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

(i) Surat Rajya Setu Nigam Ltd. was awarded a contract of construction of a bridge for ₹ 200 Crores on 1.6.2009. Total contract cost estimated was ₹160 Crores. The position of the contract cost on 31/03/2012 and 31/03/2013 was under:

	As on 31/03/2012	As on 31/03/2013
Contract Price	200	200
Contract Cost incurred up to date	50	180 (100 % complete)
Estimate contract cost of completion	120	NIL

While closing books of account on 31/03/2013, the chief accountant treated excess cost of ₹ 20 Crores incurred as against estimated of ₹ (50+120) =170 Crores as on 31/03/2012 as mistakes in estimation of cost, hence categorized ₹20 Crores (190-170) as prior period expenses. Comment.

(ii) Mr. Vikas sold 1,500, 10% debentures (face value ₹ 100 each) of Shiva Limited at ₹ 125 cum-interest on 01.12.2013. The interest is payable on 31st March and 30th September every year. Find out the actual amount received by Vikas (excluding interest) on account of sale of investment.

(iii) On 30.4.2014 MNC Ltd.obtained a loan from the bank for ₹100 lakhs to be utilized as under:

- Construction of a factory shed ₹4 crores.
- Purchase of Machinery ₹ 3 crores.
- Working Capital ₹ 2 crore.
- Advance for Purchase of truck ₹ 1 crore.

In March 2014, construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ended 31.3.14 was ₹180 lakhs. Show the treatment of interest as per AS-16.

(iv) ₹ 90,000 is the annual instalment to be paid for three years (given Present Value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the Cash Price in case of Hire-Purchase.

(v) From the following particulars, determine Closing Stock at Branch

	₹		₹
Opening stock at the Branch	30,000	Expenses:	
Goods sent to Branch	90,000	Salaries	10,000

Sales(Cash)	1,20,000	Other Expenses	4,000

The branch sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

(b) From the four alternative answers given against each of the following cases, indicate the correct answer: [1x5=5]

(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) Short workings 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) The following account has a credit balance —
(A) Plant and Equipment A/c
(B) Purchase Returns A/c
(C) Purchase A/c
(D) None of the above

(iv) The effect of timing difference is called as —
(A) Current Tax
(B) Deferred Tax
(C) Minimum Tax
(D) None of the above

(v) A non-performing asset is
(A) Money at call and short notices
(B) An asset that ceases to generate income
(C) Cash balance with Bank
(D) None of the above

(c) Fill up the blanks in the following sentences using appropriate word from the alternatives indicated: [1x5=5]

(i) Clear Profit is related to the accounts of __________________ Companies. (Banking / Electricity)

(ii) The excess of issue price of share over their face value is termed as _____________ (discount/securities premium).

(iii) In a hire purchase system of maintaining accounts, when there is default in making payments in appropriate time, the owner takes back the _______________ of the goods. (ownership, possession)

(iv) Stock Velocity = $\dfrac{\text{Cost of Goods Sold}}{\_\_\_\_\_\_\_\_\_\_}$ (Cost of Sales/Average Stock).

(v) One of the characteristics of Depreciation is that it is a ———————— against profit. (charge, appropriation).

(d) Match the following : **[1×5=5]**

(i) AS - 7	**A.** Borrowing costs
(ii) AS - 10	**B.** Consolidated Financial Statements
(iii) AS - 16	**C.** Construction Contracts
(iv) AS - 12	**D.** Accounting for Fixed Assets
(v) AS - 21	**E.** Accounting for Government Grants
	F. No matching statements found

2. **(a)** The total of debit side of Trial balance of a larger boot and shoe repairing firm as on 31.12.2013 is ₹1,66,590 and that of the credit side is ₹42,470. After several checking and re-cheking the mistakes are discovered:

Items of Account	Correct Figure (as it would be)	Figures as it appear in the Trial Balance
Opening Stock	₹15,900	₹15,600
Repairing (shown as debit balance)	₹61,780	₹61,780
Rent & Taxes	₹4,640	₹4,400
Sundry Creditors	₹6,270	₹5,900
Sundry Debtors	₹7,060	₹7,310

Ascertain the correct total of the Trial Balance. **[5]**

(b) List the significant differences between Book Keeping and Accountancy. **[5]**

(c) State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a licence for starting the factory were ₹20,000.

(ii) ₹ 5,000 paid for removal of stock to a new site.

(iii) Rings and Pistons of an engine were changed at a cost of ₹10,000 to get full efficiency.

(iv) ₹ 4,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.

(v) A factory shed was constructed at a cost of ₹ 4,00,000. A sum of ₹ 20,000 had been incurred for the construction of the temporary huts for storing building materials. **[5]**

3. **(a)** Akash Ltd. has 3 departments A ,B and C. The following information is provided:

Particulars	A ₹	B ₹	C ₹
Opening Stock	6,000	8,000	6,000
Consumption of direct materials	16,000	24,000	-
Wages	10,000	20,000	-
Closing Stock	8,000	28,000	16,000
Sales	-	-	68,000

Stock of each department is valued at cost to the department connected. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were: salaries ₹4,000, Printing and Stationary ₹ 2,000, rent ₹12,000, Interest paid ₹8,000, Depreciation ₹6,000,. Allocate expenses in the ratio of departmental gross profit. Opening figures of reserve for unrealized profits on departmental stock were: Department B ₹2,000; Department C ₹4,000. **[10]**

(b) How will you disclose the following Ledger balances in the Final accounts of Vinayak Bank?

