INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS
JUNE 2012

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 are compulsory and* **any five** *questions from the rest.*

Q. 1. (a) From the four alternative answers given against each of the following cases, indicate the correct answer : [1×10=10]

(i) Which of the following items is shown in the Income and Expenditure Account?

(A) Only items of capital nature

(B) Only items of revenue nature which are received during the year

(C) Only items of revenue nature pertaining to the period of accounts

(D) Both the items of capital and revenue nature

(ii) A heavy revenue expenditure, which helps to generate revenue over more than one accounting year is termed as

(A) Preliminary Expenditure

(B) Revenue Expenditure

(C) Prepaid Expenditure

(D) Deferred Revenue Expenditure

(iii) During the year ₹ 96,000 was Debited as salary in the Income Expenditure Account. There was outstanding on Salary Account at the beginning and at the end of the year were ₹ 12,000 and ₹ 15,000 respectively. The amount of salary paid shown in Receipt and Payments Account would be

(A) ₹ 84,000

(B) ₹ 81,000

(C) ₹ 93,000

(D) None of the above

(iv) Bank Reconciliation Statement is
(A) Ledger Account
(B) Part of Cash Book
(C) A separate statement
(D) A sub-division of Journal

(v) A firm employs ₹ 2,00,000 as Capital and the normal rate of return is 10%. If the firm makes an average profit of ₹ 30,000 per year, the value of Goodwill by considering it as the purchase of 3 years super profit will be :
(A) ₹ 25,000
(B) ₹ 20,000
(C) ₹ 30,000
(D) None of the above

(vi) The capital of a Company comprises of equity shares of ₹ 10 each amounting to ₹ 10 lakhs and 10% Preference Shares of ₹ 2 lakhs. Profit after tax for the year is ₹ 4 lakhs. Dividend declared is @ 25% and current market price of Equity Share is ₹ 80 each. The Price-earning ratio is
(A) 20 times
(B) 21.5 times
(C) 22.1 times
(D) None of the above

(vii) Goods are sent to the Branch at cost plus 25%. The loading on invoice price is
(A) 20%
(B) 25%
(C) 30%
(D) None of the above

(viii) Dual concept in accounting results in the following equation :
(A) Capital + Liability = Assets
(B) Revenue = Expenses
(C) Capital + Profit = Assets
(D) Total Assets = Total Liability

(ix) Under which of the following heads is claims against a Company not acknowledged as debts shown?
(A) Unsecured Loan
(B) Current Liability
(C) Current Assets
(D) Contingent Liability

(x) Which of the following will be the highest amount?
(A) Paid-up Capital
(B) Authorised Capital
(C) Subscribed Capital
(D) Reserve Capital

(b) State whether the following statements are TRUE (T) or FALSE (F) : [1×5=5]

(i) Excess of hire-purchase price over cash price is known as penalty imposed on hire purchaser by the vendor.

(ii) Every Banking Company incorporated in India is required to transfer at least 20% of its profit to Reserve fund.

(iii) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.

(iv) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.

(v) Wages incurred by departmental workers of a factory in installing a new machinery is a revenue expenditure.

(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 with __________ (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) Garner Vs Murray Rule	(C) Cash Flow Statement
(iv) AS-17	(D) Dissolution of Partnership
(v) AS-12	(E) Earning per Share
	(F) No matching statements found

Answer 1. (a)

(i) (C) — Income & Expenditure Account is the summary of income and expenditure for the accounting year. It includes only revenue items and the balance at the end represents surplus or deficit.

(ii) (D) — Deferred Revenue Expenditures are those expenditures which have been incurred in an accounting period and they do not create any assets but their benefit is spread in more than one accounting period. Eg. Advertisement Cost .

(iii) (C) — ₹ 96,000 – (15,000 – 12,000) = ₹ 96,000 – ₹ 3,000 = ₹ 93,000.

(iv) (C) — Periodically, a statement is prepared called **bank reconciliation statement** to find out the reasons for disagreement between the bank statement balance and the cash book balance of the bank, and to test whether the apparently conflicting balance do really agree.

(v) (C) — Value of Goodwill = 3 × [30,000 – 10% of 2,00,000] = ₹ 30,000.

(vi) (D) — $\text{EPS} = \frac{4,00,000 - (10\% \text{ of } 2,00,000)}{1,00,000} = \frac{3,80,000}{1,00,000} = 3.8$

$\frac{\text{MPS}}{\text{EPS}} = \frac{80}{3.8} = 21.05$ times.

(vii) (A) — Loading on invoice price = $\frac{25}{125} \times 100 = 20\%$.

