INTERMEDIATE EXAMINATION

June 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 alternatives given against each of the following cases, indicate the correct answer: (just state A, B, C or D) 1×6=6

(i) At the year end, an amount outstanding for electricity consumed during that year will be dealt in the Accounts for the year by following the accounting concept of
(A) Realisation
(B) Accrual
(C) Conservatism
(D) None of the above

(ii) Contingent Liability would appear
(A) On the liability side
(B) On the asset side
(C) As a note in Balance Sheet
(D) None of the above

(iii) The effect of timing difference is called as
(A) Current Tax
(B) Deferred Tax
(C) Minimum Tax
(D) None of the above

(iv) At the time of public issue of shares the sequence of steps taken are
(A) Issue prospectus > Select Merchant Banker > Receive money from applicants
(B) Select Merchant Banker > Receive money from applicants > Issue prospectus
(C) Select Merchant Banker > Issue prospectus > Receive money from applicants
(D) None of the above

(v) Interest and Dividends received in the case of a manufacturing concern should be classified as cash flow from
(A) Operating activities
(B) Financing activities
(C) Investing activities
(D) None of the above

(vi) Redemption of Preference Share of a Company is
(A) Compulsory
(B) Optional
(C) Conditional
(D) None of the above

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

(i) Sinking fund method of depreciation takes into account the cost of an asset as well as interest also thereon at given rate.

(ii) Purchase of a technical know-how is revenue expenditure.

(iii) Transactions are recorded on accrual basis in the 'Income and Expenditure Account'.

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

(i) Royalty account is a ____________ account in nature (nominal/real).

(ii) The excess of issue price of share over their face value is termed as ____________ (discount/securities premium).

(iii) Revenue nature receipts and payments which relates to a particular accounting period are shown in the ____________ account (Receipts and Payments/Income and Expenditure).

(iv) As per AS-26, at the preliminary project stage the internally generated software should ____________ recognised as an asset (be/not be).

(v) As per Indian Companies Act, maximum limit of managerial remuneration for full time single managerial personnel is ____________ (5%/3%).

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

Column I	Column II
(i) Repossess the goods	(A) AS–26
(ii) Non Performing Assets	(B) Banking Companies
(iii) Intangible Assets	(C) Piecemeal distribution
(iv) Related Party Disclosures	(D) Hire Purchase System
(v) Maximum Loss Method	(E) AS–28
	(F) No matching statement found

(e) In the following cases, one out of four answers is correct. Indicate the correct answer (= 1 mark) and give brief workings in support of your answer (= 1 mark): (1+1)×2=4

(i) Working capital of a company is ₹ 21,28,000 and total debts are ₹ 42,50,000. If the company's long term debts are ₹ 27,30,000 then current ratio will be

(A) 0·78 : 1 (B) 1·4 : 1 (C) 1·14 : 1 (D) 2·4 : 1

(ii) A and B are partners sharing profit/loss in the ratio of 3 : 2. They admit C into partnership for $^{1}/_{6}$ share in the profit which he aquired equally from the old partners. The new profit sharing ratio will be

(A) 3 : 2 : 1 (B) 1 : 1 : 1 (C) 31 : 19 : 10 (D) 14 : 6 : 4

2. (a) Prepare the Balance Sheet as at 31.03.2012 from the particulars furnished by M/s PRAN Ltd. as per revised Schedule VI of the Companies Act: 5

Particulars	Amount (₹)	Particulars	Amount (₹)
Share Capital	7,50,000	Capital Redemption Reserve	20,000
Calls in Arrear	5,000	Investment in 6% GP Notes (Tax Free)	3,00,000
Land	2,20,000	Profit and Loss Account	65,000
Building	2,00,000	Cash in Hand	25,000
General Reserve	50,000	Debtor	10,000
Loan from IDBI	1,00,000	Stock	1,00,000
Sundry Creditors	1,50,000	Goodwill	25,000

(b) A Company with its Head Office at Kolkata has a Branch at Chennai. The Branch receives all goods from Head Office who remits cash for all expenses. Total Sales by Branch for year ended 31.03.2012 amounted to ₹ 6,50,000 out of which 75% on Credit. Other details for Chennai Branch were as under:

	01.04.2011	31.03.2012
Stock	4,000	30,000
Debtor	45,000	30,000
Petty Cash	250	—

Petty Cash sent by Head Office ₹ 3,000 but ₹ 2,500 is spent for Petty Expenses. The Expenses of ₹ 45,000 are actually spent by Branch. All sales are made by the Branch at Cost plus 25%.

