

Suggested Answer_Syll08_Jun2014_Paper_5

INTERMEDIATE EXAMINATION GROUP I (SYLLABUS 2008) SUGGESTED ANSWERS TO QUESTIONS JUNE 2014

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) From the four alternative answers given against each of the following cases, indicate the correct answer (just state A, B, C or D) 1×6=6
- (i) Which of the following purpose is served from the preparation of Trial Balance?
(A) To check the arithmetical accuracy of the recorded transactions
(B) To ascertain the balance of any ledger account
(C) To facilitate the preparation of final accounts promptly
(D) All of the above.
- (ii) Excess of minimum rent over actual royalty is known as
(A) Maximum rent
(B) Excess workings
(C) Short workings
(D) Deficiency of actual royalty
- (iii) Which of the following item does not match with receipts and payments account?
(A) It is a summarized cash book
(B) Transactions are recorded in it on cash basis
(C) It records revenue transactions only
(D) It serves the purpose of a real account
- (iv) Realization account is a
(A) Representative personal account
(B) Artificial personal account
(C) Real account
(D) Nominal account
- (v) As per Sec.205 (2A) of the Indian Companies Act, if the proposed dividend is exceed in 15%, but not more than 20% of paid up share capital, then percentage profits to be transferee to reserves will be
(A) 5%
(B) 7.5%
(C) 10%
(D) 15%

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- (vi) If the Bank Rate is 6%, then standard rate for determination of Capital Base for an electricity company will be
- (A) 5%
 - (B) 6%
 - (C) 7%
 - (D) 8%

(b) State whether the following statements are True (T) or False (F): 1×5= 5

- (i) Transactions are recorded on accrual basis in the Income and Expenditure Account.
- (ii) The Debt-equity ratio is an activity ratio.
- (iii) As per AS-2, inventory should normally be valued at historical cost or market value whichever is lower.
- (iv) When the goods are returned by branch, goods sent to branch account will be debited in the books of head office.
- (v) Balance of securities premium account is available for redemption of preference shares.

(c) Fill in the blanks in the following sentences using appropriate word from the alternatives indicated: 1×5= 5

- (i) As per Indian Companies Act, 1956, the maximum limit of managerial remuneration for fulltime single managerial person is.....(3%, 5%)
- (ii) The excess of issue price of shares over their face value is termed as.....(Discount Securities Premium)
- (iii) Every debit must have its corresponding and equal.....(benefit, credit)
- (iv) Items of receipts and payments which are revenue in nature and which relate to a particular accounting period, are shown in the.....(Receipts and Payments Account, Income and Expenditure Account)
- (v) As per AS-26, maximum useful life of an intangible asset is.....years. (10,15)

(d) Match the following in column I with the appropriate item in column II 1×5=5

- | Column – I | Column – II |
|-------------------------------------|-----------------------------------|
| (i) Absolute Surplus Capital Method | (A) Receipts and Payments Account |
| (ii) Remittance in Transit | (B) Piecemeal Distribution |
| (iii) Entrance Free | (C) Electricity Company |
| (iv) Clear Profit | (D) Current Ratio |
| (v) Ideal Norm = 2 : 1 | (E) Branch Adjustments |
| | (F) No matching Statement found |

(e) In the following cases, one out of four answers given is correct. Indicate the correct answer (= 1 Mark) and give brief workings in support of your answer (=1 mark):

- (i) Shiva purchased a laptop on hire-purchase system. As per terms, he is required to pay ₹ 7,500 down, ₹10,000 at the end of first year, ₹7,500 at the end of second year, and ₹12,500 at the end of third year. Interest is charged at 12% per annum. The interest payable with the installment at the end of second year will be

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- (A) ₹900
- (B) ₹1,999
- (C) ₹804
- (D) ₹1,760

(ii) The goods are transferred from Department X to Department Y at selling price which includes a profit of 25% on cost. Stock valued at ₹65,000 in Department Y, then amount of unrealized profit will be

- (A) ₹16,250
- (B) ₹13,000
- (C) ₹21,667
- (D) None of the above

(1+1) × 2= 4

Answer:

1.(a) (i) – D, (ii) – C, (iii) – C, (iv) – D, (v) –B, (vi) – D

(b)

- (i) **True:** Transactions are recorded on accrual basis in the Income and Expenditure Account.
- (ii) **False:** The Debt – equity ratio is Managerial Efficiency Ratio and not an Activity Ratio.
- (iii) **False:** As per AS – 2, inventory should normally be valued at Historical Cost or Net Realizable Value.
- (iv) **True:** When the goods are returned by branch, goods sent to branch account will be debited in the books of Head Office
- (v) **False:** Balance of securities premium account is not available for redemption of preference shares.

(c) (i) – 5% , (ii) – securities premium, (iii) credit (iv) income and expenditure a/c
(v)-10

(d) (i) – B (ii) – E (iii) – A (iv) – C (v) – D

(e) (i) (B) ₹1,999

Installment at the end of 3rd year ₹12,500

Interest on 3rd installment $₹12,500 \times \frac{12}{112}$ ₹1,339

Again, interest on 2nd installment = Amount outstanding at the end of 2nd year $\times \frac{12}{112}$

i.e. $₹[7,500 + (12,500-1,339)] \times \frac{12}{112} = ₹1,999.$

(ii) (B) ₹13,000 = $65,000 \times \frac{25}{125} = ₹13,000$

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2.(a) Classify the following Accounts into Personal, real and Nominal Accounts. Also state whether it is recorded as asset, liability, expense/loss or revenue:

- (i) Returns Inward Account
- (ii) Bad Debt Recovered Account
- (iii) Interest On Investment Account
- (iv) Outstanding Rent Account and
- (v) Capital Work-in-Progress Account

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(b) Calculate (i) Current Ratio, (ii) Quick Ratio, (iii) Inventory Turnover Ratio (based on sales), (iv) Debtors Turnover Ratio, (v) Average Collection Period, (vi) Creditors Turnover Ratio and (vii) Creditors Average Payment Period from the information given below, related to the Balance Sheet of Andhra Company as on 31.03.2014.

