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) Jhilam and Punam are partners, sharing profit or low in the ratio 3 : 2. They admit Nilam for 1/6th share of profits in the firms of which she takes 2/3rd from Jhilam and 1/3rd from Punam. Find the new profit sharing ratio.

(ii) Following information are obtained from the books of a club:

- Subscription received during the year ending 31st March, 2014 ₹ 2,56,000, out of which ₹ 8,000 was for the year 2014-15 and ₹ 11,000 for the year 2012-13.
- Subscription was outstanding on 01.04.2013 ₹18,000 and on 31.03.2014 for 2013-14 ₹ 21,000. Calculate the amount of subscription to be credited to Income and Expenditure Account for the year ending 31.03.2014.

(iii) Prakash, lessee of a coal mine with rent of ₹ 30,000 a year and with a rate of royalty at ₹ 5 per ton of coal extracted. If the production in the first year is 4,000 tons, find rent payable.

(iv) Lakshmi Bhandar Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any interest since March 2008:

Balance outstanding out off term loan on 31.03.2014	₹ 90 Lakhs
DICGC Cover	40%
Securities held	₹ 40 Lakhs
Realizable value of securities	₹ 36 Lakhs

You are required to compute the necessary provisions to be made for the year ended 31st March, 2014.

(v) The fair value of Plan assets of Vipul Ltd. at beginning and end of the year 2013-2014 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000. What would be the actual return on plan assets (as per AS- 15)?

(b) Fill in the blanks in the following sentences using appropriate word: **[5×1=5]**

(i) Debenture holders are of a ___________ company.
(ii) In Branch Accounting system, the Branch prepares the periodic returns based on which the accounting records are maintained at the ————— office.
(iii) The contract of insurance is a contract of__________.
(iv) Capital is shown on the liability side because of ____________ concept.
(v) Current Ratio is a __________ Ratio.

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

(i) For Sales Return at Branch, in case of dependent branches, entry to be passed in HO books,
(A) Debit Branch Debtors A/c, Credit Branch Stock A/c.
(B) Debit Branch Stock A/c , Credit Branch Debtors A/c.

(C) Debit Sales A/c, Credit Branch Debtors A/c.
(D) Debit Sales A/c, Credit Branch Stock A/c.

(ii) Which of the following is treated as contingent liability as per AS 4?
(A) Obligations under retirement benefit plan.
(B) Commitments arising from long term lease contract.
(C) Arrears of fixed cumulative dividends.
(D) Liabilities of Life and General Insurance out of policies issued by enterprise.

(iii) Which of the following is not an unsecured loan in Balance sheet of a Company?
(A) Acceptance of Fixed Deposits.
(B) Creation of Sinking Funds.
(C) Loans and advances from others.
(D) Short term loans from Banks.

(iv) Any profit prior to incorporation may be:
(A) Credited to Capital Reserve A/c.
(B) Debited to Goodwill A/c.
(C) Debited to Suspense A/c.
(D) None of the above.

(v) Which of the following terms is related to Accounts of Electricity Companies?
(A) Clear profit.
(B) Work uncertified.
(C) NPA.
(D) Claims outstanding.

(d) Match the following in Column I with the appropriate in Column II: **[1x5=5]**

Column I	Column II
(i) Repossess the goods	(A) AS-10
(ii) Non Performing Assets	(B) Banking Companies
(iii) Intangible Assets	(C) Piecemeal distribution
(iv) Related Party Disclosures	(D) Hire Purchase System
(v) Maximum Loss Method	(E) AS-18
	(F) No matching statement found

2. (a) Raja makes up his annual accounts to 31st December every year. He was unable to take stock of physical inventory till 9th January 2014 on which date the physical stock at cost was valued at ₹ 75,200.

You are required to ascertain the value of stock at cost on 31st Dec. 2013, from the following information regarding the period from 1st January 2014 to 9th January 2014:

(i) Purchases of goods amounted to ₹ 25,600 of which goods worth ₹ 4,700 had been received on 28.12.2013 and goods worth ₹ 5,900 had been received on 12.1.2014.
(ii) Sales of goods amounted to ₹ 38,400 of which goods of a sale value of ₹ 3,600 had not been delivered at the time of verification and goods of a sale value of ₹ 6,000 had been delivered on 29.12.2013.
(iii) Sales return amounted to ₹ 1,800 which included a return of ₹ 720 relating to the goods sold and delivered between 1.1.2014 to 9.1.2014.
(iv) A sub-total of ₹ 12,000 on one of the stock sheets had been carried to the summary of stock sheet as ₹ 21,000.

