INTERMEDIATE EXAMINATION

December 2014

I–P5(FAC)

Syllabus 2008

Financial Accounting

Time Allowed: 3 Hours | Full Marks: 100

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

Answer Question No.1, *which is compulsory and* any five *questions from the rest.*

1\. (a) From the four alternative answers given against each of the following cases, indicate the correct answer (just state A, B, C or D): 1×6=6

(i) Excess of hire purchase price over cash price is known as

(A) Instalment

(B) Cash down payment

(C) Interest

(D) Capital value of asset

(ii) For the year ended 31.03.2014 accounting income of DNP Ltd. is ₹ 30 lakhs. However its Taxable income was ₹ 20 lakhs only due to timing difference. Tax rate is 30%. The Deferred tax liability will be

(A) ₹ 10 Lakhs

(B) ₹ 3 Lakhs

(C) ₹ 9 Lakhs

(D) ₹ 6 Lakhs

(iii) Accounting Standards in India are issued by

(A) Comptroller and Auditor General of India

(B) Reserve Bank of India

(C) The Institute of Accounting Standards of India

(D) The Institute of Chartered Accountants of India

(iv) An amount spent for replacement of worn out part of machine is

(A) Capital Expenditure

(B) Revenue Expenditure

(C) Deferred Revenue

(D) Capital Loss

(v) Receipts and Payments Account records

(A) Only revenue nature receipts

(B) Only capital nature receipts and payment

(C) Only revenue nature receipts and payments

(D) Both the revenue and capital nature receipts and payments

(vi) A distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of products or services which is subject to risk and return as distinctly different from those of other business components are reportable under

(A) Related Party Disclosure

(B) Contingency Approach

(C) Segment Reporting

(D) Intangible Asset Classification

(b) State whether the following statements are True(T) or False(F): 1×5=5

(i) Inventory valuation affects only the income statement.

(ii) Preference shares are redeemed out of the proceeds of a fresh issue of debentures made for the purpose of redemption.

(iii) At the time of preparation of departmental profit and loss account discount received is allocated among various departments on the basis of departmental sales.

(iv) In the case of marine insurance the provision for unexpired risk should be 100% of the net premium.

(v) Securities Premium Account is shown in the liability side of Balance Sheet under head Reserves and Surplus.

(c) Fill in the blanks in the following sentences using appropriate word from the alternatives indicated: 1×5=5

(i) At the preliminary project stage the internally generated software should________recognized as an asset. (be/not be)

(ii) Life membership fee is a_________nature receipt. (Revenue/Capital)

(iii) Goods in transit is recorded in the books of__________. (H.O/Both H.O & Branch)

(iv) The profit prior to incorporation can be transferred to__________. (General reserve/Capital reserve)

(v) If the proposed dividend on paid up equity share capital is more than 12.5% but not more than 15% then_________of current year's profit should be transferred to general reserve. (5%/7.5%)

(d) Match the following in Column I with the appropriate item in Column II: 1×5=5

Column I	Column II
(i) Excess workings	(A) Branch Accounts
(ii) Report of Board of Directors	(B) Intangible Assets
(iii) Debtors Method of Accounting	(C) Balance Sheet of Company
(iv) Suspense Account	(D) Royalty Accounts
(v) AS 26	(E) Trial Balance
	(F) No matching statement found

(e) In the following cases, one out of four answers given is correct. Indicate the correct answer (= 1 mark) and give brief workings in support of your answer (= 1 mark): 2×2=4

(i) Sukku Limited purchased a machine on 1st July, 2013 for ₹ 8,90,000 and freight and transit insurance premium paid ₹ 25,000 and ₹ 15,000 respectively. Installation expenses were ₹ 40,000 and salvage value after 5 year will be ₹ 50,000. Under straight line method for the year ended 31st March, 2014 the amount of depreciation will be