Balance Sheet of Andhra company as on 31.03.2014

Liabilities	₹	Assets	₹
Share Capital	4,10,000	Goodwill	2,50,000
Reserve	2,80,000	Plant and Machinery	3,00,000
10% debentures	3,50,000	Land and Building	2,50,000
Loan	1,60,000	Patents	60,000
Creditors	1,00,000	Stock	2,80,000
Bills payable	20,000	Debtors	1,80,000
Outstanding expenses	50,000	Marketable securities	28,000
Tax Provision	30,000	Cash balance	52,000
	14,00,000		14,00,000

Additional information: Sales and purchases were ₹5,60,000 and ₹1,20,000 respectively.
Assume 1 year = 365 days.

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(c) A, B and C are partners sharing profit or loss in the ratio of 3:2:1. They admit D as partner for 1/5th share in future profits. D acquired 2/15th share from A and 1/15th share from B. Calculate the new profit sharing ratio and sacrifice ratio.

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Answer:

2.(a)

S. No.	Item	Account	Nature
I	Returns inward	Nominal	Expense
ii	Bad debts recovered	Nominal	Income
iii	Interest on investment	Nominal	Income
iv	Outstanding rent	Personal	Liability
v	Capital work in progress	Real	Asset

(b) Calculation of Ratios:

- (i) Current Ratio = Current Assets/Current Liabilities = 5,40,000/2,00,000 = 2.70
- (ii) Quick Ratio = Quick Assets/ Current Liabilities = 2,60,000/2,00,000 = 1.30
- (iii) Inventory Turnover Ratio= Total Sales/Closing Inventory =5,60,000/2,80,000 = 2.00
- (iv) Debtors Turnover Ratio= Total Sales/ Closing Debtors = 5,60,000/1,80,000 =3.11
- (v) Average Collection Period = 365/Debtors Turnover Ratio =365/3.11=117.36 days

(vi) Here Creditors Turnover Ratio = Total Purchase /Closing Creditors.

Closing Creditors = Accounts Payable

And Accounts payable = Creditors + Bills Payable

Creditor turnover ratio = Total purchase/ Accounts Payable = 1,20,000/1,20,000= 1.00

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(vii) Creditors Average Payment Period = $365/\text{creditor turnover ratio} = 365/1.00 = 365$ days

- (c) A's new share = $3/6 - 2/15 = (15 - 4)/30 = 11/30$
 B's new share = $2/6 - 1/15 = (10 - 2)/30 = 8/30$
 C's new share = $1/6$ or $5/30$
 D's new share = $1/5$ or $6/30$
 Hence new ratio of A, B, C, and D = 11:8:5:6
 Sacrifice ration of A and B = $2/15 : 1/15$ or 2:1

3. (a) On 1st April, 2010, M/s. N. R. Sons & Co. purchased four machines for ₹2,60,000 each. On 1st April, 2011, one machine was sold for ₹2,05,000. On 1st July, 2012, the second machine was destroyed by fire and insurance claim received ₹ 1,75,000 on 15th July, 2012. A new machine costing ₹ 4,50,000 was purchased on 1st October, 2012. Books are closed on 31st March every year and depreciation has been charged @15% per annum on diminishing balance method. You are required to prepare machinery account for 4 years till 31st March, 2014. (Calculations to be shown in nearest rupee) 6

- (b) From the following Receipts and Payments Account of Jaipur Krida Parishad for the year ended 31st March, 2014 and additional information given, prepare an income and expenditure account for the year ended 31st March, 2014 and balance sheet as on 31st March, 2014.

Receipts and payments Account for the ended 31.03.2014

Receipts	Amount(₹)	Payment	Amount(₹)
Opening balance: Cash	18,600	Secretary honorarium	1,25,000
Bank	55,450	Staff salaries	4,10,000
Subscription	4,30,000	Charities	25,000
Sale of Old News Papers	3,500	Printing & stationary	15,000
Legacies	80,000	Postage expenses	1,500
Interest on Investment	25,000	Rates & taxes	8,500
Endowment Fund Receipts	1,50,000	Upkeep of ground	65,000
Proceeds of Sports & Concerts	1,45,600	Purchase of sports materials	2,10,000
Advertisement in the Year Book	1,15,400	Misc. Expenses	55,850
		Closing balance: Cash	24,500
		Bank	83,200
	10,23,550		10,23,550

Additional Information:

Assets and liabilities as on 31st March, 2013 and 31st March, 2014 were as follows:-

	31.03.13	31.03.2014
	₹	₹
Outstanding subscription	45,600	85,600
Subscription received in advance	12,400	16,300
Office equipments	80,000	68,000
Furniture	60,000	54,000
Ground land	5,00,000	5,00,000
Sports material	20,000	27,000
Outstanding staff salaries	40,000	50,000

There was no purchase and sale of office equipments and furniture during the year.