(v) In respect of goods costing ₹ 4,000 received prior to 31st December 2013, invoices had not been received up to the date of verification of stock.

(vi) The rate of gross profit was 20% on the cost price. **[6]**

(b) ABC Ltd. Issue 1,00,000 equity shares of ₹ 10 each (fully paid up) in consideration for supply of a Machinery by MNP Ltd. The shares exchanged for machinery are quoted on National Stock Exchange (NSE) at ₹25 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of company. **[4]**

(c) From the following information , as furnished by Badal Ltd. , calculate its Net cash flow from the Financing Activities for the year that ended on 31st March, 2014:

Particulars	31st March 2013 Amount (₹)	31st March 2014 Amount (₹)
Equity Share Capital	6,00,000	10,00,000
Preference Share Capital	4,00,000	2,00,000
Debentures	4,00,000	5,00,000

During the year 2013-14 debentures of ₹2,00,000 were redeemed for cash and debenture interest paid was ₹60,000. Preference Dividend paid was ₹40,000 and equity dividend paid was ₹80,000. **[5]**

3.(a) Distinguish between Profit and Loss Account and Income & Expenditure Account. **[4]**

(b) Khush Raho Insurance Co. Ltd. furnishes you the following information:

(i) On 31.3.2013 it had reserve for unexpired risks to the tune of ₹80 crore. It comprised of ₹30 crore in respect of machine insurance business; ₹20 crore in respect of fire insurance business and ₹5 crore in respect of miscellaneous insurance business.

(ii) It is the practice of Khush Raho Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium in respect of fire and miscellaneous insurance business.

(iii) During the year 31st March, 2014 the following business was conducted:

	Marine ₹ crores	Fire ₹ crores	Miscellaneous ₹ crores
Premia collected from:			
a. Insured (other than insurance companies) in respect of policies issued	36	86	24
b. Other insurance companies in respect of risks undertaken	14	10	8
Premia paid/payable to other insurance companies on business ceded	13.4	8.6	14

Khush Raho Insurance Co. Ltd. asks you to:

(i)Pass journal entries relating to "unexpired risks reserve"

(ii)Show in columnar form Unexpired Risks Reserve Account for the year ended 31st March, 2014. **[8]**

(c) State in brief the three fundamental accounting assumptions. **[3]**

4. (a) From the following information relating to Best Standard Ltd., prepare a Balance Sheet as on 31.3.2014.

Gross Profit	25% of sales
Gross Profit	₹12,00,000
Share holders equity	₹2,00,000
Credit sales to total sales	80%
Total turnover to total assets	4 times
Cost of sales to inventory	10 times
Average collection period	5 days, assume 365 days in a year
Long-term Debt	?
Current ratio	1.5
Current Assets	₹6,00,000

[9]

(b) State the advantages of Double Entry System of accounting. **[6]**

5.(a) The firm of Kapil and Dev has four partners and as on 31st March, 2013, its Balance Sheet stood as follows:

Balance Sheet as at 31st march, 2013

Liabilities	₹	₹	Assets	₹
Capital A/cs:			Land	50,000
F. Kapil	2,00,000		Building	2,50,000
S. kapil	2,00,000		Office equipment	1,25,000
R. Dev	1,00,000	5,00,000	Computers	70,000
Current A/cs:			Debtors	4,00,000
F. Kapil	50,000		Stocks	3,00,000
S. kapil	1,50,000		Cash at Bank	75,000
R. Dev	1,10,000	3,10,000	Other Current assets	22,600
Loan form NBFC		5,00,000	Current A/c:	
Current Liabilities		70,000	B. Dev	87,400
		13,80,000		13,80,000

The partners have been sharing profits and losses in the ratio of 4: 4: 1: 1. It has been agreed to dissolve the firm on 1.4.2013 on the basis of the following understanding:

- The following assets are to be adjusted to the extent indicated with respect to the book values: Land—200%; Building—120%; Computers—70%; Debtors—95%; Stocks—90%.
- In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.
- B.Dev is insolvent and no amount is recoverable from him. His father, R. Dev, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

Assuming that the realization of the assets and discharge of liabilities is carried out immediately, show the Cash Account, Realization Account and the Partners' Accounts. **[8]**

(b) Prepare Branch account in the books of the Head Office and also debtors account from the following information given below: for the year 2013.