(A) ₹ 1,35,750

(B) ₹ 1,81,000

(C) ₹ 1,84,000

(D) ₹ 1,38,000

(ii) The Income and Expenditure Account and the Receipts and Payments Account of a Local Club at the end of a particular year show the following amounts:

	As per Income Expenditure A/C	As per Receipts and Payments A/C
Printing Charges	(₹) 7,500	(₹) 6,900
Rent Paid	(₹) 12,000	(₹) 11,000

When there were no outstanding of Rent and Printing charges at the beginning of that year, the difference of ₹ 1,600 will be shown in the Balance sheet at the end of the year as:

(A) Asset

(B) Liabilities

(C) Ignored

(D) Capital Fund

2. (a) The following details are given by Babu Limited for the year ended 31st March, 2014:

Gross Profit Ratio	30%
Debtors Collection Period	43.8 days
Creditors Turnover Ratio	7 times
Inventory Turnover Ratio	9 times
Total Purchases	₹ 63 Lakhs
Cash Purchases	₹ 7 Lakhs
Cash Sales	₹ 15 Lakhs
Cash and Bank Balance	₹ 5 Lakhs
Current Liabilities other than Creditors	₹ 2 Lakhs

The company is in the business of retail sales and only purchase articles and resell them. You are required to calculate:

(i) Creditors

(ii) Debtors

(iii) Inventory

(iv) Current Ratio

(v) Quick Ratio 1+2+1+2+2=8

(b) A firm has two departments, Cloth and Readymade Garments. The Readymade Garments were generally made by the firm itself out of cloth supplied by the cloth department at its usual selling price. The stock in the Readymade Garments Department may be considered as consisting of 65% cloth and 35% of other expenses. The opening rate of gross profit of the Cloth Department is 25% and the closing Rate of gross profit is 30%. The opening stock was ₹ 2,40,000 and the closing stock was ₹ 2,85,000 in the Readymade Garments Department.

You are required to ascertain the amount of provision to be made for unrealized profit. 3

(c) A and B were partners sharing profit or loss in the ratio of 5:4. C entered as partner for 1/4th shares in profits and he brought ₹ 2,50,000 for goodwill. C acquired 1/6th share from B and remaining from A. You are required to:

(i) Calculate sacrifice ratio and new profit sharing ratio.

(ii) Pass journal entries in the books of the firm for the distribution of goodwill. 2+2=4

3. (a) The Income and Expenditure Account of the Bhartia Club for the year ended 31st March, 2014 is as follows:

Dr. Cr.

Expenditure	₹	Income	₹
To Salaries	95,000	By Subscription	1,50,000
To General Exp.	20,000	By Entrance Fee	5,000
To Audit Fee	5,000	By Collection for Annual Sports Meet	65,000
To Stationery and Printing	9,000		
To Secretary's Honorarium	20,000		
To Interest	2,000		
To Bank Charges	1,000		
To Depreciation	6,000		
To Expenditure on Annual Sports Meet	50,000		
To Surplus	12,000		
	2,20,000		2,20,000

Other Information:

	₹
Subscription outstanding on 31.3.2013	12,000
Subscription received in advance on 31.3.2013	9,000
Subscription outstanding on 31.3.2014	15,000
Subscription received in advance on 31.3.2014	5,400
Salaries outstanding on 31.3.2013	8,000
Salaries outstanding on 31.3.2014	9,000
Audit fee outstanding on 31.3.2013	4,000
Audit fee outstanding on 31.3.2014	5,000

	₹
General expenses prepaid on 31.3.2014	1,200
Sports equipments as on 31.3.2013	52,000
Sports equipments after depreciation on 31.3.2014	54,000
Other balances as on 31.3.2014:	
Freehold Ground	2,00,000
Bank loan	40,000
Cash and Bank	32,000

You are required to prepare the Receipts and Payments Account for the year ended 31st March, 2014 and Balance Sheet as at 31st March, 2014. 6+4=10

(b) From the following Cash Account find out Cash from operating activities in accordance with AS-3 (revised) using direct method: 5