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Legacies receipts shall be capitalized. Investments are made in securities, the rate of interest being 9% per annum, the date of investment was 1st July, 2012 and the amount of investment was ₹ 3,00,000. Due date of interest was 31st March every year. 9

Answer:

3. (a)

Dr.		Machinery Account				Cr.
Date	Particular	Amount ₹	Date	Particular	Amount ₹	
1.04.10	To Bank A/c	10,40,000	31.03.11	By Depreciation A/c	1,56,000	
			31.3.11	By Balance c/d	8,84,000	
		10,40,000			10,40,000	
1.04.11	To Balance b/d	8,84,000	1.04.11	By Bank a/c (machinery sold)	2,05,000	
			31.03.12	By Depreciation	99,450	
			31.03.12	By P&L A/c (Loss on sale of machinery)	16,000	
			31.03.12	By Balance c/d	5,63,550	
		8,84,000			8,84,000	
1.04.12	To Balance b/d	5,63,550	1.07.12	By Insurance company (Insurance claim)	1,75,000	
1.10.12	To Bank	4,50,000	31.03.13	By Depreciation A/c	97,149	
			31.03.13	By P&L A/c (Loss on destroyed of machine)	5,806	
			31.03.13	By Balance c/d	7,35,595	
		10,13,550			10,13,550	
1.04.13	To Balance b/d	7,35,595	31.03.14	By Depreciation	1,10,339	
			31.03.14	By Balance c/d	6,25,256	
		7,35,595			7,35,595	
1.04.14	To Balance b/d	6,25,256				

Workings

Particulars	M-1	M- 2	M-3	M- 4	M- 5
01.04.2010 Purchased of Machinery	2,60,000	2,60,000	2,60,000	2,60,000	-
Less: Depreciation@15% p. a	39,000	39,000	39,000	39,000	-
W.D.V. on 31.03.11	2,21,000	2,21,000	2,21,000	2,21,000	-
Less: sold of machinery on 01.04.11	2,05,000	-	-	-	-
Loss on Sale	16,000	-	-	-	-
Less: Depreciation @ 15% P.a.	-	33,150	33,150	33,150	-
W. D. V. on 31.03.12	-	1,87,850	1,87,850	1,87,850	-
Less: Depreciation @ 15% for 3 months i.e. 01.04.12- 01.07.12	-	7,044	-	-	-

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		1,80,806	1,87,850	1,87,850	
Less: Amount recd from Insurance claim		1,75,000			
Loss on fire		5,806			
On 10.10.12 Purchased of machinery					4,50,000
Less: Depreciation of 2 machines for full years			28,178	28,177	
			1,59,672	1,59,673	
Less: Depreciation for 6 th months of new machinery			-	-	33,750
W.D.V. for 31.03.13			1,59,672	1,59,673	4,16,250
Less Depreciation for full year @ 15% p.a.			23,951	23,950	62,438
			1,35,721	1,35,723	3,53,812

(b)

Jaipur Krida Parishad

Dr Income & Expenditure Account for the year ending 31st March, 2014

Cr.

Expenditure	Amount ₹	Income	Amount ₹
To Secretary Honorarium	1,25,000	By Subscription 4,30,000 Add: Adv on 31.03.13 12,400 out on 31.03.14 <u>85,600</u> 5,28,000 Less: Out on 31.03.13 45,600 Adv on 31.03.14 <u>16,300</u> 61,900	4,66,100
To Staff Salary (4,10,000 - 40,000+50,000)	4,20,000	By Interest on Investment (25,000+2,000)@9% on 3,00,000	27,000
To Charities	25,000	By Sale Old News Paper	3,500
To Printing and Stationary	15,000	By Proceeds of Sports Concert	1,45,600
To Postage & Telephone Exp.	1,500	By Advertisement	1,15,400
To Rates & Taxes	8,500	By Deficit (excess of expenditure over income)	1,79,250
To Upkeeps of Grounds	65,000		
To Sports Material Used (2,10,000+20,000-27,000)	2,03,000		
To Misc Expenses	55,850		
To depreciation; -Furniture 6,000 -Office Equipments <u>12,000</u>	18,000		
	9,36,850		9,36,850

Balance Sheet as on 31st March, 2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Subscription Received in Advance	16,300	Cash in hand	24,500
Outstanding Salary	50,000	Cash at Bank	83,200
Legacies	80,000	Subscription outstanding	85,600

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Endowment Fund	1,50,000	Accrued interest	2,000
Capital fund 1.04.13	10,27,250	Sports material	27,000
Less : Deficit	<u>1,79,250</u>		
	8,48,000		
		Investment	3,00,000
		Office Equipment	68,000
		Furniture	54,000
		Ground Land	5,00,000
	11,44,300		11,44,300

Working Note

Balance sheet as on 31st March,2013

Liabilities	Amount (₹)	Assets	Amount (₹)
Subscription received in advance	12,400	Cash in hand	18,600
Out. Staff salary	40,000	Cash at Bank	55,450
Capital fund (b/f)	10,27,250	Subscription outstanding	45,600
		Sports material	20,000
		Investment	3,00,000
		Office equipment	80,000
		Furniture	60,000
		Ground Land	5,00,000
	10,79,650		10,79,650

- 4.(a) X, Y and Z are partners in a firm. The firm has agreed to give to partners interest @ 15 % per annum on their capital contributions. The amount of interest on Y's capital is more than the interest on Z's capital by ₹10,500 and X' s capital is $1\frac{2}{3}$ times of Z' s capital. If the firm's total capital is ₹ 11,70,000, then calculate the amount of capital and interest thereon of each partner and pass necessary journal entry to record the interest on capital in the books of the firm. 5

- (b) Give the title names of the following Accounting Standards (AS):-

Sr. No.	AS	Title Name
(i)	AS-7	
(ii)	AS-15	
(iii)	AS-17	
(iv)	AS-25	
(v)	AS-28	

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- (c) Pass the Journal entries to rectify or adjust the following in the books of Kolkata Branch for the year ending 31st March,2014:

- (i) Kolkata Branch paid ₹25,000 as salary to a visiting Head Office Official. The branch has debited the amount to salaries account.

