GLOBAL CMA

FINANCIAL REPORTING

Paper-5

Syllabus-2016

Answer of Postal test Paper

Set-2

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Sol. 1 (a) MCQ

i. D
ii. B
iii. B
iv. C
v. D

Sol. 1 (b) Match The Following

	Column A	Column B
1.	As-7	(a)Work Certified
2.	Remittance In transit	(b)Branch Adjustment
3.	Entrance Fee	(c)Receipts and Payment A/C
4.	AS-9	(d)Revenue Recognition
5.	Garner Vs Murray Rule	(e)Dissolution Of Partnership Firm

Sol. 1 (c) True/False

i. F
ii. T
iii. T
iv. T
v. F

Sol. 3 (b)

Dr. **Bad Debt Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013 Sept. 30	To, Sundry Debtors A/c	3,000	2013 Dec. 31	By, Provision for Bad Debt A/c	3,800
Dec. 31	To, X A/c.	800			
		3,800			3,800

Dr. **Provision for Doubtful Debt Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013 Dec. 31	To, Bad Debt A/c	3,800	2013 Dec. 31	By, Balance b/d	5,000
	" Balance c/d [10% on ₹ 39,200 (₹ 40,000 - ₹ 800)]	3,920		" Profit & Loss A/c -for the provision required	2,720
		7,720			7,720

Workings : Calculation of '%' of Provision for bad debts —

(5,000/50,000 × 100) = 10%

Sol. 5 (b)

Memorandum Trading Account for the period from 1.1.2013 to 15.9.2013

Dr. **Cr.**

Particulars	Current Year ₹	Last Year ₹	Particulars	Current Year ₹	Last Year ₹
To Opening Stock	60,000	60,000	By, Sales	2,10,000	2,00,000
,, Purchase	1,76,000	1,60,000	By, Closing Stock	1,32,000	1,20,000
,, Gross Profit	1,06,000	1,00,000			
	(bal. fig.)	(50% of Sales)			
	3,42,000	3,20,000		3,42,000	3,20,000

Working:

1. Value of Closing Stock

	₹
Stock at last years' level	60,000
Add: 10% increase in cost of purchase	6,000
	66,000

Amount of Claim	₹
Closing Stock	1,32,000
Less: Stock Salvaged	4,000
Actual Value of Stock last	1,28,000

Actual Value of Stock Loss

Trading Account (for ascertaining rate of Gross Profit)
For the year ended 31.12.2012

Dr. Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To, Opening Stock	40,000	By, Sales (less returns)	1,20,000
To, Purchase (less returns)	80,000	By, Closing Stock	60,000
To, Gross profit (bal. fig.)	60,000		
	1,80,000		1,80,000

∴ Percentage of gross profit on sales = (Gross Profit/Sales) x100

= (₹60,000/₹1,20,000)×100

= 50%

Sol. 6 (a)

In the books of Ram

Consignment to Delhi Account

Dr. | Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Goods Sent on Consignment A/c	28,400	By, Goods Sent on Consignment A/c	7,500
To, Y A/c – Commission	2,394	(Loading) ₹ (28,400- 20,900)	
To, Stock Reserve A/c	1,700	By, Shyam A/c – Sale proceeds	26,760
₹(6,920 – 5,220)		By, Stock on Consignment A/c	6,920
To, Profit and Loss A/c-	8,686		
Profit on consignment transferred			
	41,180		41,180

Shyam Account

Dr. | Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Consignment to Delhi A/c	26,760	By, Bills Receivable A/c	22,720
To, Balance c/d (₹ 6,920 x 80%)	5,536	By, Consignment to Delhi A/c - commission	2,394
		By, Draft A/c	6,280
		By, Draft- in- Transit A/c	902
	32,296		32,296

Goods sent on Consignment Account

Dr. | Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Consignment to Delhi A/c	7,500	By, Consignment to Delhi A/c	28,400
To, Trading A/c (bal.fig)	20,900		
	28,400		28,400

Workings:

Calculation of Commission:

	₹
Invoice value of goods	28,400
Less: Unsold stock	6,920
Invoice value of goods sold	21,480
Total sale proceeds	26,760
Less: Invoice value of goods sold	21,480
Surplus price	5,280
Commission @ 5% on ₹ 21,480	1,074
Add: @ 25% on ₹ 5,280	1,320
	2,394

Sol. 6 (b)

As per AS 9, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collections, revenue is recognized at the time of sale or rendering services. Moreover, consideration receivable should reasonably be determinable. Revenue recognition is postponed if not determinable within a reasonable limit.

Thus, in this case, since there are uncertainties, recognition of revenue should be postponed by the company.

