

INTERMEDIATE EXAMINATION

June 2017

P-5(FAC)
Syllabus 2012

Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Section-A questions are compulsory. Attempt all of them.

Section- B has eight questions. Attempt any five of them.

Working notes should form part of the respective answers.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Please: (1) Answer all bits of a question at one place.

(2) Open a new page for answers to a new question.

Section – A

(25 Marks)

1. Answer the following questions:

- (a) Choose the most appropriate one from the stated options and write it down [only indicate (A) or (B) or (C) or (D) as you think correct.]: 1×5=5

- (i) As per AS-1, which of the following is not a Fundamental Accounting Assumptions?

- (A) Conservatism
- (B) Going Concern
- (C) Consistency
- (D) Accrual

- (ii) Name the book in which, entries are recorded on the basis of debit notes issued.

- (A) Sales Book
- (B) Purchase Book
- (C) Sales Return Book
- (D) Purchase Return Book

- (iii) Name the principle involved in the classification of Assets as Fixed and Current.

- (A) Cost Principle
- (B) Going Concern Principle
- (C) Matching Principle
- (D) Prudence Principle

Please Turn Over

- (iv) If a fixed amount is withdrawn on the first day of every month of calendar year by a partner in partnership firm, then for what period the interest on the total amount of drawings will be calculated?
- (A) 4.5 months
(B) 5.5 months
(C) 6.5 months
(D) 7.5 months
- (v) Del credere commission is allowed to consignee
- (A) for making cash sales.
(B) for making credit sales.
(C) for making extra sales.
(D) for undertaking risk of bad debts.

(b) Match the following:

1×5=5

Column A		Column B	
1.	Events occurring after the Balance Sheet Date	(A)	AS-6
2.	Prior Period Items	(B)	AS-9
3.	Depreciation Accounting	(C)	AS-16
4.	Timing of recognition of sales of goods	(D)	AS-5
5.	Capitalization of Borrowing Cost	(E)	AS-4

(c) State whether the following statements are true or false:

1×5=5

- (i) As per full disclosure principle, the financial statements should disclose all irrelevant information.
- (ii) Realisation account is a real account.
- (iii) Trade discount is recorded in the books of original entry.
- (iv) Abnormal wastages should be included in the cost of inventories as per AS-2.
- (v) In absence of partnership deed, partners are entitled to interest on capital @ 6% p.a.

(d) Answer the following:

2×5=10

- (i) The Cost of Inventory of Rajasthali Ltd. as per physical verification as on 24th March, 2016 was ₹ 4,00,000. Goods are sold at a profit of 25% on cost. On 27th March, goods of the sale value of ₹ 1,00,000 were sent on sale on return basis to a customer, the period of approval being two weeks. He returned 20% of the goods and approved 80% of the remaining on 31st March. Calculate the Cost of Inventory as per Books.
- (ii) From the following calculate subscription Income of Pitam Pura Club for the year 2016:
Subscription outstanding as on 31.12.2015: ₹ 9,500 (including ₹ 500 for 2014)
Subscription received in advance as on 31.12.2015: ₹ 3,000 (including ₹ 200 for 2017)
Subscription received during 2016: for 2014 ₹ 400, for 2015 ₹ 8,900, for 2016 ₹ 1,34,400, for 2017 ₹ 4,000, for 2018 ₹ 1,200.
Subscription outstanding as on 31.12.2016: ₹ 6,950
Subscription of 2014 written off during 2016: ₹ 50
- (iii) X purchased a machine from Y on hire purchase basis on the following terms:
(a) Cash price—₹ 10,00,000 (b) Cash Down Payment—20% (c) Four annual equal instalments of ₹ 2,50,000 each to be paid at the end of each year. Compute the payment of interest pertaining to each accounting year assuming that the sales were made at the beginning of the year.
- (iv) An amount of ₹ 9,90,000 was incurred on a contract work upto 31.03.2016. Certificates have been received to date to the value of ₹ 12,00,000 against which ₹ 10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹ 22,500. It is estimated that by spending an additional amount of ₹ 1,10,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹ 13,00,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per As-7.
- (v) On 31st March, 2015, IDFC Bank Ltd. has a balance of ₹ 9 crores in 'rebate on bills discounted' account. During the year ended 31st March, 2016, IDFC Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest at 18% per annum, the average period of discount being for 73 days. Of these, bills of exchange of ₹ 600 crores were due for realisation from the acceptors/customers after 31st March, 2016, the average period outstanding after 31st March, 2016 being 36.5 days. Prepare Interest and Discount on Bills A/c.

Section – B

(75 Marks)

Answer any five questions (carrying 15 Marks each) from Question No. 2 to Question No 9:

2. (a) (i) What are the characteristics of a Balance Sheet?
- (ii) How does 'subjectivity' become a limitation of Financial Statement Analysis?
- (iii) Fine Garments Ltd. is engaged in the export of readymade garments. The company purchased a machinery of ₹ 10,00,000 for the use in packaging of such garments. State giving reason whether the cash flow due to the purchase of machinery will be cash flow from operating activities, investing activities or financing activities. 3+2+2=7
- (b) (i) X Ltd. has a current ratio of 3.5 : 1 and quick ratio of 2 : 1. If excess of current assets over quick assets represented by Inventory is ₹ 24,000, calculate current assets and current liabilities.
- (ii) From the following information, calculate Inventory Turnover Ratio:
Revenue from Operations: ₹ 4,00,000, Average Inventory: ₹ 55,000. The rate of Gross Loss on Revenue from Operations was 10%. 2+2=4
- (c) What are the issues with which Accounting Standards deal? 4
3. The following is the Balance Sheet of Chirag as on 31st March, 2015:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor Car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- (a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases.
- (b) On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- (c) Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.
- (d) Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500, and Cash withdrawn from Bank ₹ 12,000.
- (e) Gross profit as per last year's audited accounts was ₹ 30,000.
- (f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- (g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit & Loss Account for the year ended 31st March, 2016 and Balance Sheet as on the date. 15

4. (a) X Limited sold goods worth ₹ 13 lakh to Mr. Y. Mr. Y asked for a Trade Discount amounting to ₹ 1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth ₹ 1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to ₹ 10,60,000. The Accountant of X Limited booked the sale for ₹ 10,60,000.