(viii) (A) — The term 'assets' denote the resources owned by a business while the term 'equities' denotes the claims of various parties against the assets. Equities are of two types. They are owners equity and outsiders equity. Owner's equity (or capital) is the claim of the owner's against the assets of the business while outsiders equity (liabilities) is the claim of outside parties against the assets of the business. Since all assets of the business are claimed by someone (either owners or outsiders), the total of assets will be equal to total of liabilities. Thus :

OR Liabilities + Capital = Assets

(ix) (D) — A contingent liability is a potential liability. It depends on a future event occurring or not occurring, a contingent liability and the related contingent loss are recorded with a journal entry only if the contingency is both *probable* **and** the *amount can be estimated*.

If a contingent liability is only *possible* (not probable), or if the amount cannot be estimated, a journal entry is not required. However, a disclosure is required.

When a contingent liability is *remote* then neither a journal nor a disclosure is required.

(x) (B) — The **authorised capital** of a company is the maximum amount of share capital that the company is authorised by its constitutional documents to issue (allocate) to shareholders. Part of the authorised capital can (and frequently does) remain unissued.

Answer 1. (b)

(i) (F) — The excess price is known as loading.

(ii) (T) — This is done as per section 17, (Banking Regulation Act, 1949)

(iii) (T) — The amount of depreciation is accumulated in a separate fund called sinking fund.

(iv) (T) — The basic accounting priciple of conservatism leads accountants to anticipate or disclose losses, but it does not allow a similar action for gains. For example, *potential* losses from lawsuits will be reported on the financial statements or in the notes, but *potential* gains will not be reported.

(v) (F) — The wages are part of installation cost and should be capitalised with value of machinery.

Answer 1. (c)

(i) Equally

(ii) Seller

(iii) in the foreseeable future

(iv) Capital

(v) Error of omission

Answer 1. (d)

(i)	AS-3	—	(C)	Cash Flow statement
(ii)	AS-20	—	(E)	Earning per share
(iii)	Garner Vs Murray Rule	—	(D)	Dissolution of Partnership
(iv)	AS-17	—	(B)	Segmental Reporting
(v)	AS-12	—	(A)	Accounting for Government grants

Q. 2. (a) Your are provided with the following information for AD Vita Ltd. for the year : [6]

(i)	Net Profit before provision for income tax and Managerial remuneration, but after Depreciation	₹ 13, 87,600
(ii)	Depreciation provided in the Books	₹ 4,15,000
(iii)	Depreciation allowable under Schedule XIV	₹ 3,09,000

You are required to calculate the Managerial remuneration

(i) when there is only one whole-time Directors

(ii) when there are two whole-time Directors

(iii) when there are two whole-time Directors and one Manager.

(b) X's accounting year ends on 30.06.2011 but actual stock was not taken till 08.07.2011 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 01.07.2011 to 08.07.2011 are ₹ 34,400

(iv) Purchases invoiced from 01.07.2011 to 08.07.2011 are ₹ 2,640 out of which goods ₹ 240 was not received upto 08.07.2011.

(v) Invoices for goods purchased upto 30.06.2011 were of ₹ 2,000 of which goods worth ₹ 1,400 were received between 01.07.2011 to 08.07.2011

(vi) Rate of G.P. 33.33% on cost.

Find out the value of stock on 30.06.2011. [6]

(c) Briefly describe the two types of accounting methods of Amalgamations as per AS-14. [3]

Answer 2. (a)

Calculation of Net Profit U/S 349 of the Company's Act, 1956 :

Particulars	₹
Net Profit before provision of Income Tax and managerial Remuneration, but after Depreciation	13,87,600
Add Back: Depreciation provided in the Books	4,15,000
	18,02,600
Less: Depreciation allowable under schedule XIV	3,09,000
Profit under Sec 349	14,93,600

Calculation of Managerial Remuneration :

(i) One whole-time Director = 5% of Profit = ₹ 74,680

(ii) two whole-time Directors = 10% of Profit = ₹ 1,49,360

(iii) two whole-time Directors and one Manager 1 = 11% of profit = ₹ 1,64,296

Note : The total managerial remuneration payable by a public company or a private company which is a subsidiary of a public company, to its directors and its managing agent, secretaries and treasurers or manager in respect of any financial year shall not exceed eleven per cent. of the net profits of that company for that financial year computed in the manner laid down in sections 349, 350 and 351, except that the remuneration of the directos shall not be deducted from the gross profits : Provided that nothing in this section shall affect the operation of sections 352 to 354 and 356 to 360.