You are required to prepare the Channai Branch A/c in the Books of Head Office for the year ended 31.03.2012. 5

(c) Ram, Rahim and Robert are partners in a firm sharing profits and losses in the proportion of 3 : 3 : 2. Their Balance Sheet as on 31.03.2013 was as follows:

Liabilities		₹	Assets	₹
Partners Capital Accounts:			Bank	55,000
Ram	75,000		Stock	69,000
Rahim	75,000		Investments	6,000
Robert	1,00,000		Debtors	70,000
		2,50,000	Land and Building	1,25,000
Partners Current Account:			Goodwill	25,000
Ram	15,000			
Rahim	25,000			
Robert	12,500			
		52,500		
Sundry creditors		47,500		
		3,50,000		3,50,000

They decided to dissolve the firm on 01.04.2013. They report the result of realization as follows:

Land and Buildings	90,000—realized in cash
Debtors	60,000—realized in cash
Investments	5,500—taken over by Ram
Stock	75,500—taken over by Rahim
Goodwill	18,000—taken over by Robert

The realization expenses amounted to ₹ 2,000. Close the Accounts of the firm. 5

3. (a) Explain what is meant by fixed rights and fluctuating rights in recoupment of short working. 2

(b) On 1st April, 2010 Guru purchased a machinery for cash price of ₹ 5,06,872 on hire purchase system from Machinery Mart. Payment to be made ₹ 1,50,000 down and the balance by four equal annual instalments. Interest is charged @ 15% per annum. Guru depreciates machinery at 20% per annum on written down value method. Guru paid down payment and first two instalments but could not pay the remaining instalments. On 31st March, 2013 the Machinery Mart took possession of machinery.

You are required to prepare Machinery Account and Machinery Mart Account in the books of Guru. 7

(c) X Co Ltd. decided to buyback 10,000 equity shares of ₹ 10 each. It sold investments (Face value) ₹ 70,000 for ₹ 95,000. It bought 10,000 equity shares in the open market for ₹ 90,000 out of free reserves. The shares bought back were cancelled. The expenses of buyback was ₹ 1,000.

Pass necessary journal entries in the books of X Co Ltd. to record the above transactions. 6

4. (a) State whether the following items are in the nature of Capital, Revenue and/or Deferred Revenue Expenditure:

(i) Expenditure on special advertising campaign ₹ 66,000; suppose the advantage will be received for six years.

(ii) An amount of ₹ 8,000 spent as legal charges for abuse of Trade Mark.

(iii) Legal charges of ₹ 15,000 incurred for raising loan.

(iv) Share issue expenses ₹ 5,000.

(v) Freight charges on a new machine ₹ 1,500 and erection charges ₹ 1,800 for that machine. 1×5=5

(b) A, B and C started a partnership firm on 1.1.2012. A introduced ₹ 10,000 on 1.1.2012 and further introduced ₹ 4,000 on 1.7.2012. B introduced ₹ 25,000 at first on 1.1.2012 but withdraw ₹ 5,000 from the business on 31.9.2012. C introduced ₹ 15,000 at the beginning on 1.1.2012, increased it by ₹ 5,000 on 1.4.2012 and reduced it to ₹ 10,000 on 1.11.2012.

During the year 2012 they made a net profit of ₹ 75,500. The partners decided to provide interest on their capitals at 10% p.a. and to divide the balance of profit in their effective capital contribution ratio.

Prepare the Profit and Loss Appropriation Account for the year ended 31.12.2012. 5

(c) On 31st December, 2011 two machines which were purchased on 1.10.2008 costing ₹ 50,000 and ₹ 20,000 respectively had to be discarded and replaced by two new machines costing ₹ 50,000 and ₹ 25,000 respectively.

One of the discarded Machine was sold for ₹ 20,000 and other for ₹ 10,000. The balance of Machinery Account on April 1, 2011 was ₹ 3,00,000 against which the depreciation provision stood at ₹ 1,50,000. Depreciation was provided @ 10% on Reducing Balance Method.

Prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account. 5

5. (a) Jodhpur Club furnishes you the Receipts and Payments Account for the year ended 31.03.2013:

Receipts	₹	Payment	₹
Cash in hand (1.4.2012)	40,000	Salary	20,000
Cash at Bank (1.4.2012)	1,00,000	Repair expenses	5,000
Donations	50,000	Furnitures	60,000
Subscriptions	1,20,000	Investments	60,000
Entrance fee	10,000	Misc. expenses	5,000
Interest on investments	1,000	Insurance premium	2,000
Interest from banks	4,000	Billiards table and other sports items	80,000
Sale of old newspaper	1,500	Stationery expenses	1,500
Sale of drama tickets	10,500	Drama expenses	5,000
		Cash in hand (31.03.2013)	26,500
		Cash at Bank (31.03.2013)	72,000
	3,37,000		3,37,000

Additional information:

(i) Subscriptions in arrear for 2012-13 ₹ 9,000 and subscription in advance for the year 2013-14 ₹ 3,500.

