INTERMEDIATE EXAMINATION

December 2013

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 *questions 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) The concept that business is assumed to exist for an indefinite period and is not established with the objective of closing down is referred to as

(A) Money Measurement concept
(B) Going Concern concept
(C) Full Disclosure concept
(D) Dual Aspect concept

(ii) The outflow of funds to acquire an asset that will benefit the business for more than one accounting period is referred to as

(A) Miscellaneous Expenditure
(B) Revenue Expenditure
(C) Capital Expenditure
(D) Deferred Revenue Expenditure

(iii) Which of the following item(s) is (are) shown in the Income and Expenditure Account?

(A) Only items of Capital nature
(B) Only items of Revenue nature, which are received during the period of Accounts
(C) Only items of Revenue nature pertaining to the period of Accounts
(D) Both the items of Capital and Revenue nature

(iv) As per Insurance Regulatory and Development Authority Regulations, an Insurance Company is required to prepare

(A) Balance Sheet
(B) Revenue Account
(C) Profit and Loss Account
(D) All of the above

(v) Ground Rent or Surface rent means

(A) Minimum Royalty Payable
(B) Maximum Royalty Payable
(C) Fixed rent payable in addition to minimum rent
(D) Rent recovered at the end of lease term

(vi) AS-2 is not applicable to

(A) Inventories held for sale in ordinary course of business
(B) Work in progress arising in the ordinary course of business of service provider
(C) Inventories in the process of production for sale in ordinary course of business
(D) Inventories in form of material or supplies for the process of production

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

(i) The useful life of a depreciable asset is the period over which the asset is expected to be used by the enterprise, which is generally greater than the physical life.

(ii) As per agreed term in the Royalty agreement, short workings can be recouped in the year when the actual royalty is more than minimum rent.

(iii) Gain Ratio is generally concerned with the situation of admission of a Partner.

(iv) Every banking company incorporated in India is required to transfer at least 25% of its profit to Reserve Fund.

(v) Branch Stock Account is always prepared at cost price.

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

(i) After the transactions are posted to various ledger accounts (either from journal or from subsidiary books), they are ____________ while preparing Trial Balance for an enterprise. (added, balanced)

(ii) One of the characteristics of Depreciation is that it is a ____________ against profit. (charge, appropriation)

(iii) In a hire purchase system of maintaining accounts, when there is default in making payments in appropriate time, the owner takes back the ____________ of the goods. (ownership, possession)

(iv) In Branch Accounting system, the Branch prepares the periodic returns based on which the accounting records are maintained at the ____________ office. (Head, Branch)

(v) There is no need to transfer to General reserve if the proposed dividend does not exceed ____________ (10 or 20) per cent.

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

Column I	Column II
(i) Undervaluation of Asset	(A) Insurance Account
(ii) AS-24	(B) Segment Reporting
(iii) Average Clause	(C) Intangible Asset
(iv) AS-17	(D) Discontinuing Operation
(v) AS-26	(E) Secret Reserve
	(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): (1+1)×2=4

(i) Salary debited to Income and Expenditure Account for the year was ₹ 48,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹ 6,000 and ₹ 7,500 respectively. The amount of Salary to be shown in Receipts and Payments Account will be:

(A) ₹ 48,000

(B) ₹ 40,500

(C) ₹ 54,000

(D) ₹ 46,500

(ii) A Company purchased a Machine costing ₹ 15 Lakh for its production process. It paid Freight ₹ 25,000, Cartage ₹ 2,000 and installation charges ₹ 18,000. The Company spent an additional amount of ₹ 40,000 for testing and preparing the Machine for use. As per AS-10, the amount that should be recorded as the cost of Machine would be:

(A) ₹ 15,00,000

(B) ₹ 15,25,000

(C) ₹ 15,85,000

(D) ₹ 15,65,000

2. (a) A company was incorporated on 1st August, 2012 to take over a business from 1st April 2012. The accounts were made upto 31st March, 2013 as usual and the trading and profit and loss account gave the following result:

Particulars	₹		₹
To Opening Stock	1,40,000	By Sales	12,00,000
,, Purchase	9,10,000	,, Closing Stock	1,50,000
,, Gross Profit	3,00,000		
	13,50,000		13,50,000
To Rent, rates & insurance	18,000	By Gross Profit b/d	3,00,000
,, Directors fees	20,000		
,, Salaries	51,000		
,, Office expenses	48,000		
,, Travellers commission	12,000		
,, Discounts	15,000		
,, Bad debts	3,000		
,, Audit fees	8,500		
,, Depreciation	6,000		
,, Debenture interest	4,500		
,, Net Profit	1,14,000		
	3,00,000		3,00,000

It is ascertained that the sales for November and December are one and half times the average of those for the year, whilst those for February and April are only half the average, all the remaining months having average sales. Apportion the year's profit between are pre and post incorporation periods. 10

(b) Mr. Agarwal could not agree the Trial Balance. He transferred to the Suspense Account of ₹ 296, being excess of the debit side total. The following errors were subsequently discovered,