Sol. 7 (a)

Particulars	Total Cash Price ₹	Installment Paid @ 10% Int ₹	Interest Paid ₹	Paid towards Cash Price (Installment-Interest) ₹
	280,000			
Down Payment	91,000	91,000	0	91,000
	189,000			
End of 1st year	57,100	76,000	18,900	57,100
	131,900			
End of 2nd Year	62,810	76,000	13,190	62,810
	69,090			
End of 3rd Year	69,090	76,000	6,910	69,090
Total	0	3,19,000	39,000	2,80,000

In the Books of X

Dr. **Car Account** *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1st Year	To Vendor A/c	2,80,000		By Depreciation A/c	42,000
				By Bal c/d	2,38,000
		2,80,000			2,80,000
2nd Year	To Bal b/d	2,38,000		By Depreciation A/c	35,700
				By Vendors A/c	1,45,090
				By P/L A/c (Bal. figure)	57,210
		2,38,000			2,38,000

Dr. **Vendors Account** *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1st Year	To Bank (Down Payment)	91,000		By Car (Cash Price) A/c	2,80,000
	To Bank (Installment)	76,000		By Interest A/c	18,900
	To Bal c/d	1,31,900			
		2,98,900			2,98,900
2nd Year	To Asset A/c (Default- Assets taken over	1,45,090		By Balance b/d	1,31,900
				" Interest A/c	13,190
		1,45,090			1,45,090

In the Books of Vendor

X Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1st Year	To Hire Purchase Sales A/c	2,80,000		By Bank (Down) A/c	91,000
	To Interest A/c	18,900		By Bank (Installment) A/c	76,000
				By Balance c/d	1,31,900
		2,98,900			2,98,900
2nd Year	To Balance b/d	1,31,900		By Goods Repossessed A/c	1,45,090
	To Interest A/c	13,190			
		1,45,090			1,45,090

Dr. Goods Repossessed Account *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To X A/c (Purchaser) A/c	1,45,090		By Bank (Sales) A/c	1,50,000
	To Bank (Repairing Charge) A/c	9,200		By P/L A/c (Bal Figure)	4,290
		1,54,290			1,54,290

Sol. 8 (a)

Date	Particulars	Machines – I Cost = ₹ 80,000		Machines – II Cost = ₹ 40,000		Machines – III Cost = ₹ 20,000	Total Depreciation
		₹	₹	₹	₹	₹	₹
01.01.2011	Book Value	48,000	32,000				
31.12.2011	Depreciation	4,800	3,200				8,000
01.01.2012	W.D.V.	43,200	28,800				
01.07.2012	Purchase			28,000	12,000		
31.12.2012	Depreciation	4,320	2,880	1,400	600		9,200
01.01.2013	W.D.V.	38,880	25,920	26,600	11,400		
31.03.2013	Depreciation				285		285
	W.D.V.				11,115		
	Sold For				11,000		
	Loss on sale				115		
30.06.2013	Depreciation		1,296				1,296
	W.D.V.		24,624				
	Sold For		26,700				
	Profit on Sale		2,076				
01.10.2013	Purchase					20,000	
31.12.2013	Depreciation	3,888		2,660		500	7,048
01.01.2014	W.D.V.	34,992		23,940		19,500	

Dr. **Machinery Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.11	To, Bank A/c	80,000	31.12.11	By, Depreciation A/c ,, Balance c/d	8,000 72,000
		80,000			80,000
01.01.12 01.07.12	To, Balance b/d ,, Bank A/c	72,000 40,000	31.12.12	By, Depreciation A/c ,, Balance c/d	9,200 1,02,800
		1,12,000			1,12,000
01.01.13 30.06.13	To, Balance b/d ,, P & L A/c (Profit on Sale) ,, Bank A/c	1,02,800 2,076 20,000	31.3.13 30.6.13 31.12.13	By, Bank (Sale) A/c ,, Depreciation A/c ,, P & L A/c (Loss on Sale) ,, Bank A/c (Sale) ,, Depreciation A/c ,, Depreciation A/c ,, Balance c/d	11,000 285 115 26,700 1,296 7,048 78,432
		1,24,876			1,24,876

Sol. 8 (b)

Sl. No.	Revenue Receipt	Sl. No.	Capital Receipt
1.	It has short-term effect. The benefit is enjoyed within one accounting period.	1.	It has long-term effect. The benefit is enjoyed for many years in future.
2.	It occurs repeatedly. It is recurring and regular.	2.	It does not occur again and again. It is nonrecurring and irregular.
3.	It is shown in profit and loss account on the credit side, as an income for the year	3.	It is shown in the Balance Sheet on the liability side.
4.	It does not produce capital receipt.	4.	Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner, business gets revenue receipt (i.e. sale proceeds of goods etc.).
5.	This does not increase or decrease the value of asset or liability.	5.	The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from bank etc.
6.	Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt.	6.	Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment.

Sol. 9 (a)

The basic principles of this concept is that business is assumed to exist for an indefinite period and is not established with the objective of closing it down. So unless there is good evidence to the contrary, the accountant assumes that a business entity is a 'going concern' - that it will continue to operate as usual for a longer period of time. It will keep getting money from its customers, pay its creditors, buy and sell goods, use assets to earn profits in future. If this assumption is not considered, one will have to constantly value the worth of the assets and resource. This is not practicable. This concept enables the accountant to carry forward the values of assets and liabilities from one accounting period to the other without asking the question about usefulness and worth of the assets and recoverability of the receivables.

