Paper 5 - 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 from the rest.

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

1. (a) Answer the following questions (give workings): [5 x 2 =10]

(i) Indian Insurance Co. Ltd. Furnishes you with the following information:

During 2013, the following business was conducted:

[₹ in crores]

Particulars	Marine	Fire	Misc
Premia Collected From:			
(a) Insureds in respect of policies issued	36.0	43.0	12.0
(b) Other insurance companies in respect of risks undertaken	14.0	5.0	4.0
Premia paid/ payable to other insurance companies on business ceded	13.4	4.3	7.0

Calculate the Net premium Income.

(ii) Simptronic sells computers on Hire Purchase basis at cost plus 20%. Terms of sale are ₹24,000 down payment and eight monthly instalments of ₹ 12,000 for each computer. Three computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

(iii) The following information has been extracted from the books of a lessee for the year 2013-2014:

Particulars	Amount(₹)
Shortworkings lapsed	32,000
Shortworkings recovered	48,000
Actual royalty based on output	1,20,000

(iv) X, Y and Z are sharing Profits and losses in the ratio of 5: 3 : 2. Calculate the new profit sharing ratio and the sacrificing ratio if Z acquires 1/10 th share equity from X and Y.

(v) Safety Insurance Company Ltd. received ₹ 1,18,000 as Premium on New Policies and ₹24,000 as Renewal Premium. The Company received ₹18,000 towards Re-insurance Accepted and paid ₹14,000 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?

(b) Choose the appropriate answer: **[5×1=5]**

(i) Which of the following item of cost is not a part of inventory
A. Storage expenses
B. Normal wastages
C. Inward freight
D. Customs duties

(ii) Which of the following statement is true
A. The shares are bought back to increase the holding of the promoters
B. The shares are bought back to improve the financial health of the company
C. The shares are bought back to increase the Earning per share
D. All of above.

(iii) Both total assets and owners capital are increased by….
A. Credit Purchase
B. Retained Earning
C. Bank Loan
D. Drawings

(iv) The Accounting Standard on 'the Effect of Changes in foreign exchange rates' is
A. AS -11
B. AS -15
C. AS -18
D. None of these

(v) Arrangement of balance sheet in a proper way is known as
A. Marshalling of Balance Sheet
B. Formatting of Balance Sheet
C. Finalization of Balance Sheet
D. Grouping of Balance Sheet

(c) Fill in the blanks in the following sentences by using the more appropriate word(s) from the alternatives shown in bracket : **[1×5=5]**

(i) When there is no agreement among the partners, the profit or loss of the firm will be shared in their _______________ (capital ratio/equally).
(ii) In Hire Purchase transaction the right to sell or transfer of the goods remains the _______________ (Seller/ Hirer).
(iii) As per the going concern concept, the enterprise should continue to exist _______________ (in the foreseeable future/for limited period of time).
(iv) Inauguration expenses on opening of a new Branch of an existing business will be _________________ (capital/revenue) expenditure.
(v) Trail balance would not disclose _______________ (error of omission/omission of posting).

(d) Match the following : **[1×5=5]**

(i) AS-3	(A) Accounting for Government grants
(ii) AS-20	(B) Segmental Reporting
(iii) AS-18	(C) Cash Flow Statement
(iv) AS-17	(D) Related Party Transaction
(v) AS-12	(E) Earning per Share
	(F) No matching statements found

2. **(a)** M Ltd. purchased a plant for US $20,000 on 31st December, 2012 payable after 4 months. The company entered into a forward contract for 4 months @ ₹ 48.85 per dollar. On 31st December, 2012, the exchange rate was ₹47.50 per dollar.
How will you recognize the profit or loss on forward contract in the books of M Limited for the year ended 31st March, 2013. **[5]**

(b) Discuss Prior Period item as per AS – 5. **[4]**

(c) How will you deal with the following items while preparing the Income and Expenditure Account for the year ending on March 31, 2013?

	As at 1.4.2012 ₹	As at 31.3.2013 ₹
Creditors for Sports Materials	4,600	11,800
Stock of Sports Materials	15,000	30,400

During 2012 – 2013, the payments made to these Creditors amounted to ₹ 56,800 and Cash Purchases amounted to ₹ 16,000. **[6]**

3. **(a)** The following particulars are available from the books of Good Ltd. :
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. **[5]**

(b) What is meant by Foreign Branches and Independent Branches? **[2]**

(c) Journalize the following transactions. Narration is not required:

Issue of 15% 1,00,000 debentures of ₹100 each
i. at par and redeemable at par.
ii. at 10% discount and redeemable at par.
iii. at 10% premium and redeemable at par.
iv. at 10% premium and redeemable at a premium of 5%.
v. at par and redeemable at a premium of 5%.
vi. at 10% discount and redeemable at a premium of 5%. **[8]**