Answer 2. (b)

Statement of valuation of stock as on 30.06.2011

	₹
Value of stock as on 8.07.2011	29,700
Add: Cost of goods sold from 1.7.2011 to 8.7.2011 (75% of ₹ 34,400)	25,800
Purchases 'invoiced' up to 30.06.2011 though goods not received till 08.07.2011 (₹ 2,000 – ₹ 1,400)	600
	56,100
Less : Cost of goods purchased and received during the period from 1.7.2011 to 8.7.2011 (₹ 2,640 – ₹ 240)	2,400
	53,700

Note : Rate of G.P. is 33.33% on cost.

Therefore, Cost = 1/1.3333 or 75% of sales.

Answer 2. (c)

The two types of Accounting methods used for amalgamations are (i) Pooling of interest method; and (ii) Purchase method.

In pooling of interest method all assets and liabilities of the transferor are taken line by line except the share capital. If purchase consideration is more than share capital (equity plus preference) of the transferee company, it will be adjusted with results. No goodwill arise since the purchase consideration is with reference to share capital. If purchase consideration is less than share capital it is recognized as capital reserve.

In purchase method, the assets and liabilities are recorded at the existing carrying amount or by allocating the consideration to individual identifiable assets and liabilities at fair value on the date of amalgamation. If the purchase consideration is more than the value of net asset acquired, it is to be recognized as goodwill. In a reverse situation it is capital reserve which cannot be transferred to general reserve.

Q. 3. (a) Kailash took a mine on lease from Jagdish for five years at a royalty of ₹ 20 per tonne subject to a minimum rent of ₹ 80,000 per annum. Minimum rent paid in excess of actual royalties is recoverable throughout during the next three years succeeding the year in respect of which excess was paid. In the event of a strike, the minimum rent will be reduced proportionately in relation to time lost. The first year in respect of which the minimum rent was payable expired on 31st March, 2008. The excess paid in respect of the first year was ₹ 80,000 and in respect of the second year ₹ 50,000. In the third year the actual royalties amounted to ₹ 1,15,000, in the fourth year ₹ 50,000 (in consequence of strike which lasted for 146 days) and in the fifth year ₹ 1,60,000 only.

Prepare the Royalty Account, Short workings Account and Jagdish's Account in the Ledger of Kailash. [8]

(b) Classify the following accounts into Personal, Real and Nominal accounts :

(i) Patent Rights A/c (ii) Drawing A/c (iii) Purchases A/c (iv) Prepaid Insurance A/c (v) Donation A/c (vi) Bank Overdraft A/c [3]

(c) Calculate Stock Turnover Ratio in the following cases :

(i) Opening Stock ₹ 87,000; Closing Stock ₹ 93,000; Sales ₹ 9,60,000; Gross Profit @$33^{1/3}$% on cost.

(ii) Credits Sales ₹ 15,00,000; Cash Sales @25% of Credit Sales; Gross Profit @25% on cost; Opening Stock ₹ 2,50,000; Closing Stock ₹ 7,50,000. [2+2=4]

Answer 3. (a)

Analysis Table

Year	Minimum Rent	Actual Royalty	Shortworkings(-) or Excess workings(+)	Shortworkings		Actual Payment	Closing Balance of S.W.
				Recouped	Transferred to P&L A/c.		
	₹	₹	₹	₹	₹	₹	₹
2007-08	80,000	—	(-) 80,000	—	—	80,000	80,000
2008-09	80,000	30,000	(-) 50,000	—	—	80,000	1,30,000
2009-10	80,000	1,15,000	+ 35,000	35,000	—	80,000	95,000
2010-11	48,000	50,000	+2,000	2,000	43,000	48,000	50,000
2011-12	80,000	1,60,000	+ 80,000	50,000	—	1,10,000	—

Ledger of Kailash :

Dr. **Royalty Payable Account** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
31.03.09	To Jagdish	30,000	31.3.09	By Profit & Loss a/c	30,000
31.03.10	To Jagdish	1,15,000	31.3.10	By Profit & Loss a/c	1,15,000
31.3.11	To Jagdish	50,000	31.3.11	By Profit & Loss a/c	50,000
31.3.12	To Jagdish	1,60,000	31.3.12	By Profit & Loss a/c	1,60,000

Dr. **Shortworkings Account** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
31.3.08	To Jagdish	80,000	31.3.08	By Balance c/d	80,000
1.4.08	To Balance b/d	80,000	31.3.09	By Balance c/d	1,30,000
31.3.09	To Jagdish	50,000			
		1,30,000			1,30,000
1.4.09	To Balance b/d	1,30,000	31.3.10	By Jagdish	35,000
			,,	By Balance c/d	95,000
		1,30,000			1,30,000
1.4.10	To Balance b/d	95,000	31.3.11	By Jagdish	2,000
			,,	By Profit & Loss a/c	43,000
			,,	By Balance c/d	50,000
		95,000			95,000
1.4.11	To Balance b/d	50,000	31.3.12	By Jagdish	50,000