Discuss the contention of the Accountant with reference to relevant Accounting Standard. 4

- (b) XYZ Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	₹
Materials	10,00,000
Direct Labour (1/6th of the total labour time was chargeable to the construction)	3,00,000
Direct Expenses	2,00,000
Office & Administrative Expenses (5% is specifically attributable to construction)	7,50,000
Depreciation on assets used for the construction of this asset	10,000

Calculate the cost of the fixed asset.

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- (c) A fire engulfed the premises of a business of M/s K on the morning of 1st July, 2016. The building, equipment and stock were destroyed and the salvage recorded the following:
Building ₹ 4,000; Equipment ₹ 2,500; Stock ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2016:

	₹
Sales	11,10,000
Purchases	9,37,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2015	1,50,000
Building (value on 31st December, 2015)	3,75,000
Equipment (value on 31st December, 2015)	75,000
Depreciation provision till 31st December, 2015 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31, 2015. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on sales. You are required to prepare the statement of claim for submission to the Insurance Company. 8

5. The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2016:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Accounts		Plant and Machinery	24,00,000
Kamal	20,00,000	Building	18,00,000
Rani	10,00,000	Sundry Debtors	6,00,000
Reserves	18,00,000	Stock	8,00,000
Sundry Creditors	8,00,000	Cash	2,00,000
Bills Payable	2,00,000		
	58,00,000		58,00,000

They agreed to admit 'Nisha' into the partnership on the following terms:

- The Goodwill of the firm was fixed at ₹ 2,10,000.
- That the value of Stock and Plant & Machinery were to be reduced by 10%.
- That a provision of 5% was to be created for Doubtful Debts.
- That the Building Account was to be appreciated by 20%.
- There was an unrecorded liability of ₹ 20,000.
- Investments worth ₹ 40,000 (Not mentioned in the Balance Sheet) were taken into account.
- That the value of Reserve, the values of Liabilities and the values of Assets other than Cash are not to be altered.
- 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital Account of the partners and the Balance Sheet of the newly reconstituted firm. 15

6. (a) From the following transactions in the books of Mr. Perfect, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2016. Interest is to be charged and/or allowed @ 12% p.a.

2016		₹
January 1	Balance in Smart's Account (Credit)	3,500
January 12	Sold goods to Smart (due 1st February)	30,000
January 31	Sold goods to Smart (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Smart	7,000
March 25	Cash received	6,500

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- (b) Following are the details of interest on advance of Patta Commercial Bank as on 31st March, 2017:

(₹ in crore)

Particulars	Interest Earned	Interest Received
	₹	₹
<i>Performing Assets:</i>		
Terms Loan	480	360
Cash Credit and Overdraft	2,500	2,010
Bills Purchased and Discounted	300	300
<i>Non-Performing Assets:</i>		
Term Loan	250	50
Cash Credit and Overdraft	800	60
Bill Purchased and Discounted	200	40

Find out the income to be recognized for the year ended 31st March, 2017.

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7. (a) K. Ltd. has sold its building for ₹ 50 lakh to B. Ltd. and has also given the possession to B. Ltd. The book value of the building is ₹ 30 lakh. As on 31st March, 2016, the documentation and legal formalities are pending. The company has not recorded the sale and has shown the amount received as advance. Do you agree with this treatment? 3
- (b) Entity Hello has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.

The following incremental costs will be incurred:

Setup costs of ₹ 5,00,000 to install machinery in the new location.

Rent of ₹ 15,00,000.

Removal costs of ₹ 3,00,000 to transport the machinery from the old location to the temporary location.

You are required to advise can these costs be capitalised into the cost of the new building. 4

- (c) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger:

	₹
Transfer from Debtors Ledger to Creditors Ledger	2,200
Bills Receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered ₹ 600)	4,400
Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bills Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400

8. (a) The Revenue Account of a life insurance company shows the life assurance fund on 31st March, 2017 of ₹ 62,21,310 before taking into account the following items:

- (i) Claims covered under re-insurance ₹ 12,000.
- (ii) Bonus utilized in reduction of life insurance premium ₹ 4,500.
- (iii) Interest accrued on securities ₹ 8,260.
- (iv) Outstanding premium ₹ 5,410.
- (v) Claims intimated but not admitted ₹ 26,500.

What is the life assurance fund after taking into account the above omissions?

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- (b) Compute Working Capital requirements of a company from the following information:

Average Collection Period	60 days	Sales	₹ 20,00,000
Average Payment Period	75 days	Gross Profit	25% on sale
Inventory Holding Period (on the basis of Cost of Goods Sold)	90 days	Credit Purchases	1/3rd of Cost of Goods Sold
Cash & Bank Balances	2.5% of sales	1 Year	360 days

The company expects 50% Sales increment during the next year.

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9. Write short notes on *any three* of the following:

5×3=15

- (a) Areas involving different accounting policies by different enterprises
- (b) Accounting treatment for grant received under APDRP (Electricity Companies)
- (c) Minimum paid-up capital and reserve (Banking Companies)
- (d) Re-insurance and Double Insurance