset, it's likely finance lease

(ii) Journal Entries:
Lessor's Books:

```
1.4.2018:
Lease Receivable Dr. 5,68,486
   To Asset A/c                   5,68,486

31.3.2019:
Bank Dr. 3,00,000
   To Lease Receivable           3,00,000
Lease Receivable Dr. 85,273 (5,68,486 × 15%)
   To Interest Income            85,273
```

Lessee's Books:

```
1.4.2018:
Asset A/c Dr. 5,68,486
   To Lease Liability            5,68,486

31.3.2019:
Lease Liability Dr. 2,14,727 (3,00,000 - 85,273)
Interest A/c Dr. 85,273
   To Bank                      3,00,000
Depreciation A/c Dr. 37,899 (5,68,486/15)
   To Asset A/c                 37,899
```

(b) Departmental Accounts

Departmental Trading Accounts:

Dept A:

Dr.		**Cr.**	
To Opening Stock	40,000	By Sales	6,25,000
To Purchases	5,50,000	By Transfer to B	25,000
To Carriage	33,000	By Closing Stock	48,000
To Gross Profit	75,000		
Total	6,98,000	Total	6,98,000

Dept B:

Dr.		**Cr.**	
To Opening Stock	2,500	By Sales	75,000
To Purchases	5,000	By Closing Stock	3,750
To Transfer from A	25,000		
To Gross Profit	46,250		
Total	78,750	Total	78,750

General P&L Account:

Dr.		Cr.	
To Directors Fees	15,000	By Gross Profit (A)	75,000
To Wages (A)	10,000	By Gross Profit (B)	46,250
To Wages (B)	20,000	By Investment Income	5,000
To Rent (3/4)	3,000		
To Lighting (1/4)	250		
To Depreciation A	500		
To Depreciation B	2,500		
To Office Expenses	1,500		
To Office Salaries	8,000		
To Net Profit	66,500		
Total	1,26,250	Total	1,26,250

Balance Sheet:

- **Assets:**
  - Stock A 48,000
  - Stock B 3,750
  - Furniture 10,000
  - Equipment 25,000
  - Investment 50,000
  - Bank 27,000
  - Total Assets = 1,63,750
- **Liabilities:**
  - Share Capital 1,00,000
  - Net Profit 66,500
  - Total Liabilities = 1,66,500

Note: There appears to be a discrepancy of rs2,750 which may need reconciliation.

Problem (a)

Departmental Trading Account for Arjun Ltd. (Year ending 31st March 2022)

Particulars	Dept. A	Dept. B	Dept. C	Total
Opening Stock		To be calculated		
Purchases	rs60,000	rs120,000	rs180,000	rs360,000
Gross Profit	rs21,840	rs21,560	rs36,720	rs80,120
Total	rs81,840	rs141,560	rs216,720	rs440,120
Sales	rs218,400	rs431,200	rs734,400	rs1,384,000
Closing Stock	rs4,800	rs7,200	rs8,400	rs20,400
Total	rs223,200	rs438,400	rs742,800	rs1,404,400

Workings:

1. **Purchase Price per unit:** Total purchases = rs9,59,000
   Total units = 10,000 + 20,000 + 30,000 = 60,000 units
   Price per unit = rs9,59,000 / 60,000 = rs15.98 rs16

2. **Purchases:**

   - Dept. A: 10,000 × rs16 = rs160,000
   - Dept. B: 20,000 × rs16 = rs320,000
   - Dept. C: 30,000 × rs16 = rs480,000

3. **Sales:**

   - Dept. A: 10,400 × rs21 = rs218,400
   - Dept. B: 19,600 × rs22 = rs431,200
   - Dept. C: 30,600 × rs24 = rs734,400

4. **Gross Profit Calculation:**
   Let GP% be x
   For Dept. A: $218,400x = 218,400 -$ Cost of Goods Sold
   Similarly for other departments. Solving gives x = 10%

5. **Closing Stock Valuation:**

   - Dept. A: 800 × rs16 = rs12,800
   - Dept. B: 1,200 × rs16 = rs19,200
   - Dept. C: 1,400 × rs16 = rs22,400

Problem (b)

(i) Lease Classification and Unearned Finance Income

1. **Finance Lease Test:**
   - Lease term (3 years) > 75% of useful life (5 years) → 60% → Does not meet
   - Present value test:

$$\begin{aligned}
\text{Annual Payment} &= \frac{10,00,000}{2.4868} = rs4,02,114 \\
\text{PV of payments} &= 4,02,1142.4868 = rs10,00,000 \\
\text{PV of residual} &= 1,00,0000.7513 = rs75,130 \\
\text{Total PV} &= rs10,75,130 > rs10,00,000 \text{ (FMV)}
\end{aligned}$$

   Constitutes finance lease as PV substantially covers FMV

2. **Unearned Finance Income:**

$$\begin{aligned}
\text{Total lease payments} &= 4,02,1143 = rs12,06,342 \\
\text{Less: Fair value} &= rs10,00,000 \\
\text{Unearned finance income} &= rs2,06,342
\end{aligned}$$

(ii) Operating vs Finance Lease

Operating Lease	**Finance Lease**
Short-term arrangement	Long-term commitment
Lessor maintains asset	Lessee maintains asset
No ownership transfer	Ownership may transfer
Payments expensed	Payments capitalized
Off-balance sheet	On-balance sheet