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- (ii) Goods costing ₹15,000 purchased by Kolkata Branch, but payment made by Head Office. The Head Office has wrongly debited this amount to its own purchase account.
- (iii) Depreciation on branch assets, of which accounts are maintained by the Head Office, not provided for ₹ 5,500.
- (iv) Goods worth ₹30,000 were returned by a customer of Kolkata Branch to Head Office.
- (v) ₹40,000 remitted by Kolkata Branch to Head Office on 29th March, 2014 was received on 3rd April, 2014. 5

Answer:

4.(a) Let the Z's capital is 'a', then X's capital will be $\frac{5}{3}a$

Y's capital is more than Z's capital by $\frac{10,500}{15\%} = ₹70,000$

Hence Y's capital will be = a + 70,000

So, the total capital = $\frac{5}{3}a + (a + 70,000) + a = 11,70,000$

Or $\frac{11}{3}a + 70,000 = 11,70,000$

Or a = 3,00,000

Thus, X's Capital = 3,00,000 x $\frac{5}{3} = ₹5,00,000$ and

Interest on it = 5,00,000 x 15% = ₹75,000

Y's capital = 3,00,000 + 70,000 = ₹3,70,000 and Interest = ₹55,500

Z's capital = 3,00,000 and Interest = ₹45,000

Journal Entry

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
	Interest on capital A/c Dr.		1,75,500	
	To X's capital A/c			75,000
	To Y's capital A/c			55,500
	To Z's capital A/c			45,000
	(being interest on capital transferred to partners' capital Account)			

(b)

Sr. No.	AS	Title Name
(i)	AS-7	Construction Contracts
(ii)	AS-15	Employee Benefits
(iii)	AS-17	Segment Reporting
(iv)	AS-25	Interim Financial Reporting
(v)	AS-28	Impairment of Assets

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(c)

Books of Kolkata Branch

Date	Particulars	L.F.	Dr.	Cr.
			Amount ₹	Amount ₹
(i)	Head office A/c To Salaries A/c (being salaries paid to Head office official, salary account debited by branch, now rectified)	Dr.	25,000	25,000
(ii)	Purchase A/c To Head Office A/c (being the goods are by branch but payment made by H.O. , the H.O. wrongly debited this amount , now rectified)	Dr.	15,000	15,000
(iii)	Profit and loss A/c To Head Office A/c (being depreciation on branch fixed assets are provided)	Dr.	5,500	5,500
(iv)	Head Office A/c To Debtor's A/c (being goods returned by customer of Branch to H.O., now rectified)	Dr.	30,000	30,000
(v)	No entry is to made by the branch		-	-

5. (a) The following is the Balance Sheet of Silver Ltd. as at 31.03.2014

Liabilities	₹ In lakhs
10% Redeemable Preference Shares of ₹10 each fully paid up	2,500
Equity Share of ₹10 each fully paid up	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss A/c.	300
9% Debentures	5,000
Sundry Creditors	2,300
Sundry Provisions	1,000
Total	26,900
Assets	₹ In lakhs
Fixed Assets	14,000
Investments	3,000
Cash at Bank	1,650
Other Current Assets	8,250
Total	26,900

On 1st April, 2014, the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹20 per share. In order to make cash available, the company sold all the investments for ₹3,150 lakhs and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant.

Pass the Journal Entries for all the above transactions, including cash transactions and

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prepare the company's Balance Sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law. 7

- (b) The Life Insurance fund of Rainbow Life insurance Co. Ltd. was ₹34,00,000 as on 31.03.2014. The actuarial valuation on 31st March, 2014 disclosed a net liability of ₹28,80,000. An interim bonus of ₹60,000 was paid to the policy holders during the previous two years. It is now proposed to carry forward ₹1,10,000 and to divide the balance between the policy holders and the shareholders.

Show the following:

- (i) The Valuation Balance Sheet
- (ii) Net Profit for the two years period
- (iii) The distribution of the profits

2+2+1= 5

- (c) Calculate the amount of current liabilities and stock, if the working capital is ₹ 6,50,000, current ratio is 2.3 :1 and quick ratio is 1.4:1 3

Answer:

5. (a)

In the books of Silver Ltd.
Journal Entries

Sr. no.	Particulars	L.F.	Dr	Cr
			Amt (₹)	Amt (₹)
1.	Bank A/c Dr. To, Investment A/c To, Profit and Loss A/c (Being sale of Investments and profit thereon)		3,150	3,000 150
2.	Bank A/c Dr. To, Bank Loan (Being loan taken from Bank)		2,000	2,000
3.	10% Red. Pref. Share Capital A/c Dr. Prem. On Red. of Pref. Sh. A/c Dr. To, Pref. Shareholder A/c (Being sale of Investments and profit thereon)		2,500 250	2,750
4.	Pref. Shareholders A/c Dr. To, Bank (Being payment of amount due to Pref. Shareholders)		2,750	2,750
5.	Securities Premium A/c Dr. To, Prem. On Redemption of Preference Shareholders A/c (Being use of securities premium to provide premium on red. of Pref. Sh.)		250	250
6.	Equity Share Capital A/c Dr. Securities Premium A/c (800 – 250) Dr. General Reserves A/c Dr. { (200 x 20) – 2,000 - 550 } To, Equity Shareholders A/c (Being buy back of Equity Shares)		2,000 550 1,450	4,000
7.	General Reserves A/c Dr. To, Cap. Red. Reserve A/c		4,500	4,500