Dr. **Jagadish's Account** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
31.3.08	To Bank a/c	80,000	31.3.08	By Short workings	80,000
31.3.09	To Bank a/c	80,000	31.3.09	By Royalty a/c	30,000
			,,	By Short working a/c	50,000
		80,000			80,000
31.3.10	To Bank a/c	80,000	31.3.10	By Royalty a/c	1,15,000
,,	To Short workings a/c	35,000			
		1,15,000			1,15,000
31.3.11	To Bank a/c	48,000	31.3.11	By Royalty a/c	50,000
,,	To Short workings	2,000			
		50,000			50,000
31.3.12	To Bank a/c	1,10,000	31.3.12	By Royalty a/c	1,60,000
,,	To Short working	50,000			
		1,60,000			1,60,000

Answer 3. (b)

(i) Patent Rights a/c — Real a/c
(ii) Drawings a/c — Personal a/c
(iii) Purchases a/c — Nominal a/c
(iv) Prepaid Insurance a/c — Personal a/c
(v) Donation a/c — Nominal a/c
(vi) Bank Overdraft a/c — Personal a/c

Answer 3. (c)

Stock turnover Ratio= $\frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$

(i) Cost of Goods Sold = Sales ₹ 9,60,000 – G.P. $9{,}60{,}000 \times \frac{33\frac{1}{3}}{133\frac{1}{3}}$

= ₹ (9,60,000 – 2,40,000) = ₹ 7,20,000

Average Stock = $\frac{₹\,(87{,}000+93{,}000)}{2}$ = ₹ 90,000

Stock Turnover Ratio = $\frac{₹\,7{,}20{,}000}{₹\,90{,}000}$ = 8 Times

(ii) Total Sales = Credit Sales ₹ 15,00,000 + Cash Sales (25% of 15,00,000 Credit Sales)

= ₹ 15,00,000 + 3,75,000 = ₹ 18,75,000

Cost of Goods Sold $= ₹\ (18{,}75{,}000 - \text{G.P } 18{,}75{,}000 \times \frac{25}{125})$

$= ₹\ (18{,}75{,}000 - 3{,}75{,}000) = ₹\ 15{,}00{,}000$

Average Stock $= \frac{₹\ (2{,}50{,}000 + 7{,}50{,}000)}{2} = ₹\ 5{,}00{,}000$

Stock Turnover Ratio $= \frac{₹\ 15{,}00{,}000}{₹\ 5{,}00{,}000} = 3$ Times

Q. 4. (a) X and Y are partners in a firm sharing profit/loss in the ratio 5:3. They admit their manager Z in the firm for 1/4th share in profit, which would be not less than the remuneration received by him as Manager. As Manager, Z is entitled for a salary of ₹ 32,000 per quarter and a commission of 10% on the net profit after charging such salary and commission. If the profit of the firm for the year ended 31 st March, 2012 amounted to ₹ 4,80,000, show the distribution of firm's profit among the partners. [5]

(b) Oxford Library Society showed the following position on 31 st March, 2011:

Balance Sheet as on 31 st March, 2011

Liabilities	₹	*Assets*	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investments in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The Receipts and Payment Account for the year ended on 31st March, 2012 is given below :

Receipts		₹	**Payments**	₹
To Balance b/d			By Electric charges	7,200
Cash at bank	25,000		By Postage and stationery	5,000
Cash in hand	25,000	50,000	By Telephone charges	5,000
To Entrance fees		30,000	By Books purchased (April, 2011)	60,000
To Membership subscription		2,00,000		
To sale proceeds of old papers		1,500	By outstanding expenses paid	7,000
To hire of Lecture Hall		20,000	By Rent	88,000
To interest on securities		8,000	By Investment in securities	40,000
			By Salaries	66,000
			By Balance c/d	
			Cash at bank	20,000
			Cash in hand	11,300
		3,09,500		3,09,500

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2012 and a Balance Sheet as at 31 st March, 2012 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 3000.

