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

Section A is compulsory and answer any 5 questions from Section B

Section A

1. Answer the following questions (give workings): **[2×10]**

(a) The following information has been extracted from the books of a lessee for the year 2012-2013:

Particulars	Amount(₹)
Short workings lapsed	8,000
Short workings recovered	10,000
Actual royalty based on output	30,000

Compute the minimum rent.

(b) Oscar Ltd. furnished the following particulars:
Debtors ledger include ₹ 10,000 due from Das & Co. whereas Creditors Ledger include ₹6,000 due to Das & Co. Show the journal entry.

(c) Mega Ltd. deals in three products A, B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2013-14 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
A	21	18
B	18	16
C	10	14

What will be the value of closing stock?

(d) The following data apply to a company's defined benefit pension plan for the year:

Particulars	Amount (₹)
Fair Market Value of Plan Assets (beginning of year)	8,00,000
Fair Market Value of Plan Assets (end of year)	1,14,00,000
Employer Contribution	2,80,000
Benefit Paid	2,00,000

Calculate the Actual Return on Plan Assets.

(e) Calculate the amount of subscription to be shown in the Income and Expenditure Account for the year ending 31st March, 2013 from the following information :

- Subscription received during 2012-13 — ₹ 63,000.
- Subscription received in advance on 31.03.2012 — ₹ 4,200.
- Arrears of subscription on 31.03.2013 — ₹ 9,400.
- Subscription received in advance on 31.03.2013 — ₹ 4,300.

(f) Explain 'Prior Period Items' as per AS 5.

(g) MGS Ltd. purchased a machine costing ₹1,25,000 for its manufacturing operations and paid shipping costs of ₹30,000. MGS Ltd. spent an additional ₹12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?

(h) A Ltd. purchased fixed assets costing ₹ 5,100 lakhs on 01.01.2013 and the same was fully financed by foreign currency loan (U.S $) payable in three annual installments. Exchange rates were U.S $ I = ₹42.50 and ₹45.00 as on 01.01.2013 and 31.12.2013 respectively. First installment was paid on 31.12.2013. The entire difference in foreign exchange has been capitalized.
You are required to state , how these transactions would be accounted for.

(i) Sales was ₹30,00,000 in the previous year.
Gross Profit is 25% on Sales.
The Company expects 20% Sales increment in sales volume during this year.
Compute the Cost of goods Sold.

(j) X and Y are partners having Capitals of ₹ 2,40,000 and ₹ 60,000 respectively and a profit sharing ratio of 4 : 1. Z is admitted for 1/5th share in the profits of the firm and he pays ₹ 90,000 as Capital. Find out the value of the Goodwill.

Section- B

2. (a) Discuss the different types of vouchers.

(b) 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

(c) Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	100 Lakhs	No specific Borrowings
Plant B	125 Lakhs	Bank loan of ₹ 65 Lakhs at 10%
Plant C	175 Lakhs	9% Debenture of ₹ 125 Lakhs were issued

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16.

[4+6+6]

3.(a) On 31.12.2012, Sundry Debtors and Provision for Bad Debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2013, ₹ 3,000 are bad and written off on 30.9.2013, an amount of ₹ 400 was received on account of a debt which was written off as bad last year on 31.12.2013, the debtors left was verified and it was found that sundry debtors stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as bad.

Prepare Bad Debt Account, Provision for bad Account. Assuming that some percentage should be maintained for provision for bad debt as it was on 31.12.2012.

Show also Profit & Loss Account and Balance Sheet.

(b) Satendra Ltd. had the following condensed trial balance as on 31st March 2013:

Dr. Cr.

Particulars	(₹)	Particulars	(₹)
Cash	8,500	Current Liabilities	17,000
Accounts Receivable	32,000	Long-term Notes Payable	25,500
Investments	20,000	Bonds Payable	25,000
Plant Assets	67,500	Share Capital	75,000
Land	40,000	Retained Earnings	25,500
	1,68,00		1,68,000

Additional Information:

During 2012-13, the following transactions took place:

(i) A tract of land was purchased for a cash of ₹ 7,750.

(ii) Bonds payable in the amount of ₹ 6,000 were retired for cash at face value.

(iii) An additional ₹ 20,000 equity shares were issued at par for cash.

(iv) Dividends totaling ₹ 9,375 were paid.

(v) Net income for 2012-13 was ₹ 30,000 after allowing for a depreciation of ₹ 9,500.

(vi) Land was purchased through the issuance of ₹ 22,500 in bonds.

(vii) Santendra Ltd sold a part of its investments portfolio for ₹ 12,875 cash. The transaction resulted in a gain of ₹ 1,375 for the firm.

(viii) Current Liabilities increased to ₹ 18,000.

(ix) Accounts receivable on 31st March totaled to ₹ 38,000.

Prepare a Statement of Cash Flows from Operating Activities and Financing Activities for 2012-13, using indirect method, as per AS-3 (Revised).

