Paper-5: FINANCIAL ACCOUNTING

Time Allowed: 3 Hours **Full Marks: 100**

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

Question 1 is compulsory and any 5 questions from the rest

1. (a) From the four alternative answers given against each indicate the correct answer : **[10×1]**

(i) The cost of a Fixed Assets of a business has to be written off over its
(A) Natural Life
(B) Accounting Life
(C) Physical Life
(D) Estimated Economic Life

(ii) Shortworkings can be recouped out of
(A) Minimum rent
(B) Excess of actual Royalty over minimum rent
(C) Excess of minimum rent over actual Royalty
(D) Profit and Loss Account

(iii) In Hire Purchase system cash price plus interest is known as
(A) Capital value of asset
(B) Book value of asset
(C) Hire purchase price of asset
(D) Hire purchase charges

(iv) In partnership when a new Partner brings his share of Goodwill in cash, then the amount of such Goodwill will be credited to Partners' capitals as per the following ratio:
(A) Old Profit sharing ratio
(B) Sacrifice ratio
(C) Gain ratio
(D) None of the above

(v) The Receipts and Payments Account generally begins with
(A) Credit Balance
(B) Debit Balance
(C) Both Debit and Credit Balance
(D) None of the above

(vi) Which of the following is a category of Share Capital of a company?
(A) Authorized Capital
(B) Issued Capital
(C) Called up Capital
(D) All of the above

(vii) In case of a Banking Company, entries in the Personal Ledger are made from
(A) Day Book
(B) Vouchers

(C) Rough Register
(D) None of the above

(viii) When Sales = ₹ 1,80,000, Purchase = ₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be
(A) ₹ 50,000
(B) ₹ 44,000
(C) ₹ 46,000
(D) None of the above

(ix) The General Manager is entitled to a commission of 10% on net profit after charging the commission of Works Manager. The Works Manager is entitled to a commission of 5% on the net profits after charging the commission of General Manager. The profit before charging any commission is ₹ 7,500. The commission of the Work Manager to the nearest rupee will be:
(A) ₹ 321
(B) ₹ 333
(C) ₹ 337
(D) ₹ 326

(x) Rohan & Sohan are partners in a firm sharing profits & losses in the ratio 3 : 1. A partner Mohan is admitted and he brought Rs. 40,000 as goodwill. New profit sharing ratio of all the partners is equal. The amount of goodwill to be shared by old partners is
(A) Equally ₹ 20,000 each
(B) Rohan ₹ 30,000 & Sohan ₹ 10,000
(C) Rohan ₹ 40,000
(D) Rohan received ₹ 50,000 & Sohan paid ₹ 10,000

(b) Match the following : **[5×1]**

(i) AS—6	(I) Borrowing costs
(ii) AS—13	(II) Consolidated Financial Statements
(iii) AS—16	(III) Depreciation Accounting
(iv) AS—19	(IV) Accounting for Investment
(v) AS—21	(V) Leases

(c) Fill in the blanks of the following: **[5x1]**
(i) A company cannot redeem preference shares unless they are ___________ paid up.
(ii) Unclaimed dividend is shown under ______________ head in the Balance Sheet of a banking company.
(iii) Tax deducted at source, from interest on investment is shown under_________ in Revised Schedule VI.
(iv) Selling Commission is apportioned among departments in the ratio of ___________ of each department.
(v) By products should be valued as lower of cost and _____________.

(d) State with reasons whether the following propositions are True or False: **[5 x 1]**
(i) Short workings arise when minimum rent is less than actual royalty.
(ii) Revenue recognition of Royalties receivable from foreign countries is made on receipt basis.
(iii) The accounting principle is general rule followed in preparation of financial Statement

(iv) The inventory under AS – 2 is valued on the basis of cost price or current replacement cost whichever is lower.
(v) In admission of a partner new partner's capital amount is shared by old partner in gaining ratio.

2 (a) X's accounting year ends on 30.06.2013 but actual stock was not taken till 08.07.2013 on which date it is valued at ₹ 29,700. The following additional information is available:
(i) Sales are entered in the sales book on the date of dispatch and returns inward entered in the credit note register on the day goods are received back.
(ii) Purchases are entered in the purchase book on the day invoices are received.
(iii) Sales from 01.07.2013 to 08.07.2013 are ₹ 34,400
(iv) Purchases invoiced from 01.07.2013 to 08.07.2013 are ₹ 2,640 out of which goods ₹ 240 was not received upto 08.07.2013.
(v) Invoices for goods purchased upto 30.06.2013 were of ₹ 2,000 of which goods worth ₹1,400 were received between 01.07.2013 to 08.07.2013
(vi) Rate of G.P. 33.33% on cost.
Find out the value of stock on 30.06.2013.