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	(2,000+2,500) (Being creation of Cap. Red. Res. to the extent of the face value of pref. shares redeemed and equity shares bought back)			
8.	Equity Shareholders A/c Dr. To, bank A/c (Being payment of amount due to equity shareholders)		4,000	4,000

Note: Balance of general Reserve

₹(6,000 – 1,450) = ₹4,550

Balance of General Reserve as on 01.04.2014

₹(4,550 – 4,500) = ₹50

Note: Cash at bank

(1,650 + 3,150 + 2,000 – 2,750 – 4,000) ₹50

Name of the Company: Silver Ltd.				
Balance Sheet as at 01.04.2014				
Ref No.	Particulars	Note No.	As at 1st April, 2014	As at 1st April, 2013
			(₹ in Lakhs)	(₹ in Lakhs)
I.	Equity and Liabilities			
1	Shareholders' funds			
	(a) Share capital	1	6,000.00	
	(b) Reserves and surplus	2	6,000.00	
	(c) Money received against share warrants			
2	Share application money pending allotment			
3	Non-current liabilities			
	(a) Long-term borrowings	3	7,000.00	
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
4	Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables	4	2,300.00	

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		(c)Other current liabilities			
		(d) Short-term provisions	5	1,000.00	
		Total		22,300.00	
	II.	Assets			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	14,000.00	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories			
		(c) Trade receivables			
		(d) Cash and cash equivalents	7	50.00	
		(e) Short-term loans and advances			
		(f) Other current assets	8	8,250.00	
		Total		22,300.00	

Note 1. Share Capital	As at 1st April, 2014	As at 1st April, 2013
Authorised, Equity Share @ 10 each	8,000.00	
600 lakh Equity Share of ₹ 10 each fully paid	6,000.00	
10% Redeemable Pref. Share @ ₹ 10 each	-	
Total	6,000.00	

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RECONCILIATION OF SHARE CAPITAL				
FOR EQUITY SHARE :-	As at 1st April, 2014		As at 1st April, 2013	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.13	800	8,000.00	NIL	NIL
Add: Fresh Issue (Includ Bonus shares, Right shares, split shares, shares issued other than cash)	-	-	NIL	NIL
	800	8,000.00	NIL	NIL
Less: Buy Back of shares	200	2,000.00	-	-
	600	6,000.00	NIL	NIL

RECONCILIATION OF SHARE CAPITAL				
10% Redeemable Preference Share	As at 1st April, 2014		As at 1st April, 2013	
	Nos	Amount (₹)	Nos	Amount (₹)
Opening Balance as on 01.04.13	250	2,500.00	NIL	NIL
Add: Fresh Issue	-	-	NIL	NIL
	250	2,500.00	NIL	NIL
Less: Redemption of Shares	250	2,500.00	-	-
	-	-	NIL	NIL

Note 2. Reserve and Surplus	As at 1st April, 2014	As at 1st April, 2013
General Reserve	50.00	
Capital Redemption Reserve	5,500.00	
Profit and Loss A/c (300+150)	450.00	
Total	6,000.00	

Note 3. Long Term Borrowings	As at 1st April, 2014	As at 1st April, 2013
9% Debentures	5,000.00	-
Bank Loans	2,000.00	-
Total	7,000.00	-

Note 4. Trade Payables	As at 1st April, 2014	As at 1st April, 2013

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Sundry Creditors	2,300.00	-
Total	2,300.00	-

Note 5. Short Term Provisions	As at 1st April, 2014	As at 1st April, 2013
Sundry Provisions	1,000.00	-
Total	1,000.00	-

Note 6. Tangible Assets	As at 1st April, 2014	As at 1st April, 2013
Fixed Assets	14,000.00	-
Total	14,000.00	-

Note 7. Cash & Cash Equivalents	As at 1st April, 2014	As at 1st April, 2013
Cash at Bank	50.00	-
Total	50.00	-

Note 8. Other Current Assets	As at 1st April, 2014	As at 1st April, 2013
Other Current Assets	8,250.00	-
Total	8,250.00	-

(b)

**In the Books of Rainbow Life Insurance Co. Ltd
Valuation Balance Sheet as on 31.03.2014**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Net Liability	28,80,000	Life Insurance Fund	34,00,000
Net Profit	5,20,000		
	34,00,000		34,00,000

• **Net Profit for the two- year period**

Profit as per Valuation Balance Sheet	₹5,20,000
Add: Interim Bonus paid during the previous two years	₹ 60,000
Net Profit	₹5,80,000

• **Distribution of the profits**

Net profit	₹5,80,000
Less: Amount proposed to be carried forward	₹1,10,000
Balance of profits which can be distributed	₹4,70,000

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End of 2 nd year	62,810	76,000	13,190	62,810
	69,090			
End of 3 rd year	69,090	76,000	6,910	69,090
TOTAL	Nil	3,19,000	39,000	2,80,000

In the Books of Exe Ltd.

