

## INTERMEDIATE EXAMINATION

June, 2014

I-P5(FAC)

**Syllabus 2008**

### 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.*

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

**Please Turn Over**

- (v) As per Sec. 205 (2A) of the Indian Companies Act, if the proposed dividend is exceeding 15%, but not more than 20% of paid up share capital, then percentage of profits to be transferred to reserves will be
- (A) 5%
  - (B) 7.5%
  - (C) 10%
  - (D) 15%

- (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=

- (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=

- (i) As per Indian Companies Act, 1956, the maximum limit of managerial remuneration for full time 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 A/c, Income and Expenditure A/c)
- (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
- (ii) Remittance in Transit
- (iii) Entrance Fee
- (iv) Clear Profit
- (v) Ideal Norm = 2 : 1

- (A) Receipts and Payments Account
- (B) Piecemeal Distribution
- (C) Electricity Company
- (D) Current Ratio
- (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 (= 1Mark) and give brief workings in support of your answer (=1mark):

- (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 instalment at the end of second year will be
  - (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

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 a/c
- (ii) Bad debt recovered a/c
- (iii) Interest on investment a/c
- (iv) Outstanding rent a/c and
- (v) Capital work-in-progress a/c

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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.

Please Turn Over



### 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
<b>Total</b>	<b>14,00,000</b>	<b>Total</b>	<b>14,00,000</b>

**Additional information:** Sales and purchases were ₹ 5,60,000 and ₹ 1,20,000 respectively.

Assume 1 year = 365 days.

- (c) A, B and C are partners sharing profit or loss in the ratio of 3:2:1. They admit D as partner for  $\frac{1}{5}$ th share in future profits. D acquired  $\frac{2}{15}$ th share from A and  $\frac{1}{15}$ th share from B. Calculate the new profit sharing ratio and sacrifice ratio. 7
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) 3
- (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. 6

#### Receipts and Payments Account for the year ended 31.03.2014

Receipts	Amount (₹)	Payments	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
<b>Total</b>	<b>10,23,550</b>		<b>10,23,550</b>



**Additional Information:**

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

	31.03.13	31.03.14
	₹	₹
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. 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

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	-

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

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

Please Turn Over

- (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.

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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
<b>Total</b>	<b>26,900</b>
Assets	₹ in Lakhs
Fixed Assets	14,000
Investments	3,000
Cash at Bank	1,650
Other Current Assets	8,250
<b>Total</b>	<b>26,900</b>

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 prepare the company's balance sheet immediately thereafter. The amount of securities premium has been utilised to the maximum extent allowed by law.

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- (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 year 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

6. (a) Exe Ltd. purchased a vehicle for ₹ 2,80,000, down payment to be made ₹ 91,000 and 3 instalments of ₹ 76,000 each at the end of each year. Rate of interest is charged at 10% p.a. Buyer depreciates assets at 15% on written down value method.

Because of financial difficulties, Exe Ltd. after having paid the down payment and first instalment at the end of 1st year, could not pay the second instalment. Hence, the seller took possession of the vehicle. The Seller after spending ₹ 9,200 on repairs of the asset, sold it for ₹ 1,50,000. Show the relevant accounts in the books of the purchaser and the vendor.

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- (b) Give the necessary Journal Entries both at the time of issue and redemption of Debentures in each of the following alternative cases:

- (i) AP Ltd. issued 1,000 nos. 10% Debentures of ₹ 100 each at par and redeemable at par at the end of 4 years.
- (ii) AZ Ltd. issued 10% Debentures of the total face value of ₹ 1,00,000 at a premium of 5% to be redeemed at par at the end of 4 years.
- (iii) AK Ltd. issued 1,000, 14% Debentures of ₹ 100 each at par, but redeemable at a premium of 5% at the end of 4 years.

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- (c) State the three fundamental accounting assumptions as per AS-1.

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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 (₹)	Bikash'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  $\frac{2}{3}$  rds of the previous three 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.

5

8. Write short notes on (any three):

5×3=15

- (a) Materiality Convention
  - (b) Bonus Shares
  - (c) Conservatism Concept
  - (d) Advantages of Self Balancing Ledgers
  - (e) Capital Receipts v/s Revenue Receipts
-