(b) Healthy Sports Club presents the following information to you:

Receipts and Payments Account for the year ended 31st March, 2013

Receipts	₹	Payments	₹
To Opening Cash and Bank	52,000	By Salaries	1,50,000
To Subscriptions	3,48,000	By Rent and Taxes	54,000
To Donations	1,00,000	By Electricity Charges	6,000
To Interest on Investments	12,000	By Sports Goods	20,000
To Sundry Receipts	3,000	By Library Books	1,00,000
		By Newspapers and Periodicals	10,800
		By Miscellaneous Expenses	54,000
		By Closing Cash and Bank balances	1,20,200
	5,15,000		5,15,000

Particulars	As on 31.3.2012 ₹	As on 31.3.2013 ₹
Liabilities : Outstanding expenses : Salaries	10,000	20,000
Rent and taxes	4,500	4,500
Electricity charges	990	1,030
Newspapers and periodicals	890	910

Assets: Library books	1,00,000	
Sports goods	80,000	
Furniture and fixtures	1,00,000	
Subscription receivable	30,000	25,000
Investment in Government securities	5,00,000	
Accrued interest	6,000	6,000

Provide depreciation on :

Furniture and fixtures @ 10%p.a.
Sports goods @ 20% p.a.
Library books @ 10% p.a.

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2013 and the balance sheets as on 31st March, 2012 and 31st March, 2013. Treat donations as capital receipt. Assume that sports goods and library books have been purchased evenly throughout the year. **[6+9]**

3 (a) Mandira Ltd. provide depreciation on its plant @ 10% on Reducing Balance Method. On 31st December, 2013, it decides to adopt the Straight Line Method of charging depreciation instead of Reducing Balance Method with retrospective effect from 1st January, 2010 although the rate of depreciation is same.
On 01.01.2013, the plant account stood in the books at ₹1,45,800. On 01.04.2013, Mandira Ltd. sold a plant for ₹28,000 whose written-down value was ₹37,800 on 01.01.2010. On 01.09.2013, a new plant was also purchased for ₹90,000.
Show the Plant Account in the books of Mandira Ltd. for the year 2013 only.

(b) Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31st Dec,2012 was:

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Accounts: Compass Cone Circle	 40,000 60,000 20,000	 1,20,000	 Machinery (at cost) Less: provision for depreciation	 50,000 8,000	 42,000
Reserve		30,000	Furniture		1,000
Sundry Creditors		60,000	Sundry Debtors Less: Provision for Doubtful Debts	80,000 3,000	 77,000
			Stocks		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On 31st March, Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3:2. It was agreed that adjustments were to be made in the Balance Sheet as on 31st March 2013, in respect of the following:

i. The Machinery was to be revalued at ₹ 45,000;
ii. The stock was to be reduced by 2%;

iii. The Furniture was to be reduced to ₹ 600;
iv. The provision for doubtful debts would be ₹ 4,000;
v. A provision of ₹300 was to be made for outstanding expenses.

The partnership agreement provided that, on the retirement of a partner, goodwill was to be valued at ₹ 24,000 and Cone's share of the same was to be adjusted into the account of Compass and Circle. The profit up to the date of retirement was estimated at ₹ 18,000.
Cone was to be paid off in full, Compass and Circle were to bring such an amount in cash so as to make their capital in proportion to the new profit – sharing ratio, subject to the condition that a cash balance of ₹ 20,000 was to be maintained as working capital.
Pass the necessary Journal entries to give effect to the above arrangements and prepare the Partners' Capital Accounts as on 31st March 2013. **[7+8]**

4 (a) CAS Ltd. furnishes you with the following Balance Sheet as at 31.03.2013

Particulars	(₹ In crores)	
Sources of Funds:		
Share Capital:		
Authorized		100
Issued:		
12% Redeemable Preference Shares of ₹ 100 each fully paid	75	
Equity shares of ₹ 10 each fully paid	25	100
Reserves and surplus:		
Capital reserve	15	
Securities premium	25	
Revenue reserves	260	300
		400
Funds Employed in:		
Fixed assets: cost	100	
Less: Provision of depreciation	100	Nil
Investment at cost (market value ₹ 400 Cr.)		100
Current assets	340	
Less: Current liabilities	40	300
		400

The company redeemed preference shares on 1st April, 2013. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets.
You are asked to:

(i) Pass journal entries to record the above
(ii) Prepare balance Sheet
(iii) Value equity share on net asset basis.