Summary of Cash account for the year ended 31-3-2014

	₹		₹
Balance as on 1-4-2013	50,000	Payment to supplier	75,000
Issue of Equity Share	1,50,000	Purchase of Fixed Assets	2,25,000
Receipt from customer	2,00,000	Selling and Distribution exps. Paid	25,000
Sale of Fixed Asset	1,50,000	Rent paid	20,000
		Dividend paid	45,000
		Repayment of Bank loan	1,20,000
		Income tax paid	15,000
		Balance as on 31-3-2014	25,000
	5,50,000		5,50,000

4. (a) On 1st April, 2012 Gauru & Co. purchased a machinery on hire purchases system from Machinery Mart for a cash price of ₹ 7,50,000 to be paid as ₹ 1,18,050 cash down and the balance by three equal annual instalments of ₹ 3,00,000 each. Interest is charged @ 20% per annum. Gauru & Co. has decided to write off depreciation on machinery @ 15% per annum on diminishing balance method. Gauru & Co. paid the instalment due at the end of the first year but could not pay the next instalments. On 31st March, 2014 the Machinery Mart took the possession of the machinery. On 15th April, 2014 the Machinery Mart spent ₹ 30,000 on the repairs of the machinery and sold it for ₹ 1,80,000 on 20th April, 2014. Instalment due on 31.3.2014 was paid by Gauru & Co. on 10th April.

You are required to prepare:

(i) Gauru & Co.'s Account and Returned Stock Account in the books of Machinery Mart.

(ii) Machinery Account and Machinery Mart's Account in the books of Gauru & Co. 4+4=8

(b) Jaggu & Co. (Delhi) operates a branch at Jaipur to which goods are invoiced at wholesale price which is cost plus 25%. The branch sell the goods at the retail price which is wholesale price plus 20%.

The following information provided for the year ended 31.3.2014:

Stock at the branch on 1.4.2013	₹ 1,65,000
Goods invoiced to the branch during the year	₹ 17,82,000
Expenses of the branch for the year	₹ 1,10,000
Gross profit made by the branch	₹ 3,30,000
Stock at the branch on 31.3.2014	₹ 1,98,000

Some goods were destroyed by the fire during the year.

You are required to prepare, Branch Stock Account, Branch Profit & Loss Account and Branch Stock Reserve Account in the books of Head Office for the year ended 31st March, 2014. 7

5. (a) Shyama Limited purchased a second-hand plant for ₹ 7,50,000 on 1st July, 2011 and immediately spent ₹ 2,50,000 in overhauling. On 1st January, 2012 an additional machinery at a cost of ₹ 6,50,000 was purchased. On 1st October, 2013 the plant purchased on 1st July, 2011 became obsolete and it was sold for ₹ 2,50,000. On that date a new machinery was purchased at a cost of ₹ 15,00,000. Depreciation was provided @ 15% per annum on diminishing balance method. Books are closed on 31st March in every year.

You are required to prepare Plant and Machinery Account upto 31st March, 2014. 6

(b) A, B and C were carrying on business as equal partners. On 1.4.2012, A retires from partnership and his capital account showed a credit balance of ₹ 2,25,000 after all the adjustments. Show the relevant Ledger accounts in the books of the firm after A's retirement, if:

(i) Full payment to A is made in cash immediately after retirement.

(ii) The payment is made to A in two equal yearly instalments plus interest @ 15% per annum.

(iii) The life annuity of ₹ 50,000 per annum with 12% interest per annum is payable assuming that the annuitant passes away immediately after payment of the second annuity. 5

(c) State which of the following items are (i) Capital Expenditure; (ii) Revenue Expenditure; (iii) Deferred Revenue Expenditure: 4

(i) Legal charges of ₹ 15,000 incurred for raising loan.

(ii) An amount of ₹ 7,500 spent as legal charges for abuse of Trade-Mark.

(iii) Carriage paid on a new machine purchased for ₹ 18,000.