Dr.			Cr.		
Vehicle Account					
Date	Particulars	Amt. ₹	Date	Particulars	Amt. ₹
1 st year	To, Vendor A/c	2,80,000		By, Dep.A/c	42,000
				By, Bal c/d	2,38,000
		2,80,000			2,80,000
2 nd year	To Bal c/d	2,38,000		By, Dep.A/c	35,700
				By, Vendor A/c	1,45,090
				By, P/L A/c	57,210
		2,38,000			2,38,000

Dr.			Cr.		
Vendor Account					
Date	Particulars	Amt. ₹	Date	Particulars	Amt. ₹
1 st year	To, Bank (Down Payment)	91,000		By, Car (Cash Price)	2,80,000
	To, Bank -Installment	76,000		By, Interest	18,900
	To, Bal c/d	1,31,900			
		2,98,900			2,98,900
2 nd year	To Asset A/c (Default – Assets taken over)	1,45,090		By Bal b/d	1,31,900
				By, Interest	13,190
		1,45,090			1,45,090

In the books of the vendor

Dr.			Cr.		
Exe Account					
Date	Particulars	Amt. ₹	Date	Particulars	Amt. ₹
1 st year	To Sales	2,80,000		By, Bank - down payment	91,000
	To Interest	18,900		By, Bank - Inst.	76,000
				By, Bal c/d	1,31,900
		2,98,900			2,98,900
2 nd year	To, Bal b/d	1,31,900		By, Goods Repossessed A/c	1,45,090
	To, Interest	13,190			
		1,45,090			1,45,090

Dr.			Cr.		
Goods Repossessed Account					
Date	Particulars	Amt ₹	Date	Particulars	Amt. ₹
	To, Exe A/c (Purchaser)	1,45,090		By, Bank - Sales	1,50,000

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	To, Bank A/c (Repairing charge)	9,200		By, P/loss A/c (Bal. Fig.)	4,290
		1,54,290			1,54,290

(b) **Case (a)**

In the book of AP Ltd. Journal Entries

Date	Particulars	L.F.	Dr Amt. (₹)	Cr Amt. (₹)
	On Issue: Bank A/c Dr. To, 10% debentures A/c (Being the issue of Debentures at par)		1,00,000	1,00,000
	On Redemption: Profit and loss Appropriation A/c Dr. To, Deb. Red. Res. A/c (Being the transfer of an amount equivalent to the nominal value of Debentures redeemed to Debenture Redemption Reserve A/c out of profit)		1,00,000	1,00,000
	10% Debentures A/c Dr. To, Debenture holders A/c (Being the amount due on redemption)		1,00,000	1,00,000
	Debenture holders A/c Dr. To, Bank A/c (Being the payment made to deb. holders)		1,00,000	1,00,000

Case (b)

In the books of AZ Ltd. Journal Entries

Date	Particulars	L.F.	Dr Amt. (₹)	Cr Amt. (₹)
	On Issue: Bank A/c Dr. To, 10% debentures A/c To, Securities Premium A/c (Being the issue of Debentures at 5% premium)		1,05,000	1,00,000 5,000
	On Redemption: Profit and loss Appropriation A/c Dr. To, Deb. Red. Res. A/c (Being the transfer of an amount equivalent to the nominal value of Debentures redeemed to Debenture Redemption Reserve A/c out of profit)		1,00,000	1,00,000
	10% Debentures A/c Dr. To, Debenture holders A/c (Being the amount due on redemption)		1,00,000	1,00,000

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Debiture holders A/c Dr. To, Bank A/c (Being the payment made to deb. holders)		1,00,000	1,00,000
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Case (c)

In the books of AK Ltd. Journal Entries

Date	Particulars		Dr Amt. (₹)	Cr Amt. (₹)
	On Issue: Bank A/c Dr. Loss on Issue of Deb. A/c Dr. To, 14% debentures A/c To, Premium on Red. of Deb. A/c (Being the issue of Debentures at par and redeemable at 5% premium)		1,00,000 5,000	1,00,000 5,000
	On Redemption: Profit and loss Appropriation A/c Dr. To, Deb. Red. Reserve A/c (Being the transfer of an amount equivalent to the nominal value of Debentures redeemed to Debentures redeemed to Deb. Redemption res. A/c)		1,00,000	1,00,000
	14% Debentures A/c Dr. Premium on Red. of Deb. A/c Dr. To, Debiture holders A/c (Being the amount due on redemption)		1,00,000 5,000	1,05,000
	Debiture holders A/c Dr. To, Bank A/c (Being the payment made to deb. holders)		1,05,000	1,05,000

- (c) Three fundamental accounting exemption as per AS – 1 are: -
 Going Concern; Consistency and Accrual

7. (a) Amal and Bikash entered into partnership on 01.01.2010 agreeing to share profits and losses in the ratio of 2 : 1. On that date, they introduced capital as under: Amal ₹ 90,000 and Bikash ₹ 30,000. They effected a policy of insurance for ₹20,000 of their joint lives. The net profits before charging interests on capital as at the beginning of each year at 6% per annum and before considering interest on drawings averaged at 4% per annum were as follows:

Year	Net Profits(₹)	Amal's Drawings (₹)	Amal's Drawings (₹)
2010	34,800	10,000	5,000
2011	37,600	12,000	7,000
2012	38,000	14,000	7,500

The annual insurance premium ₹3,000 was being charged to profit and Loss Account as a business expense.

Amal died on 31.03.2013. According to the terms of the Partnership Deed, the deceased partner's executors became entitled to receive his share of capital, as it stood on 31.12.2012 plus his share of profits for the three months calculated upon the previous year's rate of profit and share of goodwill which was calculated on 2/3rds of the previous three

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years profits after adjusting for interest on capital and drawings, but without deducting the premium paid on Joint Life Policy.

Show the amount payable to the executors of Amal.

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(b) From the following information, prepare Branch Account showing the profit or loss of the branch.