Books to be depreciated @10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ ₹ 5% p.a. including purchases made on 01.10.2011 for ₹ 40,000. [10]

Answer 4. (a)

Z's share of profit = ₹ 4,80,000 $\times \frac{1}{4}$ = ₹ 1,20,000

Z's Remuneration as a manager :

Salary ₹ 32,000 × 4 quarters =	₹ 1,28,000
Commission = ₹ (4,80,000 – 1,28,000) = ₹ 3,52,000 $\times \frac{10}{110}$ =	₹ 32,000
	₹ 1,60,000

Hence, Z is entitle for ₹ 1,60,000 and remaining profit ₹ 3,20,000 will be divided between X and Y in the ratio of 5:3

X's share of profit $3{,}20{,}000 \times \frac{5}{8}$ = ₹ 2,00,000

Y's share of profit $3{,}20{,}000 \times \frac{3}{8}$ = ₹ 1,20,000

Dr. **Profit and loss Appropriation A/c for the year ending 31st March, 2012** ***Cr.***

Particulars	₹	Particulars	₹
To X's capital a/c	2,00,000	By Profit for the year	4,80,000
To Y's capital a/c	1,20,000		
To Z's capital a/c	1,60,000		
	4,80,000		4,80,000

Answer 4. (b)

Working Notes :

1. **Depreciation**

		₹
Electrical fittings	10% of ₹ 1,50,000	15,000
Furniture	10% of ₹ 50,000	5,000
Books	10% of ₹ 4,60,000	46,000

2. Interest on Securities

Interest @5% p.a. on ₹ 1,50,000 for full Year	7,500	
Interest @5% p.a. on ₹ 40,000 for half Year	1,000	8,500
Less : Received		8,000
Receivable		500

Oxford Library Society

Income and Expenditure Account

For the year ended 31st March, 2012

Dr. ***Cr.***

Expenditure	₹	₹	Income	₹	₹
To Electric charges		7,200	Entrance fees (25% of ₹ 30,000)		7,500
To Postage and Stationery		5,000			
To Telephone charges		5,000	Membership Subscription	2,00,000	
To Rent	88,000		Less : Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000	Sale proceeds of old papers		1,500
To Salaries	66,000		Hire of lecture hall		20,000
Add: Outstanding	3,000	69,000	Interest on securities	8,000	
To Depreciation (W.N. 1)					
Electrical fittings	15,000		Add: Receivable (W.N. 2)	500	8,500
Furniture	5,000		Deficit-Excess of		16,700
Books	46,000	66,000	Expenditure over income		
		2,44,200			2,44,200

Balance Sheet of Oxford Library Society
As on 31st March, 2012

Liabilities	₹	₹	Assets	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		*Less* : Depreciation	15,000	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of Expenditure over income	16,700	7,98,800	*Less* : Depreciation	5,000	45,000
			Books	4,60,000	
Outstanding expenses:			Less: Depreciation	46,000	4,14,000
Rent	4,000		Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership Subscription in advance		10,000	*Add* : Accrued interest	500	1,90,500
			Cash at Bank		20,000
			Cash in hand		11,300
		8,15,800			8,15,800

Q. 5. (a) Ram, Rahim and Robert are partners of the firm ABC & Co-sharing profits and losses in the ratio of 5:3:2. The Balance Sheet of the firm as on 01.04.2012 is given below:

Liabilities	₹	*Assets*	₹
Partners Capital:		Goodwill	50,000
Ram	3,00,000	Machinery	4,55,000
Rahim	2,50,000	Furniture	10,000
Robert	2,00,000	Stock	2,00,000
General Reserve	1,05,000	Debtors	3,00,000
Loan	95,000	Cash & Bank	35,000
Sundry Creditors	1,00,000		
	10,50,000		10,50,000

Partners of firm decided to dissolve the firm. The firm decided to settle the loan creditors directly. Ram took over goodwill for ₹ 75,000. Rahim took over machinery and furniture at 90% of book value and sundry creditors at book value.

Robert took over stock at 95% of book value and debtors at 90% of the book value. Partners have to pay cash if the assets taken over had exceeded the amounts due to them.

Prepare : (i) Realisation Account;

(ii) Partners Capital Account; and

(iii) Cash Account of the firm to show the dissolution proceedings. [10]

(b) You are provided with the following figures from the Financial Reports and Balance Sheet of Narhari Co. Ltd. as at 31 st March, 2012 :

	₹
Stock	30,000
Sundry Debtors	8,000
Investments	4,000
Cash and Bank Balances	8,000
Fixed Assets	36,000
Sundry Creditors	10,000
Bank Overdraft	3,000
Current Year Taxation	2,000

You are required to calculate :

(i) Current Ratio;

(ii) Quick ratio and also give your comments. [5]

Answer 5. (a)

(i) **In the books of ABC & Co.**

Dr. **Realisation Account** *Cr.*

Particulars	₹	Particulars	₹
To Goodwill	50,000	By Loans	95,000
To Machinery	4,55,000	By Sundry creditor	1,00,000
To Furniture	10,000	By Ram's capital A/c	
To Stock	2,00,000	(take over of goodwill)	75,000
To Debtors	3,00,000	By Rahim's capital A/c	
		(for taking over machinery and furniture)	4,18,500
		By Robert's capital A/c	
		(for stock and debtors taken by him)	4,60,000
To Rahim's capital A/c	1,00,000	By Realisation loss transferred	
(For agreeing to settle		Ram	30,750
sundry creditors)		Rahim	18,450
To Bank (loan settled)	95,000	Robert	12,300
	12,10,000		12,10,000