(c) State the features of Receipts and Payments. **[6 + 6 + 4]**

4.(a) The Dreamers' Club makes up its accounts to 31st December in each year. On 31st December, 2013 the cashier of the club absconded leaving behind no information or cash. An examination of the records showed that the books had not been written up for a considerable time and it was decided to reconstruct the figures from 1.1.2013.

A summary of the Bank Account for the year showed that:

Receipts	Amount ₹	Payments	Amount ₹
Balance on 01.01.2013	420	Rent & Rates	460
Bank Deposits	42,610	Insurance	40
		Light & Heat	156
		Bar Purchases	35,067
		Telephone	59
		Cash Withdrawn	5,848
		Balance as on 31.12.13	1,400
	43,030		43,030

The following information is also obtained:

(i) The Barman places takings in the bank night safe on his way home for crediting to the club account. The bar takings totaled ₹ 44,610 for the year. The treasurer had no access to bar takings.

(ii) The receipt counterfoils for members' subscriptions totaled ₹ 3,050 for the year.

(iii) A summary of expenditure for petty cash and wages revealed Glasses, crockery maintenance— ₹ 1,310; Wages—₹ 2,650; Sundry Expenses—₹ 475

(iv) Outstanding or Prepaid Amounts Were:

	31.12.2012 ₹	31.12.2013 ₹
Prepaid rates	26	28
Outstanding Expenses	64	100

The Bar Stock on 01.01.2013 was ₹ 3,607 and 31.12.13 ₹ 2,916. Opening Cash with the Cashier at the beginning of the year 2008 was ₹ 35 only.

Prepare an Income & Expenditure Account of the club for the year ended 31.12.2013.

(b) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2013 is:

Receipts	₹	Payments	₹
Cash in hand	21,600	Salaries	44,000
Receipts from Customers	5,40,000	Rent	8,800
Cash Sales	64,000	Advertising	3,600
		Printing	3,200
		General expenses	38,200
		Payment to Trade Creditors	4,48,000
		Doll's Drawings	8,000
		Cash in hand	71,800
	6,25,600		6,25,600

The following balances are available from their books as on 30th June 2012 and 30th June 2013:

	As on 30.06.2012	As on 30.06.2013
	₹	₹
Stock-in-trade	88,000	1,00,000
Sundry Debtors	?	1,40,000
Sundry Creditors	93,600	74,000
Furniture	12,000	?

Other information:

(i) Discount allowed ₹5,600;
(ii) Discount earned ₹4,800;
(iii) Outstanding Printing ₹1,000;
(iv) Capital of Doll as on 30th June 2011 was ₹8,000 more than Capital of Dolly;
(v) Provide depreciation on Furniture @ 10% p.a.

From the above, you are required to prepare:

- The Trading and Profit and Loss Account for the year ended 30th June 2013, and,
- The Balance Sheet as on that date, in the books of Doll and Dolly. **[8+8]**

5.(a) Two partnership firms, carrying on business under the style of R & Co. (Partners A & B) and W & Co. (Partners C & D) respectively, decided to amalgamate into RW & Co. with effect from 1st April 2013. The respective Balance Sheets of both the firms as on 31st March, 2013 are in below:

Liabilities	R (₹)	W (₹)	Assets	R (₹)	W (₹)
Capital B	19,000	-	Goodwill	-	5,000
Capital C	-	10,000	Machinery	10,000	-
Capital D	-	2,000	Stock-in-trade	20,000	5,000
Bank Loan	15,000	-	Sundry Debtors	10,000	10,000
Creditors	10,000	9,500	Cash in hand	-	1,500
			Capital - A	4,000	-
	44,000	21,500		44,000	21,500

Profit sharing ratios are: A & B = 1:2; C & D = 1:1. Agreed terms are:
(i) All fixed assets are to be devalued by 20%.
(ii) All stock in trade is to be appreciated by 50%.
(iii) R & Co. owes ₹ 5,000 to W & Co. as on 31st March 2013. This is settled at ₹ 2,000. Goodwill is to be ignored for the purpose of amalgamation.
(iv) The fixed capital accounts in the new firm (RW & Co.) are to be : Mr. A ₹ 2,000; Mr. B ₹ 3,000; Mr. C ₹1,000 and Mr. D ₹ 4,000.
(v) Mr. B takes over bank overdraft of R & Co. and contributed to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.
(vi) Mr. C is paid off in cash from W & Co. and Mr. D bring in sufficient cash to make up his required capital contribution.

Pass necessary Journal entries to close the books of R & Co. as on 31st March 2013.