Particulars	₹ in Lakhs
Current Accounts	1,400
Saving Accounts	1,000
Fixed Deposits	1,400
Cash Credits	1,200
Term Loans	1,000
Bills Discounted & Purchased	1,600

Additional information:

(i) Included in the Current Accounts Ledger are accounts overdrawn to the extent of ₹ 500 Lakhs.

(ii) One of the Cash Credit Account of ₹ 20 Lakhs (including interest ₹ 2 Lakhs) is doubtful.

(iii) 60% of Term Loans are secured by Government Guarantees, 20% of Cash Credits are unsecured, other portion is secured by Tangible Assets. **[5]**

4. Sachin and Tuhin were carrying on business as equal partners. Their Balance Sheet as on 31st March 2013 stood as follows:

Capital and Liabilities			₹	Properties and Assets	₹
Capital Account:				Stock	2,70,000
-	Sachin	6,40,000		Debtors	3,65,000
-	Tuhin	<u>6,60,000</u>	13,00,000	Furniture	75,000
Creditors			3,27,500	Joint Life Policy	47,500
Bank Overdraft			1,50,000	Plant	1,72,500
Bills Payable			62,500	Building	9,10,000
Total			18,40,000	Total	18,40,000

The operations of the business was carried on till 30th September 2013. Sachin and Tuhin both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% p.a. had been written off on Building and Plant and 5% p.a. written off on Furniture. During the current period of 6 months, Creditors were reduced by ₹50,000, Bills Payables by ₹11,500 and Bank Overdraft by ₹75,000. The Joint Life Policy was surrendered for ₹47,500 on 30th September 2013. Stock was valued at ₹3,17,000 and Debtors at ₹ 3,25,000. The other items remained the same as they were on 31st March 2013.
On 30th September 2013, the Firm sold its business to Swastik Ltd. Goodwill was estimated at ₹ 5,40,000 and the remaining Assets were valued on the basis of the Balance Sheet as on 30th September 2013. Swastik Ltd. paid the Purchase Consideration in Equity Shares of ₹ 10 each. You are required to prepare a Realisation Account and Capital Accounts of the Partners. **[15]**

5. (a) List the items to be included and the items to be excluded to arrive at the Contract Cost as per AS – 7. **[8]**

(b) The following details are given by the Bhima Ltd. for a year:

Inventory ₹ 5,20,000 Working Capital ₹ 6,76,000 Cash Sales ₹ 2,50,000 Inventory Turnover 5 times Debtors Turnover 6 times Current ratio 2 : 3 : 1 Gross Profit ratio 20% of sales You are required to calculate the amount of (i) Gross Profit, (ii) Total sales, (iii) Sundry Debtors, (iv) Current Assets. **[7]**

6. **(a)** Briefly explain the discloser requirement of Accounting Standard-6. **[2]**

(b) Explain the accounting treatment of donation received for specific purpose in the case of Charitable society. **[5]**

(c) OMR Limited recently made a public issue in respect of which the following information is available:

(i) No. of partly convertible debentures issued 4,00,000; face value and issue price ₹100 per debenture.

(ii) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.

(iii) Date of closure of subscription lists 1.5.2013, date of allotment 1.6.2013, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).

(iv) Underwriting Commission 2.5 %.

(v) No. of debentures applied for 3,00,000.

(vi) Interest payable on debentures half-yearly on 30th September and 31st March.

(vii) Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2014 (including cash and bank entries). **[8]**

7. **(a)** The following information has been obtained from the books of a lesee relating to the years 2010-11 to 2013-14 :

Payments to Landlord (after tax deducted @ 20% at Source):

	2010-11	₹ 12,000
	2011-12	₹ 12,000
	2012-13	₹ 12,000
	2013-14	₹ 19,200
Short-working recovered :	2011-12	₹ 2,500
	2012-13	₹ 1,000
Short-working written-off :	2012-13	₹ 500

Balance of Short-working Account forward on April 1, 2012 ₹ 800 (which are in 2010-11). According to the terms of agreement short-working is recoverable within the next two years following the year in which short-working arises.

You are required to show the necessary accounts in the books of the lessee for the four years ended 31st March 2014. **[10]**

(b) From the following particulars of Mitali Ltd. you are required to calculate the Managerial Remuneration in the following situations:

(i) There is only one Whole Time Director.

(ii) There are two Whole Time Directors.

(iii) There are two Whole Time Directors, a part time Director and a Manager.

Particulars	₹
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	8,70,410
Depreciation provided in the Books	3,10,000
Provision for Repairs for Machinery during the year	25,000
Depreciation Allowable under Schedule XIV	2,60,000
Actual Expenditure incurred on Repairs during the year	15,000

[5]

8. Write short notes on any three: **[3×5=15]**

(a) Classification of Branches for Branch accounting purpose;
(b) Classification of investments by a banking company;
(c) Commission on Re-insurance;
(d) Over/Under Subscription;
(e) Business Entity Concept.