(ii)

Dr. **Partners Capital Account** *Cr.*

Particulars	Ram	Rahim	Robert	Particulars	Ram	Rahim	Robert
To Realisation A/c (for assets taken over)	75,000	4,18,500	4,60,000	By Balance b/d.	3,00,000	2,50,000	2,00,000
To Realisation A/c (loss)	30,750	18,450	12,300	By General reserve	52,500	31,500	21,000
To Cash	2,46,750			By Realisation A/c		1,00,000	
				By Cash		55,450	2,51,300
	3,52,500	4,36,950	4,72,300		3,52,500	4,36,950	4,72,300

(iii) **Cash & Bank Account**

Dr. *Cr.*

Particulars	₹	Particulars	₹
To Balance b/d.	35,000	By Loans	95,000
To Rahim Capital A/c	55,450	By Ram capital A/c	2,46,750
To Robert Capital A/c	2,51,300		
	3,41,750		3,41,750

Answer 5. (b)

Test of Liquidity :

1. Current ratio $= \dfrac{\text{Stock}+\text{Debtors}+\text{Investment}+\text{Cash}}{\text{Creditors}+\text{Overdraft}+\text{Prov. for current Tax}}$

$$= \frac{30{,}000+8{,}000+4{,}000+8{,}000}{10{,}000+3{,}000+2{,}000} = \frac{50{,}000}{15{,}000} = 10:3$$

   Current ratio is good because current assets are higher by 3 times of current liabilities.

2. Quick ratio = Quick assets/Current liabilities

$$= \frac{\text{Debtors}+\text{Investment}+\text{Cash}}{\text{Creditors}+\text{Overdraft}+\text{Prov. for current tax}}$$

$$= \frac{8{,}000+4{,}000+8{,}000}{10{,}000+3{,}000+2{,}000} = 20{,}000/15{,}000 = 4:3$$

   If quick ratio is 1:1 then position is said to be satisfactory. In this case it is more than three and hence liquidity of the company is sound.

Note : It is assumed that investments are for short term.

Q. 6. (a) Purchase made by a business concern having three departments were: P-1,500 units; Q-3,000 units and R-3,600 units at a total cost of ₹ 6,00,000. The sales made were P-1,530 units at the rate of ₹ 160 per unit; Q-2,880 units at the rate of ₹ 180 per unit and R-3,744 units at the rate of ₹ 200 per unit. The closing stocks were: P-150 units; Q-240 units and R-9 units.

Prepare Departmental Trading Account assuming that the rate of gross profit on sales is the same in each case. [8]

(b) Show what journal entries would be passed by the Jaipur Head Office to record the following transactions in their Books on 31st March, 2012, the closing date :

(i) A remittance of ₹ 35,000 made by Sikar Branch to Head Office on 29th March, 2012 and received by the Head Office on 5th April, 2012.

(ii) Goods of ₹ 63,000 sent by the Head Office to the Bikaner Branch on 28th March, 2012 and received by the later on 4th April, 2012.

(iii) Sikar Branch paid ₹ 30,000 as salary to a visiting Head Office Official. [3]

(c) What are the various steps followed in analysis through accounting ratios? [4]

Answer 6. (a)

(i) Calculation of Rate of Gross Profit :

	Department		
	P	**Q**	**R**
Units Purchased	1,500	3,000	3,600
Selling Price per unit	₹ 160	₹ 180	₹ 200
Sales Price	2,40,000	5,40,000	7,20,000

Total G.P = Total sales price of units purchased – Cost of Purchase

= ₹ (2,40,000 + 5,40,000 + 7,20,000) – ₹ 6,00,000

= ₹ (15,00,000 – 6,00,000)

= ₹ 9,00,000

Rate of G.P = $\frac{₹\,9{,}00{,}000}{₹\,15{,}00{,}000} \times 100$ = 60%

(ii) Calculation of Department wise per Unit Cost and Purchase Cost :

	P ₹	Q ₹	R ₹
Selling Price per unit	160	180	200
Less: G.P @60% on selling price	96	108	120
Purchasing price per unit	64	72	80
No of Units purchased	1500	3000	3600
Cost of Purchase (Purchase price × Units)	₹ 96,000	2,16,000	2,88,000

(iii) Calculation of Department wise opening stock and value of opening and closing stocks :

