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) **[5 x 2 =10]**

(i) Asus 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.

(ii) X, Y and Z are partners sharing profits and losses in the ratio 3:2:1. Y retired from the firm. X and Z decided to take his share in 3:1 ratio. What is the New Ratio of the partners X and Z.

(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 owner's 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) Best Ltd. gives you the following information to find out Total Sales and Total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 01.01.2012	65,000	Discount allowed by suppliers	8,000
Creditors as on 01.04.2012	80,000	Discount allowed to customers	10,000
Bills receivable received during the year	45,000	Endorsed bills receivable dishonoured	5,000
Bills receivable issued during the year	52,000	Sales return	9,000
Cash received from customer	1,55,000	Bills receivable discounted	8,000
Cash paid to suppliers	1,70,000	Discounted bills receivable dishonoured	3,000
Bad debts recovered	16,000	Cash sales	1,68,000
Bills receivables endorsed to creditors	28,000	Cash purchase	1,95,000
Bills receivables dishonoured by customers	6,000	Debtors as on 31.03.2013	83,000
		Creditors as on 31.03.2013	95,000

[6]

3. (a) The Promoters of proposed Air Ltd. purchased a running business on 01.01.2014 from Pollution Ltd. Air Ltd. was incorporated on 1st May 2014. The combined Profit and Loss Account of the company prior to and after the date of incorporation is as under:

Profit and Loss account for the year ended 31st December, 2014

Particulars	Amount ₹	Particulars	Amount ₹
To Rent, Rates & Salaries etc.	9,000	By Gross Profit	1,50,000
To Directors' sitting Fees	4,900	By Discount received from	
To Preliminary Expenses	3,600	Creditors	6,000
To Carriage Outwards	6,500		
To Interest Paid to Vendors	12,000		
To Net Profit	1,20,000		
	1,56,000		1,56,000

Following further information is available:

(i) Sales up to 31.04.2014 were ₹3,00,000 out of total sales of rs.15,00,000 for the year.

(ii) Purchase up to 31.04.2014 were ₹3,00,000 out of total purchase of ₹9,00,000 for the year.

(iii) Interest paid to vendors on 1st November, 2014 @ 12% p.a. ₹1,00,000 being purchase consideration.

Prepare a profit & Loss Account for the year ended 31st December, 2014 showing the profits earned prior to and after incorporation showing the transfer of the same to appropriate accounts. **[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. M, J and P were partners sharing Profit and Losses in the ratio of M – 40%, J – 35% and P – 25%. The Balance Sheet of the Partnership as on 31st December was as follows:

Capital and Liabilities	₹	₹	Properties & Assets	₹
Current Accounts:			Non-Current Assets:	
M	12,000		Premises (at cost)	75,000
J	8,000		Plant & Machinery (Cost) 80,000	
P	6,000	26,000	Less: Depreciation (28,000)	52,000
Capital Accounts:			Current Assets:	
M	90,000		Sundry Debtors 34,000	
J	50,000		Less: Provision for Doubtful Debts (6,000)	28,000
P	30,000	1,70,000	Stock	42,000
Non-Current Liabilities: Loan from J		30,000	Cash on Hand and at Bank	67,000
Current Liabilities: Sundry Creditors		30,000		
Bills Payable		8,000		
		2,64,000		2,64,000

J retired from the Firm on 31st December. M and P continued in partnership, sharing Profits and Losses in the ratio of M – 60% and P – 40%. 50% of J Loan was repaid on 1st January (Immediately on retirement) and it was agreed that, of the amount then remaining due to her, a sum of ₹ 80,000 should remain as Loan to Partnership, and the balance to be carried forward as ordinary trading liability.

The following adjustments were agreed to be made to the above – mentioned Balance Sheet.

(i) ₹ 10,000 should be written off from the Premises.
(ii) Plant and Machinery was revalued at ₹ 58,000.
(iii) Provision for Doubtful Debts to be increased by ₹ 1,200.
(iv) ₹ 5,000 due to Creditors for Expenses had been omitted from the Books of Account.
(v) ₹ 4,000 to be written off on Stocks.
(vi) Provide ₹ 1,200 for Professional Charges in Connection with revaluation.

As per the Deed of Partnership, in the event of the retirement of a Partner, Goodwill is to be valued at an amount equal to one year's purchase of the Average Profits of the preceding three years on the date of retirement. Before determining the said Average Profits, a National Amount of ₹ 80,000 should be charged for Remuneration to partners. The necessary Profits before charging such Remuneration were: ₹ 1,44,000, ₹ 1,68,000, and ₹ 1,88,200 for the past three years (as per Draft Accounts).

It was agreed that, for the purpose of valuing Goodwill, the amount of profit for the last year be re-computed after charging the loss on revaluation in respect of Premises and Stock, the Unprovided Expenses (expect Professional Expenses) and increase in the Provision for Doubtful Debts. The continuing partners decided to eliminate Goodwill Account from their books.

Prepare: (i) Revaluation Account, (ii) Capital Account (merging Current Accounts therein), (iii) J Account showing Balance due to her, and (iv) Balance Sheet of M and P as at 1st January.

5. **(a)** From the following information, make out a statement of Proprietors' Fund with as many details as possible:

(i)	Current Ratio	2.5
(ii)	Liquid Ratio	1.5
(iii)	Proprietary Ratio (Fixed Assets: Proprietors' Fund)	0.75 or $\frac{3}{4}$
(iv)	Working Capital	₹ 6,000
(v)	Reserves & Surplus	₹ 4,000
(vi)	Bank Overdraft.	₹ 1,000

There are neither long-term loans nor any investments in fictitious 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) Account and Bills for Collection (Liabilities) Account. **[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 are being treated as call-in-advance. The final call is met in full including 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 capitalization of Borrowing Cost cease as per AS 16.