(b) From the following particulars, prepare accounts in Goods on Approval Ledger

Particulars	Amount(₹)
Goods Sent out on approval	2,00,000
Goods Returned	50,000
Goods Accepted	1,40,000
Opening balance on approval	20,000
Cash received from customers	90,000
Opening dues from approved parties for goods already accepted	10,000

[10+6]

6.(a) K and L are two partners sharing profits and losses in the ratio of 5:3. Their Balance Sheet as at 30th June, 2013 is a follows:

Liabilities	₹	₹	Assets	₹	₹
Creditors		30,000	Furniture		40,000
Reserve		14,000	Patent		10,000
Capital Account :			Debtors	44,000	
K	40,000		Less : Reserve for Bad Debts	5,000	39,000
L	50,000		Stock		20,000
		90,000	Cash in hand		25,000
		1,34,000			1,34,000

On 1st July, 2013, they take M into partnership. M brings ₹ 25,000 as his capital and brings ₹ 3,600 as his share of goodwill. The new profit sharing ratio of K, L and M is 2:4:1. Patent is written off from the books and a reserve for Bad Debt is created at 5%. Reserve appears in the books of new firm at its original figure.

Show the necessary Journal entries to carry out the above transactions and prepare a Balance Sheet of the new firm as at 1st July, 2013.

(b) Mr. Gulab sells goods on hire purchase basis. He fixes hire purchase price at 331/3%profit on invoice price of the goods. The following are the figures relating to his hire purchase business for the year ending on 31st March 2013 :

	01.04.2012 ₹	31.03.2013 ₹
Hire purchase Stock	60,000	?
Hire Purchase Debtors	1,5000	?
Shop Stock	50,000	75,000

Goods purchased during the year ₹ 3,27,000, Cash received from customers during the year ₹4,62,000. Total amount of installments that fell due during the year ₹4,63,500.
One customer to whom goods had been sold for ₹6,000 paid only 5 installments of ₹500 each. On his failure to pay the monthly installment of ₹ 500 each on 4th March 2008, the goods were repossessed on 27th March 2008 after due legal notice.

Required: Prepare the Hire Purchase Trading Account. **[8 + 8]**

7. (a) Blue and Yellow are two department of Red Company of Calcutta. Blue department sells goods to Yellow Department at normal market price. From the following particulars, prepare a Trading and Profit and Loss Account of the two departments for the year ended 31st March, 2013.

	Dept. Blue ₹	Dept. Yellow ₹	General ₹
Stock on April 1, 2012	12,000	Nil	
Purchases	2,76,000	24,000	
Goods from Ocean Department	---	84,000	
Wages	12,000	19,200	
Salaries	8,000	5,000	
Stock on 31st March, 2013, at Cost	60,000	21,600	
Sales	2,76,000	1,74,000	
Stationary & Printing	2,560	1,960	
Plant & Machinery	---	14,400	
Salaries (General)			18,000
Miscellaneous Expenses			3,600
Advertisement			9,600
Bank Charges			2,400

Depreciate Plant and Machinery by 10%. The general unallocated expenses are apportioned in the ratio Ocean: 3, Kite: 2

(b) C Electric Company Ltd. decides to replace its old plant with a modern one with a large capacity. The plant was installed in 1940 at a cost of ₹80 lakhs. The components of materials labour and overhead are in the ratio 5:3:2. It is ascertained that the costs of material and labour have gone up by 50% and 100%, respectively. The proportion of overheads to total costs is expected to remain the same as before.

The cost of the new plant as per improved design is ₹ 180 lakhs and, in addition, materials recovered from the old plant having value of ₹4,00,000 was used in the construction of the new plant. The old plant was scrapped and sold for ₹15,00,000.
The accounts of the company are maintained under Double Account System.
Show the entries in the books of C Electric Company.

(c) When can revenue be recognized in the case of transaction of sale of goods?

[8+6+2]

8. (a) A and B enter into a joint venture for guaranteeing the subscription at par of 1,00,000 shares of ₹ 10 each of a Joint Stock Company. They agree to share profit and losses in the ration of 2 : 3. The terms with the company are 4½% commission in cash and 6,000 shares of the company as fully paid-up.
The public took up 88,000 of the shares and the balance share of the guaranteed issue are taken up by A and B who provide cash equally. The commission in cash is taken by partners in the ratio of 4 : 5.
The entire shareholding of the joint venture is then sold through brokers – 25% price of ₹ 9. 50% at a price of ₹ 8.75; 15% at a price of ₹ 8.50 and the remaining 10% are taken over by A and B equally at ₹ 8 per share. The sale proceeds of the shares are taken by the partners equally.
Prepare a Joint Venture Memorandum Account and the separate accounts of A and B in the books of B and A, respectively, showing the adjustment of the final balance between A and B.
Ignore interest and income-tax.

(b) What is meant by Reversionary Bonus in relation to Insurance policies?

(c) Prepare an Account Current from the following particulars to be rendered by A to M on 30th June 2013 considering rate of interest @ 5% p.a. from the given particulars:

2013		₹
Jan. 1	M owes to A	4,000
Feb. 1	M remits Cash	2,000
Mar. 15	A sold goods to M (due on May 1)	8,000
Mar. 31	M sends a bill (due on Oct. 1)	2,000
May 30	M purchased goods (due on Aug.31)	40,000

[9+2+5]