(b) From the following information prepare a statement of Proprietor's Fund :
(i) Current ratio 2.5; (ii) Liquid ratio 1.5; (iii) Proprietory ratio (Fixed Assets/Prorietory Fund) 0.75; (iv) Working capital ₹ 90,000; (v) Reserves and Surplus ₹ 60,000 (vi) Bank Overdraft ₹ 20,000; (vii) There is no long term loan or fictitious assets. **[8+7]**

5(a) It was provided under the partnership agreement between Naresh, Mahesh and Paresh that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:
(i) Deceased's share of Goodwill to be taken at three years' purchase of his share of profits

on the average of previous 4 years; and

(ii) Total amount due to his representative to be paid by survivors in 4'equal half yearly installments commencing 6 months after the date of death with 5% interest on outstanding dues.

They shared profits and losses in the ratio of 9: 4: 3 and accounts were drawn up to each year's 30th June.

Naresh died on 31st December, 2013 and their capital accounts on that date were Naresh ₹10,800, Mahesh ₹6,400 and Paresh ₹3,600. Naresh's current account on 31st December, 2013 after crediting his share of profit to that date, however, showed a debit balance of ₹ 960.

Firm's Profits were for the year ended 30th June, 2010 ₹35,200; 30th June, 2011 ₹28,160; 30th June, 2012 ₹ 24,080; 30th June, 2013 ₹8,704.

Show the relevant ledger accounts in the books of the firm recording half-yearly payments to Naresh's estate by the surviving partners.

(b) The following balances are appearing in the books of X Ltd on 01. 04.2013:

Redeemable Preference Share Capital (Shares of ₹10 each) ₹2,00,000; Calls in Arrear ₹ 2,000; General Reserve ₹1,00,000; Securities Premium ₹5,000

The Preference Shares are fully called up and are due for redemption at a premium of 10%. Calls-in-arrear are in respect of final call at the rate of ₹ 4 per share and these shares are held by Mr. M. Sen whose whereabouts are not known.

The Board of Directors decided that 50% of the General Reserve to be utilized for the purpose of redemption of Redeemable Preference Share Capital and for the balance necessary Amount of equity shares of ₹ 10 each were issued at a premium of 10%.

The redemption of Preference Shares are duly carried out and subsequently the company utilizes the balance of Capital Redemption Reserve A/c to issue Equity Shares at ₹ 10 each as bonus to shareholders.

You are required to pass the necessary Journal Entries in the books of X Ltd (workings must be shown). **[8+7]**

6 (a) Samar Ltd. took on lease a land from Bhumi for running a Super bazer on 01.01.2009 on the following conditions:

(i) A fixed rent of ₹8,000 to be paid per month.

(ii) A variable rent at the undernoted percentages on sales would be paid subject to a minimum annual payment of ₹50,000:

Sales Volume	Variable rent
(a) ₹ 1 to ₹50,00,000	(a) 1% of Sales of this category
(b) Over ₹50,00,000 and up to ₹1,00,00,000	(b) 0.75% on sales of sales of this category
(c) Above ₹1,00,00,00	(c) 0.5% on sales of sales of this category

(iii) In case the variable rent falls short of ₹50,000 in any year, the shortfall could be recovered out of excess variable rent of the following two years.

(iv) If normal activities are hampered due to any external reason, the fixed rent will remain suspended for that period.

The annual sales for the first 5 years have been:

Year	Sales by Samar ₹	
2009	30,00,000	
2010	45,00,000	
2011	65,00,000	
2012	80,00,000	[Water logging due to heavy shower for one month]
2013	1,20,00,000	

Show the important ledger accounts in the books of Samar Ltd.

(b) Discuss the necessary disclosure under AS -7. **[10+5]**

7 (a) Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2013. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office.

The following are the particulars relating to the transactions of the Kanpur Branch:

		₹	₹
Goods sent to Branch (at cost to H.O.)			4,50,000
Sales — Cash			2,10,000
— Credit			3,20,000
Cash collected from Debtors		2,85,000	
Return from Debtors		10,000	
Discount Allowed		8,500	
Cash sent to Branch			
	for Freight	30,000	
	for Salaries	8,000	
	for other expenses	12,000	50,000
Spoiled clothes written off at invoice price			10,000
Normal loss estimated at			15,000

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch.

(b) On 31 March, 2012 Chinta Money Bank Ltd. had a balance of ₹ 27 crores in "rebate on bill discounted" account. During the year ended 31st March, 2013, Chinta Money Ltd. discounted bills of exchange of ₹ 12,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹ 1,800 crores were due for realization from the acceptor/customers after 31st March, 2013, the average period outstanding after 31st March, 2013 being 36.5 days.

Chinta Money Ltd. asks you to show the ledger accounts pertaining to:

I. Discounting of Bills of Exchange; and
II. Rebate on bill Discounted.

8 Write Short Notes on any 3 : **[3 x 5]**

(a) Features of Income and Expenditure.

(b) Profit prior to Incorporation

(c) Cum-interest and ex-interest price.

(d) Surrender value of Policy