	₹
Opening Stock	30,000
Goods sent to branch	90,000
Sales	1,20,000
Expenses: Salaries	10,000
Other Expenses	4,000

The closing stock could not be ascertained, but it is known that the branch usually sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profit of the branch before charging such commission.

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Answer:

7. (a)

WORKING NOTES:

1. Adjustment of Profit

Particulars	2010	2011	2012
Profit before adjusting Interest	34,800	37,600	38,000
Add: Interest on Drawings @ 4% (4% of total drawings of A and B for every year)	600	760	860
	35,400	38,360	38,860
Less: Interest on Capital (WN- 2)	7,200	8,388	9,504
Profit after Adjustment	28,200	29,972	29,356
A's Share – 2/3	18,800	19,981	19,571
B's Share – 1/3	9,400	9,991	9,785

2. Adjustment of Capital

Particulars	Total	A	B
Capital as on 01.01.2010	1,20,000	90,000	30,000
Add: Interest on capital @ 6% p.a.	7,200	5,400	1,800
Add: Share of Profit (34,800- 7,200 +600)	28,200	18,800	9,400
Less: Drawings	15,000	10,000	5,000
Less: Interest on Drawings @ 4%	600	400	200
Capital as on 01.01.2011	1,39,800	1,03,800	36,000
Add: Interest on Capital	8,388	6,228	2,160
Add: Share of Profit (WN. 1)	29,972	19,981	9,991
Less: Drawings	19,000	12,000	7,000
Less: Interest on Drawings	760	480	280

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Capital as on 01.01.2012	1,58,400	1,17,529	40,871
Add: Interest on Capital @ 6%	9,504	7,052	2,452
Add: share of Profit (WN.1)	29,356	19,571	9,785
Less: Drawings	21,500	14,000	7,500
Less: Interest on Drawings @ 4%	860	560	300
Capital as on 01.01.2013	1,74,900	1,29,592	45,308

3. Valuation of Goodwill

Total Profits after adjustments for interest (WN. 1)

Year	₹	Total (₹)
2010	28,200	
2011	29,972	
2013	29,356	
		87,528
Add back: Insurance Premium for 3 years (3,000 × 3)		9,000
		96,528

Average annual profit before charging Insurance Premium = $96,528/3$
= ₹32,176

Goodwill = $32,176 \times 2 = ₹64,352$

Thus Amal's Share = $2/3 \times 64,352 = ₹42,901$

4. Profit between 01.01.2013 and 31.03.2013

Profit for 2012 after Interest = ₹29,356

Average Profits for 3 months = $₹29,356 \times 3/12 = ₹7,339$

Amal's Share = $2/3 \times 7,339 = ₹4,893$.

Working note 5:

Joint Life Policy Account					
Dr.	Particulars	Amount (₹)	Date	Particulars	Cr. Amount (₹)
	To, Bank A/c	3,000	31.12.10	By, Profit and Loss A/c	3,000
	To, Bank A/c	3,000	31.12.11	By, Profit and Loss A/c	3,000
	To, Bank A/c	3,000	31.12.12	By, Profit and Loss A/c	3,000
	To, Bank A/c	3,000	31.03.13	By, Bank A/c – Joint life policy amount	20,000
	To Partner's capital A/c				
	- Amal 11,333				
	- Bikash 5,667	17,000			
		20,000			20,000

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Dr.		Executor of Amal's Account				Cr.
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹	
31.3.13	To Balance c/d	1,90,663	31.3.13	By A's Capital A/c	1,29,592	
				By P & L Suspense A/c	1,944	
				Interest on Capital [1,29,000 × 6% × 3/12]		
				By Share of Profits	4,893	
				By Goodwill	42,901	
				By Joint Life Policy A/c	11,333	
		1,90,663			1,90,663	

(b)

In the books of Head Office Branch Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening stock	30,000	By Sales	1,20,000
To Goods sent to branch	90,000	By Stock	20,000
To Salaries	10,000		
To Other expenses	4,000		
To Manager commission (5% of ₹6,000)	300		
To Profit tr. To P & L a/c	5,700		
	1,40,000		1,40,000

Note: (1) Closing stock is calculated as:

Sales	1,20,000
Less: 20/120 profit margin (1,20,000 × 1/6)	<u>20,000</u>
Cost of goods sold	<u>1,00,000</u>

(2) Total cost of goods for sale:

Opening stock	30,000
Goods sent to branch	<u>90,000</u>
Total	1,20,000
Less cost of goods sold	<u>1,00,000</u>
Closing stock	<u>20,000</u>

8. Write short notes on (any three):

5x3= 15

(a) Materiality Convention

(b) Bonus Shares

(c) Conservatism Concept

(d) Advantages of Self Balancing Ledgers

(e) Capital Receipts v/s Revenue Receipts

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Answer:

8. (a) Materiality Convention

American Accounting Association (AAA) defines the term Materiality as :

"An item should be regarded as material if there is sufficient reason to believe that knowledge of its influence the decision of informed investor".

Some of the examples of material financial information to be disclosed are the likely fall in the value of stocks, loss of markets due to competition or Government regulation , increase in wage bill under recently concluded agreement, etc. It is now agreed that information known after the date of Balance Sheet must also be disclosed.

Another example of materiality is the question of allocation of costs. An item of small value may last for three years and technically its cost must be allocated to every one of the three years. Since its value is small, it can be treated as an expense in the year of purchase. Such a decision is in accordance with the principle of materiality.

Likewise, unimportant items can be either left out or merged with other items. Sometimes items are shown as footnotes according to their relative importance.

It should be noted that an item material for one concern may be immaterial for another; Similarly, an item material in one year may not be material in the next year.