- ➢ Sales Day Book was overcast by ₹ 300
- ➢ An amount of ₹ 55, received from Mr. Y was posted to his account as ₹ 550
- ➢ Purchases Return Book total on a folio was carried forward as ₹ 221, instead of ₹ 112
- ➢ A car sale of ₹ 1,235 duly entered in the Cash Book but posted to Sales A/c as ₹ 235
- ➢ Rest of the difference was due to wrong total in Salaries A/c. Show the Journal entries to rectify the above errors. 5

3. (a) Classify the following Accounts into Personal, Real and Nominal Accounts:
   (i) Patent Rights a/c
   (ii) Drawings a/c
   (iii) Purchase Return a/c
   (iv) South Sports Club a/c
   (v) Prepaid Insurance a/c
   (vi) Charity a/c
   (vii) Bank Overdraft a/c
   (viii) Free samples a/c 4

   (b) Pass the Journal entries in the books of Head Office to record the following transactions for the year ending 31st March, 2013:
   (i) Head Office collected ₹ 24,500 from a customer of Delhi Baranch.
   (ii) Jaipur Branch paid ₹ 80,000 for purchase of Office Computer by Head Office for Delhi Branch.
   (iii) Goods sent by Head Office to Jaipur Branch valued ₹ 45,000 wrongly Debited to Delhi Branch in the Books of Head Office.
   (iv) Goods returned by Delhi Branch valued ₹ 4,800 on 26th March, 2013, was received by Head Office on 3rd April, 2013. 4

   (c) From the following particulars of Ritu Limited, you are required to calculate Managerial Remuneration in the following situations:
   (i) There is only one Whole-Time Director,
   (ii) There are two Whole-Time Directors,
   (iii) There are two Whole-Time Directors and one part time Director and Manager

	₹
Net Profit before Tax and Managerial remuneration, but after Depreciation	15,70,410
Depreciation provided in the Books	4,80,000
Depreciation allowable under Schedule XIV	4,10,000

5

   (d) X and Y share profits in the ratio of 3 : 2. Z joins them with $1/4$th share. Find out the sacrificing ratio. 2

4. (a) Jaggu, Makkhu and Tikku are partners sharing Profit and Loss in the ratio of 3 : 2 : 1. The Balance Sheet of the Firm as on 31st March, 2013 was as follows:

Liabilities	Amount (₹)	*Assets*	Amount (₹)
Sundry Creditors	2,10,000	Cash in Hand	19,400
Bills Payable	50,000	Bill Receivable	28,600
General Reserve	75,000	Sundry Debtors	2,60,000
Investment Fluctuation Reserve	18,000	Stock	2,10,000
Bank Loan	2,50,000	Investments	1,10,000
Capital A/Cs		Joint Life Policy	85,000
Jaggu	3,60,000	(surrender value = Rs. 4,00,000)	
Makkhu	2,50,000	Plant & Machinery	2,00,000
Tikku	1,50,000	Land & Building	4,50,000
	13,63,000		13,63,000

Tikku Died on 31st May, 2013. He was entitled to an annual salary of ₹ 30,000 and Interest on Capital @ 15% per annum. According to Partnership deed, Goodwill is to be valued at rate of 2 years purchase on the basis of average of 5 year's profit or loss. Profit for April and May, 2013 is to be calculated proportionately on the average profit of last 2 years.

The Profit and loss for last 5 years were:

Year 2008-09 ₹ 1,02,000; Year 2009-10 ₹ 1,38,000, Year 2010-11 (Loss) ₹ 35,000 and Year 2012-13 ₹ 1,45,000

The full amount of Joint Life Policy of ₹ 4,00,000 was received by the Firm and the stock, Plant & Machinery were revalued at 90% of their Book value. Land & Building was revalued at 125% of Book value.

You are required to prepare an account showing amount payable to Tikku's executors. 8

(b) The Income & Expenditure Account of Jayashree Sangha Club for the year ended 31.12.2012 is given below:

Expenditure	Amount (₹)	*Income*	Amount (₹)
To Salaries	20,500	By Subscription	52,000
,, Newspaper	1,500	,, Sale of Newspaper	2,500
,, Audit Fees	2,500	,, Admission Fees	12,000
,, General Expenses	22,000	,, Donation	15,000
,, Printing & Stationery	7,500	,, Misc. Income	500
,, Travelling Expenses	2,000		
,, Rent	3,500		
,, Depreciation on Furniture	2,500		
,, Surplus	20,000		
	82,000		82,000

The following is the Balance Sheet of the Club as on 31.12.11

Liabilities	Amount (₹)	*Assets*	Amount (₹)
Outstanding salary	2,000	Furniture	15,000
Subscription received in advance	2,500	Sports equipment	20,000
Accumulated Fund	45,500	Accrued Subscription	5,000
		Cash at Bank	10,000
	50,000		50,000

Prepare Receipts & Payments Account for the year ended 31.12.2012 taking into account the following adjustments:

(i) Subscription received in advance ₹ 1,500

(ii) Salary due for ₹ 1,500 but not paid for the year

(iii) 60% of the admission fee to be capitalised

(iv) Subscription due for 2012 but not received ₹ 3,000 7

5. (a) For the year ending 31st March, 2013 accounting income of Mithi Limited is ₹ 25 Lakh. However, it's taxable income was ₹ 18 Lakh due to timing differences. Discuss treatment of Income Tax in the Accounts for the year 2012-2013, if applicable tax rate is 30%. 5

(b) The life insurance fund of Bharat Life Insurance Co. Ltd. was ₹ 34 lakh on 31.03.2013. Its actuarial valuation on 31.03.2013 disclosed a net liability of ₹ 28.80 lakh. An Interim Bonus of ₹ 40,000 was paid to the Policy Holders during the previous two years. It is now proposed to carry forward ₹ 1.10 lakh and to divide the balance between Policy Holders and Share Holders.

You are required to show (i) the valuation Balance Sheet, (ii) the net profit for the two year period and (iii) the distribution of profits. 2+2+2=6

(c) While finalising the Accounts for the year 2012-13 it was realised that XY Ltd. stands to receive ₹ 10 lakh from its customers in respect of sales made in 2012-13 due to price revision granted by the Government.

You are required to advise the Company regarding the treatment of the amount in the Accounts for the year quoting relevent Accounting Standard. 4

6. (a) What are the limitations of Ratio Analysis? 4

(b) The following details are given by the Bhalu Limited for a year:

Inventory ₹ 5,20,000
Working Capital ₹ 6,76,000
Cash sales ₹ 2,50,000
Inventory Turnover 5 times
Debtors Turnover 6 times
Current ratio 2 : 3 : 1
Gross Profit ratio 20% of sales

You are required to calculate the amount of (i) Gross Profit, (ii) Total sales, (iii) Sundry Debtors, (iv) Current Assets, (v) Quick (liquid) Assets. 5

(c) On 1.1.2010 Dola Ltd. purchased a Taxi from Sayan Ltd., on hire purchase system. A Down payment of ₹ 15,000 and 3 equal instalments together with interest @ 5% per annum on the outstanding balance of capital sum are to be made. The amount of last instalment payment was ₹ 15,750. Depreciation has to be provided @10% under reducing balance method.

At the end of 3rd year the taxi was sold for ₹ 25,000 in cash.

Prepare Taxi Account and Vendor Account in the books of Dola Ltd. 6

7. (a) M/s Chandu stores has three departments viz. A, B and C. At the end of the year 31st March, 2013 goods were included in departmental stocks out of inter-departmental transfers loading their on cost as follows:

From A to B ₹ 25,000 and to C ₹ 18,000 respectively at a profit of 25% on cost.
From B to A and C ₹ 9,000 and ₹ 6,000 respectively at a profit of $33\frac{1}{3}$ % on cost.
From C to A and B ₹ 25,000 and ₹ 27,000 respectively at a profit of 20% on transfer price.

Departmental Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental transfers being eliminated. Departmental profits after charging Manager's commission but before adjustment of unrealised profits are:

A— ₹ 1,57,500; B—₹ 1,62,000; C— ₹ 2,16,000.

You are required to calculate the amount of unrealised profits, correct amount of Manager's commission and departmental profits after charging Manages commission. 5

(b) From the following data, Compute the Percentage of Completion & P/L Account (Extract) as would appear in the books of a contractor as per AS-7

Contract Price		₹ 350 Lakh
Cost incurred to date as follows:		
Material	₹ 250 Lakh	
Labour Charge	₹ 100 Lakh	
Other Expenses	₹ 50 Lakh	₹ 400 Lakh
Estimated Cost to Complete		₹ 100 Lakh

5

(c) On 31st March, 2013 following was the Balance Sheet of Green India Ltd.

Liabilities	Amount (₹)	*Assets*	Amount (₹)
Equity Share Capital (fully paid-up shares of ₹ 10 each)	2,400	Machinery	3,000
		Furniture	312
Securities premium	350	Investments	148
General Reserve	930	Stock	1,200
Profit and Loss Account	340	Debtors	520
Sundry Creditors	1,900	Cash at Bank	740
	5,920		5,920

On 1st April, 2013, the company announced the buy-back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investments for ₹ 150 lakh and issued 2,00,000 12% preference shares of ₹ 100 each at par with the entire amount being payable on application.

The issue was fully subscribed. The company achieved the target of the buy-back.

Show journal entries for all the transactions. 5

8. Write Short notes on (*any three*): 5×3=15

(a) Difference between Receipts and Payments Account and Income and Expenditure Account;

(b) Distinction between Revaluation Account and Realisation Account;

(c) Important provision regarding disposal of Non-Banking Assets as per Section 9 of the Banking Regulation Act, 1949;

(d) Recoupment of Short working;

(e) Debt Service Coverage ratio.