(ii) ₹ 400 was the insurance premium outstanding as on 31.03.2013.

(iii) Miscellaneous expenses prepaid ₹ 900.
(iv) 50% of donation is to be capitalized.
(v) Entrance fees to be treated as revenue income.
(vi) 8% interest has accrued on investments for five months.
(vii) Billiards table and other sports equipments costing ₹ 3,00,000 were purchased in the financial year 2011-12 and of which ₹ 80,000 was not paid 31.03.2012. There is no charge for Depreciation to be considered.

You are required to prepare Income and Expenditure Account for the year ended 31.03.2013 and Balance sheet of the Club as at 31.03.2013. 10

(b) The cost of production of Product X is ₹ 450 which includes per unit cost of Material, Labour and overheads of ₹ 250, ₹ 110 and ₹ 90 respectively. At the end of the accounting year on 31.03.2013 the replacement cost of Raw Material is ₹ 210 per unit.

There are 500 units of raw material in stock on 31.03.2013.

Calculate as per AS–2 the value of closing stock or Raw Material when:
(i) Finished Product is sold at ₹ 420 per unit,
(ii) Finished Product sold at ₹ 490 per unit. 5

6. (a) Distinguish between Branch and Departmental Accounting. 2

(b) The following items are extracted from the Balance Sheet of Best Ltd. as at 1st April, 2012:

	₹
(i) 9% Preference Shares of ₹ 100 each	50,00,000
(ii) Equity Shares of Rs. 10 each (₹ 8 paid up)	80,00,000
(iii) General Reserve	26,00,000
(iv) Securities Premium	20,00,000
(v) 12% Debentures	40,00,000

Profit before interest and tax for the year ending on 31.3.2013 was ₹ 44,80,000

The Board of Directors of the Company proposed payment of Preference Share Dividend and Equity Share Dividend @ 20%. The Board also declared Capital Bonus out of General Reserve for making partly paid-up shares into fully paid-up. Ignore Corporate Dividend Tax.

Provision to be made for Taxation @ 30%.

7.5% of Net Profit to be transferred to General reserve.

Your are required to show the Journal entries to be passed to incorporate the Recommendations and adjustments. 6

(c) Surya Co. Ltd. has three departments.

In made purchases during the financial year 2012-13 as below

Dept. A	= 2,000 units	at a total cost of ₹ 2,00,000
Dept. B	= 4,000 units	
Dept. C	= 4,800 units	

Stock as on 01.04.2012

Dept. A	= 240 units
Dept. B	= 160 units
Dept. C	= 304 units

Sales made were

Dept. A	2040 units at ₹ 20 each
Dept. B	3840 units at ₹ 22.50 each
Dept. C	4992 units at ₹ 25 each

The rate of gross profit is uniform for all the departments. Assume the unit price of opening stock and purchase unit cost are uniform.

Prepare Departmental Trading Account. 7

7. (a) BISLA Life Insurance Company furnishes you the following information:

Life Insurance fund on 31.03.2012	1,40,00,000
Net Liability on 31.03.2012 as per Actuarial Valuation	1,20,00,000
Interim Bonus paid to Policy holders during Intervaluation Period	2,50,000

You are required to prepare:

(a) Valuation Balance Sheet

(b) Statement of Net Profit for the Valuation Period. 3

(b) Following are the ratios retating to the trading activities of Chinu Ltd.:

Gross Profit Ratio	30%
Debtors/Receivables Turnover Ratio	5 times
Creditors Trunover Ratio	4 times
Stock Turnover Ratio	5 times

Gross Profit for the year ended 31st March, 2013 amounted to ₹ 8,40,000. Opening debtors of the year were ₹ 64,000 above the closing debtors. Closing Stock of the year was 125% of the Opening Stock. Opening Creditors were 20% of the purchases for the year.

You are required to find out the: (i) Sales; (ii) Purchases (equal to cost of goods sold); (iii) Openinig and Closing Debtors. (iv) Opening and Closing Creditors; (v) Opening and Closing Stocks. 8

(c) Esteem Ltd. made the following issue of debentures in May 2012:

(i) 2000, 11% debentures of ₹ 100 each was issued to a creditor who supplied a machine for ₹ 1,80,000.

(ii) 3000, 11% debentures of ₹ 100 each at a premium of 5%.

(iii) 1000, 11% debentures of ₹ 100 each to the Bankers as collateral security for a loan of ₹ 70,000.

Pass journal entries to record the above transactions in the Books of Esteem Ltd. 4

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

(a) Over/Under subscription;

(b) Rebate on Bills Discounted;

(c) Commission on Reinsurance ceded/accepted;

(d) Segment Reporting (AS 17);

(e) Guaranteed Partnership.