(iv) ₹ 25,000 spent on construction of animal-huts.

6. (a) The following is the Profit and Loss Account of Guddu Limited, for the year ended 31st March, 2014:

	₹		₹
To Administrative, Selling & Distribution Expenses	10,15,600	By Balance b/d	9,80,000
To Directors fees	1,25,000	By G. P. from Trading a/c	55,63,500
To Managerial Remuneration	3,32,000	By Subsidies received from State Govt.	3,50,000
To Depreciation	7,65,380		
To Interest on Debentures	3,34,620		
To Provision for taxation	13,45,000		
To General reserve	8,00,000		
To Dividend Equilisation Reserve	5,50,000		
To Balance c/d	16,25,900		
	68,93,500		68,93,500

Depreciation as per Schedule II of the Companies Act, 2013 was ₹ 8,32,600.

You are required to calculate the maximum limit of the managerial remuneration as per Companies Act, 2013. 5

(b) Patta Limited forfeited 720 equity shares of ₹ 100 each, which were issued at a discount of 5% for non-payment of allotment money of ₹ 40 per share. First and final call on these shares @ ₹ 20 per share was not made. 500 out of forfeited shares were re-issued at ₹ 90 per share as fully paid. Pass necessary journal entries in the books of the company. 5

(c) The following balances were shown in the Balance Sheet of Priya Limited as at 31st March, 2014:

200000 12% Preference shares of ₹ 10 each fully paid	₹	20,00,000
1500000 Equity shares of ₹ 10 each fully paid	₹	1,50,00,000
500000 Equity shares of ₹ 10 each, ₹ 7 paid up	₹	35,00,000
General Reserve	₹	18,50,000
Securities Premium	₹	40,00,000
Profit and Loss Account	₹	72,00,000
10% Debentures of ₹ 100 each	₹	45,00,000

On 1st April, 2014 the company has made final call @ ₹ 3 per share on partly paid up equity shares. The call money was received by 20th April, 2014. Thereafter the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.

You are required to show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the Company has passed necessary resolution at its general body meeting for increasing the share capital (Notes/Schedues are not required). 5

7. (a) Toli Limited has 9% Redeemable Preference Share Capital of ₹ 15,00,000 consisting of ₹ 10 shares fully paid up. The company wants to redeem these shares at 20% premium. The ledger accounts show the following balances:

General Reserve	₹ 3,50,000	Securities Premium	₹ 1,00,000
Capital Reserve	₹ 6,50,000	Profit & Loss a/c (Cr.)	₹ 6,00,000

The directors desire to make a minimum fresh issue of equity shares of ₹ 10 each at 25% premium for redemption of the preference shares. You are required to ascertain the requisite amount of equity shares of new issue necessarily to be made by the directors of the company and pass the necessary journal entries to record new issue of equity shares and redemption of preference shares. 7

(b) On 1st April, 2010 Rukmani Limited leased a coal mine at a minimum rent of ₹ 36,000 for the first year, ₹ 60,000 for second year and there after ₹ 1,20,000 per annum merging into a royalty of ₹ 3 per tonne with right to recoup short workings over two years after occurring short workings. The output for first four years are as follows:

Year	1	2	3	4
Coal output (in tonnes)	6000	17200	44000	100000

You are required to prepare Royalty Account, Short workings Account and Landlord's Account in the books of Rukmani Ltd. 5

(c) Chandu Udyog borrowed ₹ 2 crores for purchase of machinery on 1st July, 2013. Interest payable on loan is 15% per annum. The machinery was put to use from 1st January, 2014. Pass journal entries for the year ended 31st March, 2014 to record the borrowing cost of Loan, as per AS-16. 3

8. Answer *any three* from the following: 5×3=15

(a) Guidelines followed in the absence of partnership deed.

(b) Commission on re-insurance ceded/accepted.

(c) Rebate on Bills discounted.

(d) The disclosure requirements under AS-7 (Revised).

(e) Limitations of Financial Ratios.