The going concern concept forms a sound basis for preparation of a Balance Sheet.

Sol. 9 (b)

	Receipts & Payments Account	Income & Expenditure Account
1.	It is a summarised Cash Book	It closely resembles the Profit & Loss Account of a Trading concern.
2.	Receipts are debited and Payments are credited.	Incomes are credited and Expenditures are debited.
3.	Transactions are recorded on Cash basis.	Transactions are recorded on Accrual Basis
4.	Amounts related to previous period or future period may remain included. Outstanding amount for current year is excluded.	Transactions are recorded on accrual basis. All amounts not related to the current period are excluded. Outstanding amounts of current period are added.
5.	It records both Capital and Revenue transactions.	It records Revenue transactions only.
6.	It serves the purpose of a Real Account.	It serves the purpose of a Nominal Account.
7.	It starts with opening Cash and Bank Balances and ends with closing Cash and Bank Balances.	It does not record such balances,rather its final balance shows a surplus or a deficit for the period.
8.	It does not record notional loss or noncash expenses like bad debts, depreciations etc.	It considers all such expenses for matching against revenues
9.	Its closing balance is carried forward to the same account of the next accounting Period.	Its closing balance is transferred to Capital Fund or General Fund or Accumulated Fund in the same period's Balance Sheet.
10.	It helps to prepare an Income & Expenditure A/c.	It helps to prepare a Balance Sheet.

Sol. 9 (c)

This standard deals with disclosure of significant accounting policies followed in the preparation and presentation of the financial statements and is mandatory in nature.

The accounting policies refer to the specific accounting principles adopted by the enterprise.

Proper disclosure would ensure meaningful comparison both inter/intra enterprise and also enable the users to properly appreciate the financial statements.

Financial statements are intended to present a fair reflection of the financial position financial performance and cash flows of an enterprise.

Areas involving different accounting policies by different enterprises are:

- Methods of depreciation, depletion and amortization
- Treatment of expenditure during construction
- Treatment of foreign currency conversion/translation.
- Valuation of inventories
- Treatment of intangible assets
- Valuation of investments
- Treatment of retirement benefits
- Recognition of profit on long-term contracts
- Valuation of fixed assets
- Treatment of contingent liabilities

Fundamental Accounting Assumptions

Certain basic assumptions, in the preparation of financial statements are accepted and their use are assumed, no separate disclosure is required except for noncompliance in respect of —

(a) Going Concern: continuing operation in the foreseeable future and no interim necessity of liquidation or winding up or reducing scale of operation.

(b) Consistency: accounting policies are consistent from one period to another

(c) Accrual:

(i) Revenues and costs are accrued i.e. they are earned or incurred (not actually received or paid) and recorded in the financial statements

(ii) Extends to matching revenue against relevant costs.

Factors governing the selection and application of accounting policies are:

Prudence : Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of receivables, number of warranty claims that may occur. Prudence means making of estimates, which is required under conditions of uncertainty.

Substance over form : It means that transaction should be accounted for in accordance with actual happening and economic relity of the transactions not by its legal form. Like in hire purchaser if the assets are purchased on hire purchase by the hire purchaser the assets are shown in the books of hire purchaser in spite of the fact that the hire purchaser is not the legal owner of the assets purchased. Under the purchase the purchaser, becomes the owner only on the payment of last instalment. Therefore the legal form of the transaction is ignored and the transaction is accounted as per as substance.

Materiality : Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or /user of financial statement.

(a) As to the disclosure of all material items, individually or in aggregate in the context of fair presentation of financial statements as a whole if its omission or misstatement could influence the economic or financial decision of the user relying upon the financial statements.

(b) Depends on the size of the items or errors judged in the particular circumstances of its omissions or misstatements.

(c) Is a cutoff point rather than being a primary qualitative characteristic which information must have.

(d) This is a matter of judgment, varies from one entity to another and over one period to another.

AS-1 requires that all "significant" (i.e. only accounting policy that is useful for an understanding by the user of the financial statements) accounting policies adopted in the preparation and presentation of financial statements, should be disclosed by way of 'Note in one place as the note No I (this is the basis of the preparation of financial statements.)

Changes in Accounting Policies :

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in the later period should be disclosed.

In the case of a change in accounting policies, having material effect in the current period, the amount by which any item in the financial statements, is affected by such change should also be disclosed to the extent as ascertainable, otherwise the fact that the effect is not (wholly or partially) ascertainable, should be disclosed.

The following are not considered as changes in accounting policies :

(a) Accounting policies adopted for events or transactions that differ in substance at present (introducing Group Gratuity Scheme for employees in place of adhoc ex-gratia payment earlier followed.)

(b) Accounting policies pertains to events or transactions which did not occur previously or that were immaterial