4. Ram, Laxman and Bharat were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2013, Balance Sheet of the firm stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c's		Buildings	1,37,500
Ram	1,25,000	Furniture	62,500
Laxman	1,00,000	Stock	1,05,000
Bharat	70,000	Debtors	50,000
Creditors	83,750	Cash at Bank	28,000
Outstanding Expenses	4,250		
	3,83,000		3,83,000

On 31st March, 2013 Ram decided to retire and Laxman and Bharat decided to continue as equal partners. Other terms of retirement were as follows:

(i) Building be appreciated by 20%
(ii) Furniture be depreciated by 10%
(iii) A provision of 5% be created for bad debts on debtors.
(iv) Goodwill be valued at two years purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March 2013 was ₹ 62,500. No goodwill account is to be raised in the books of accounts.
(v) Fresh capital be introduced by Laxman and Bharat to the extent of ₹ 25,000 ₹ 87,500 respectively
(vi) Out of sum payable to retiring partner Ram, a sum of ₹ 1,12,500 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% p.a. The loan is to be paid off by 31st March 2015.

One month after Ram's retirement Laxman and Bharat agreed to admit Ram's son Lav as a partner with 1/4th share in profit / losses. Ram agreed that the balance in his loan account be converted into Lav's capital. Ram also agreed to forgo one month's interest on his loan.

It was also agreed that Lav will bring in, his share of goodwill through book adjustment, valued at the price on the date of Ram's retirement. No goodwill account is to be raised in the books.

You are required to pass necessary Journal Entries to give effect to the above transactions and prepare Partner's Capital. **[15]**

5. (a) Prantik Ltd. who keeps financial records in single entry mode provides the following data for the year ended 31st March, 2014.

Gross Profit Ratio	40% on sales	Net Profit Ratio	10% on sales
Debtors Turnover Ratio	2 Months	Other Expenses (Administrative)	₹ 50 lakhs
Creditors Turnover Ratio	1.5 Months	Depreciation	₹ 10 lakhs
Inventory Turnover Ratio	2 Months	Debentures to Equity share capital	10%
Current Ratio	2.5 Months		

Opening Stock was less than the Closing Stock by ₹ 8 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. **[12]**

(b) Sales include ₹400 lakhs representing royalty receivable for supply of knowhow to a Company in South-East Asia. As per agreement the amount is to be received in US Dollars. However, exchange permission was denied to the Company in South-East Asia for remitting the same. **[3]**

6. (a) Best Bank Ltd. provides you the following information:

	₹ (in lakhs)
Bills for Collection (as on 1.4.2013)	14.00
During the year 2013-14	
Bills received for Collection	129.00
Bills Collected	94.00
Bills dishonoured and returned	11.01

Required: Prepare Bills for Collection (Assets) A/c and Bills for Collection (Liabilities) A/c. **[6]**

(b) From the following figures appearing in the books of Fire Insurance division of Swasti General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars		Direct Business ₹	Re-Insurance ₹
Claim paid during the year		70,05,000	10,50,000
Claim Payable —	1st April, 2013	11,44,500	1,30,500
	31st March, 2014	12,18,000	79,500
Claims received		-	3,54,000
Claims Receivable —	1st April, 2013	-	98,000
	31st March, 2014	-	1,69,500
Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)		3,45,000	-

[2+6=9]

7. Utkal Ltd. makes an issue of 15,000 Equity Shares of ₹100 each at a premium of ₹12.50 per share payable as follows:

(i) ₹12.50 on Application
(ii) ₹25.00 on Allotment (including Premium)
(iii) ₹50.00 on First Call
(iv) ₹ 15.00 on Second Call
(v) ₹10.00 on Final Call

The application and allotment money is duly received and, in addition, holders of 7,500 shares paid in full on allotment. Holders of 300 shares fail to pay the first call and, after due notice, their shares are forfeited. The amounts payable on second call (made after the forfeiture) are paid in full except that a holder of 150 shares fails to pay. 225 of the 300 shares forfeited are reissued , credited with ₹ 90 paid for ₹65 per share. The new holder pays for these shares in full. The balance of ₹ 10 per shares is being treated as call-in-advance. The final call is met in full invluding the arrear of the second call.

Show the necessary journal entries including cash in the books of Utkal Ltd. **[15]**

8. Write Short Notes on any three: [3x5=15]

(a) Redeemable Dead Rent;
(b) Treatment of donation received for specific purpose in the case of charitable society;
(c) "Valuation Balance Sheet" in relation to Insurance Companies;
(d) Restrictions in capitalisation of Borrowing Cost cease as per AS 16.