As per AS - 1, materiality should govern the selection and application of accounting policies. According to the consideration of materiality, financial statements should disclose all items which are material enough to affect evaluation of decisions.

(b) Bonus Share

Bonus Share When the additional shares are allotted to the existing shareholders without receiving any additional payment from them, it is known as issue of bonus shares. Bonus shares are allotted by capitalizing the reserves and surplus. Issue of bonus shares results in the conversion of the company's profits into share capital. Therefore it is termed as capitalization of company's profits. Since such shares are issued to the equity shareholders in proportion to their holdings of equity share capital of the company, a shareholder continues to retain his / her proportionate ownership of the company. Issue of bonus shares does not affect the total capital structure of the company. It is simply a capitalization of that portion of shareholders' equity which is represented by reserves and surpluses. It also does not affect the total earnings of the shareholders. Issue of Bonus Shares is more or less a financial gimmick without any real impact on the wealth of the shareholders. Still firms issue bonus shares and shareholders look forward to issue of bonus shares.

Guidelines for the issue of Bonus Shares

The following are the guidelines issued by SEBI for issue of Bonus Shares by a listed company.

- (i) Issue of Bonus Shares after any public / rights issue is subject to the condition that that no bonus issue shall be made which will dilute the value or rights of the holders of debentures convertible fully or partly.
- (ii) The bonus issue is made out of free reserves built out of the genuine profits or share premium collected in cash only.
- (iii) Reserves created by revaluation of fixed assets, are not capitalized
- (iv) The declaration of bonus issue, in lieu of dividend, is not made
- (v) The bonus issue is not made unless the partly paid shares, if any existing, are made fully paid – up
- (vi) The company has
 - defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption thereof
 - sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity,

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bonus, etc.

- (vii) A company which announces its bonus issue after the approval of the Board of Directors must implement the proposals within a period of six months from the date of such approval and shall not have the option of changing the decision.
- (viii) There should be a provision in the Articles of Association of the company for capitalisation of Reserves, etc. and, if not, the company shall pass a Resolution at its General Body Meeting making provisions in the Articles of Association for capitalisation.
- (ix) Consequent to the issue of bonus issue, if the subscribed and paid up capital exceeds the authorised share capital, a resolution shall be passed by the company at its General Body Meeting for increasing the authorised capital.

(c) Convention of Conservatism

This signifies the policy of 'playing safe'. This takes into consideration all prospective losses but leaves all prospective profits / gains.

This accounting principle is given recognition in AS -1 which recommends the observance of prudence in the framing of accounting policies. Uncertainties inevitably surround many transactions. This should be recognized by practicing prudence in financial statements. Prudence does not, however, justify the creation of secret or hidden reserves. Some of the examples of the application of the convention of conservatism.

- Making the provision for doubtful and discount on debtors in anticipation of actual bad debts and discount
- Valuing the stock in trade at market price or cost price whichever is less
- Charging of small capital items, like crockery, to revenue
- Not providing for discount on creditors
- Amortization of intangible assets like goodwill which has indefinite life.

The principle of conservatism applies:

- When there is an uncertainty in the activity
- when there are two equally acceptable methods then the one which is more conservative will be accepted
- When there is judgment based on estimates and doubts exists as to which of the several estimates is correct, the most conservative would be selected
- When there is a possibility of the occurrence of a loss or profit, losses will be considered and profits will be overlooked

This principle has effect on:

• Income statement

Here the principle results in lower net income than would otherwise be the case

• Balance Sheet

When applied to the Balance Sheet, the conservatism approach results in understatement of assets and capital and overstatement of liabilities and provisions.

(d) Advantages of Self Balancing Ledgers :

The advantages of self balancing Ledgers are summarized as under:

- It is easy to locate the errors under Self Balancing System. Delay in balancing is minimized which in turn saves time, money and labour.
- It is easy to compile the Trial Balance before individual personal ledger balances are absorbed. It also facilitates the preparation of both interim accounts and draft final accounts.
- It enables accounting system that would otherwise be unwieldy to be divided into self

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contained sections.

- The control accounts provide a quick means of ascertaining the upto-date amounts owing to and by the business. This information can be very useful to the management.
- It acts as a check on the honesty of clerks in charge of personal ledgers.
- The information regarding proprietor's capital, profit and loss etc. contained in the general ledger can be kept confidential from the office staff, if general ledger is kept in the charge of the partner or a trustworthy assistant.
- It provides a good method of office control by distinguishing the efficient clerks from the inefficient personnel.

(e) Capital receipts and Revenue Receipts

Capital Receipts

The amount of capital which is contributed by the owner either in the form of cash or in various kind of assets or any contribution made by others towards the business as capital. Needless to say that those receipts do not have any effect on the result of the operation of the business, i.e. the profit or loss for the corresponding year. In short, these are non - recurring receipts from the owner of the business or lenders of money creating a liability.

Examples:

- Further capital introduced by the owners
- A loan was taken by mortgaging any fixed asset, say Land and Building

Revenue Receipts

Revenue Receipts, on the other hand, comprises the sale proceeds of merchandise together with other receipts related to the business (viz. commission and discount received, dividend and subscription received etc), i.e. all the recurring incomes which a business earns during normal course of it's activities. They do not create any liability of the firm. In other words, they are recurring receipts i.e. sale of goods or services during the normal course of the business and which helps to produce the result of the firm for the current accounting period under consideration. They directly affect the result of the operation, i.e. profit or loss of the firm. These receipts are adjusted against revenue expenditure in order to find out the profit or loss of the firm.

Examples:

- Commission and Discount Received
- Dividend and Interest Received on Investments, etc.