The Unique Shoe Stores has an old branch at Kanpur. Goods are invoiced at the branch at 25% profit on cost price. The branch has been instructed to send all cash daily to the Head Office. All expenses are paid by the Head Office except petty expenses which are met by the Branch Manager.

Particulars		₹
Stock on 01.01.2013 (invoice price)		15,000
Sundry debtors on 01.01.2013		9,000
Cash in hand on 01.01.2013		400
Office furniture on 01.01.2013		1,200
Goods supplied by the Head Office (invoice price) for year		80,000
Goods returned to Head Office for year		1,000
Goods returned by debtors at the end of year		480
Debtors at the end of year		8,220
Cash sales for year		50,000
Credit sales for year		30,000
Discount allowed for year		300
Expenses paid by Head Office: for year	₹	
Rent	1,200	
Salary	2,400	
Stationery	300	3,900
Petty expenses paid by Branch Manager during year		280
Stock on 31.12.2013		14,000
Provide depreciation on furniture at 10% per year		

[5+2=7]

6. **(a)** On 01.01.2012 Satabdi purchased 3 machines from Susobhan Traders under hire purchase. The Cash Price of each machine was ₹ 60,000. Payments for each machine were to be made as ₹15,480 down and the balance by 5 annual installments of ₹10,000 each payable on 31st December every year. Interests were to be reckoned at 4% per annum.
Satabdi, who provided depreciation @ 10% p.a. on the written down value, could not pay the installment due on 31.12.2013. Susobhan Traders took possession of 2 machines and valued those at their own books after charging 15% as annual depreciation under the straight line method. On 15.01.14 it incurred ₹3,000 for repairing the repossessed machines and on 20.01.14 it sold out each of these machines at ₹50,000.
Show Satabdi Account and Re-possessed Stock Account in the books of Susobhan Traders. **[10]**

(b) X Ltd has three departments A, B and C. From the particulars given below, compute the Departmental results.

Particulars	A(₹)	B(₹)	C(₹)
Opening Stock	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual Sales	1,72,500	1,59,400	74,600
Gross Profit on Normal selling price	20%	25%	$33\frac{1}{3}\%$

During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

Particulars	A(₹)	B(₹)	C(₹)
Sales at Normal Price	10,000	3,000	1,000
Purchases	7,500	2,400	600

[5]

7. **(a)** Tilton Ltd. furnishes the following Balance Sheet as at 31st March:

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
Equities and Liabilities			
Shareholders' Funds			
Share Capital:			
2,50,000 Equity Shares of ₹10 each fully paid up		25,00,000	
2,000 12% Preference Shares of ₹100 each (Issued 2 months back for the purpose of Buyback)		2,00,000	
Reserves and Surplus			
Capital Reserve		10,00,000	
Revenue Reserve		30,00,000	
Securities Premium		22,00,000	
Profit and Loss A/c		35,00,000	
Current Liabilities		14,00,000	
Total		1,38,00,000	
Assets			
Non-current Assets			
Fixed Assets		93,00,000	
Non-current Investments		30,00,000	
Current Assets		15,00,000	
Total		1,38,00,000	

The company passed resolution to buyback 20% of its Equity Shares Capital at ₹50 per share. For this purpose, it sold all of its Investments for ₹21,50,000. You are required to pass necessary Journal Entries. **[9]**

(b) On 25th September, 2013, Mujhko Pehchano Advertising Ltd. obtained advertisement rights to World Cup Hockey Tournament to be held in Dec, 2013 for ₹520 lakhs.
They furnish the following information:

- The company obtained the advertisements for 70% of available time for ₹700 lakhs by 30th September, 2013.
- For the balance time they got bookings in October, 2013 for ₹240 lakhs.
- All the advertisers paid the full amount at the time of booking the advertisements.
- 40% of the advertisements appeared before the public in Nov. 2013 and balance 60% appeared in the month of December, 2013.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2013 as per Accounting Standard-9. **[6]**

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

(a) Partial Repossession;
(b) Factors on which Depreciation Depends;
(c) Accounting convention of consistency;
(d) Rebate on Bills Discounted;
(e) Objectives of Financial Statements.