	P ₹	Q ₹	R ₹
Sales (in units)	1530	2880	3744
Add: Closing Stock (in units)	150	240	9
	1680	3120	3753
Less: Purchases (in Units)	1500	3000	3600
Opening Stock (in Units)	180	120	153
	₹	₹	₹
Cost per unit	64	72	80
Value of opening stock (Units × Cost Per unit)	11,520	8,640	12,240
Value of closing Stock (Units × Cost Per unit)	9,600	17,280	720

(iv) Value of sales = P = 1530 × 160 = ₹ 2,44,800, Q = 2880 × 180 = ₹ 5,18,400,
R = 3744 × ₹ 200 = ₹ 7,48,800

(v)

Dr. **Departmental Trading Account for the year ending.....** ***Cr.***

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Opening stock	11,520	8,640	12,240	By Sales	2,44,800	5,18,400	7,48,800
To Purchases	96,000	2,16,000	2,88,000	By Closing Stock	9,600	17,280	720
To G.P c/d	1,46,880	3,11,040	4,49,280				
	2,54,400	5,35,680	7,49,520		2,54,400	5,35,680	7,49,520

Answer 6. (b)

Journal of H.O.

	Particulars		₹	₹
(i) 31.3.12	Cash in Transit a/c	Dr.	35,000	
	To Sikar Branch a/c			35,000
	(Being cash remitted by Sikar Branch but not received by HO as on date)			
(ii) 31.3.12	Goods in Transit a/c	Dr.	63,000	
	To Bikaner Branch a/c			63,000
	(Being goods sent to Bikaner Branch but yet to be received by Branch as on date)			
(iii) 31.3.12	Salaries a/c	Dr.	30,000	
	To Sikar Branch a/c			30,000
	(H.O. official's salaries paid by Sikar Branch)			

Answer 6. (c)

Steps in Ratio Analysis :

The following steps are followed in analysis through accounting ratios:

(i) **Collection of information:** In the first step of ratio analysis raw data is collected from the financial statements for computing different ratios.

(ii) **Computation of ratios:** In the second step necessary ratios are computed between the figures having cause and effect interrelationship. Such ratios may be expressed in terms of times, multiples, proportion or percentage depending on the specific requirement.

(iii) **Making comparison:** The ratios computed are compared with the ratios of the past year or years of the same concern or with the standard ratios of the industry to which the concern belongs.

(iv) **Arriving at decisions on comments:** In the next step the significance of these ratios must be conceived on the basis of comparative interrelationship among them in such a manner so that adequate comments can be made for helping the users of accounting information to arrive at their decisions.

(v) **Preparing report:** In the final step necessary reports are to be prepared for communicating analysed information and the relevant comments to the management.

Q. 7. (a) Ashok Ltd. furnishes you with the following Balance Sheet as at 31st March, 2012:

(₹ in crores)

Sources of Funds		
Share Capital		
Authorised		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
Application of Funds		
Fixed Assets: Cost	100	
Less: Provision for depreciation	(100)	Nil
Investments at cost (Market value ₹ 400 cr.)		100
Current Assets	340	
Less: Current Liabilities	(40)	300
		400

The company redeemed preference shares on 1st April, 2012. 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 a part of current assets.

You are required to :

(i) Pass Journal entries to record the above

(ii) Prepare Balance Sheet as at 01.04.2012 [10]

(b) The Life Insurance Fund of Bharat Life Insurance Co. Ltd. was ₹ 50 lakhs on 31.03.2012. Its actuarial valuation on 31.03.2012 disclosed a net liability of ₹ 42.50 lakhs. An interim bonus of ₹ 80,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹ 150,000 and to divide the balance between policy holders and the shareholders.

Show the (a) Valuation Balance Sheet; (b) Net profit for the two-year period; and (c) Distribution of profits. [5]

Answer 7. (a)

(i) **Journal entries in the books of Ashok Ltd.** **₹ in Crores**

	Particulars		*Dr.* ₹	*Cr.* ₹
1st April 2012	12% Preference share capital A/c	Dr.	75	
	To Preference shareholders A/c			75
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c	Dr.	75	
	To Bank A/c			75
	(Being payment made to shareholders)			
	Shares buy back A/c	Dr.	25	
	To Bank A/c			25
	(Being 50 lakhs equity shares bought back @ ₹ 50 per share)			
	Equity share capital A/c (50 Lakhs × ₹ 10)	Dr.	5	
	Securities premium A/c (50 Lakhs × ₹ 40)	Dr.	20	
	To Shares buy back A/c			25
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	80	
	To Capital Redemption Reserve A/c			80
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

(ii) **Balance Sheet of Ashok Ltd. as at 1.4.2012**

Liabilities		(₹ in crores)	***Assets***		(₹ in crores)
Share Capital			Fixed Assets:		
Authorised		100	Cost	100	
Issued, subscribed and paid up:			Less : Provision for depreciation	100	Nil
200 lakhs equity shares of ₹ 10 each		20			
Reserves and surplus :			Investment at cost		100
Capital reserve	15		(Market value ₹ 400 crores)		
Capital redemption reserve	80		Current assets as on 31.3.2012	340	
Securities premium (25-20)	5		Less : Bank payment for redemption and buy back	100	240
Revenue reserve (260-80)	180	280			
Current liabilities		40			
		340			340

Answer 7. (b)

Valuation Balance Sheet as on 31.3.2012

Liabilities	₹	***Assets***	₹
Net liabilities	42,50,000	Life Insurance Fund	50,00,000
Net profit	7,50,000		
	50,00,000		50,00,000

Net profits for two year period.

Profit as per valuation balance sheet-	750,000
Add : Interim bonus paid	80,000
Net Profit	830,000
Distribution of profits:	
Net profits -	830,000
Less : Amount proposed for carry forward	150,000
	680,000
Share of policy holders – 95% of 680,000 =	646,000
Less : Interim bonus	80,000
Amount due to policy holders	566,000
Share of shareholders (5% of 680,000) =	34,000

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

(a) Surrender value of policy.

(b) Accounting for construction contract (AS-7);

(c) Objectives of Financial Statements;

(d) Liquidity norms of Banking Companies;

(e) Profit prior to Incorporation.

Answer 8. (a)

In the case of life policy, the policy normally has value only when it matures. But to facilitate the promotion of business insurance companies assign value to the policy on the basis of the premium paid. Insurance companies will be prepared to pay such value on the surrender of the policy by a needy policy holder desiring to realise the policy. Therefore the value is referred to as 'surrender value'. Surrender value is usually nil until at least two premiums are paid. Amount paid as surrender value is an expenditure and is similar to claims paid. Thus surrender value is the amount the policy holder will get from the life insurance company if he decides to exit the policy before maturity.

Answer 8. (b)

Revised Accounting Standard 7 - 'Construction Contract' is applicable to only contractors and not to builders and real estate consultants. Under AS-7 Contract Revenue Recognition. the calculation of Percentage of Completion and application of the same in to the contract revenue is 2 different steps. Percentage of completion arrived based on the total contract value and work done. but the based on the completion we need to apply the percentage and need to deduct the earlier recognised reveune and need to arrive the revenue for the particular reporting period. so there is 2 calculations and both calculation need to be disclosed.

For the purposes of this Standard, construction contracts include :

(i) contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and

(ii) contracts for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

Answer 8. (c)

Objectives of Financial Statements

Financial statements may be used by users for different purposes :

- Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. These statements are also used as part of management's annual report to the stockholders.
- Employees also need these reports in making collective bargaining agreements (CSA) with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings.
- Prospective investors make use of financial statements to assess the viability of investing in a business. Financial analyses are often used by investors and are prepared by professionals (financial analysts), thus providing them with the basis for making investment decisions.
- Financial institutions (banks and other lending companies) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan or debentures) to finance expansion and other significant expenditures.
- Government entities (tax authorities) need financial statements to ascertain the propriety and accuracy of taxes and other duties declared and paid by a company.
- Vendors who extend credit to a business require financial statements to assess the creditworthiness of the business.
- Media and the general public are also interested in financial statements for a variety of reasons.

Answer 8. (d)

Liquidity Norms of Banking Companies under Section 24 of Banking Regulation Act.

Banking companies have to maintain sufficient liquid assets in the normal courses of business. In order to safeguard the interest of depositors and to prevent banks form overextending their resources, liquidity norms have been settled and given statutory recognition. Every banking company has to maintain in cash, gold or unencumbered approved securities, an amount not less than 25% of its demand and time liabilities in India. However, this percentage is changed by the Reserve Bank of India from time to time considering the general economic conditions. This is in addition to the average daily balance which a scheduled bank is required to maintain under Section 42 of the Reserve Bank of India Act and in case of other banking companies, the cash reserve required to be maintained under Section 18 of the Banking Regulation Act.

Answer 8. (e)

Profit prior to incorporation.

Sometimes a new Company is formed to take over an existing business as a going concern from a date prior to its date of incorporation. The profit so earned by the newly formed Company will be Profit prior to incorporation. The date of incorporation is taken as the basis for calculation of pre-acquisition profit. Profit earned prior to incorporation is a Capital Profit. Any profit prior to incorporation may be

(a) credited to capital reserve account

(b) credited to goodwill account to reduce the amount of goodwill arising from acquisition of business

(c) Utilized to write down the value of fixed assets acquired.