

**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) Answer the following questions (give workings) [2 x 5=10]**

- (i) On 01.01.2012, M/s. Three Star and Co. Ltd. purchased machinery for ₹2,00,000. Subsequently, ₹1,00,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, determine the Closing Book Value of the Machine as at 31.12.2014.
- (i) A trader acquired Machinery for ₹1,00,000 but included the same in purchase account. He paid ₹20,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.
- (ii) Salary debited to Income and Expenditure Account for the year was ₹96,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹12,000 and ₹15,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.
- (iii) 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 calculate the current ratio.
- (v) A company is planning to raise funds by making right issue of equity shares to finance its expansion. The existing equity share capital of the company is ₹50,00,000. The market value of its share is ₹42. The company offers to its shareholders the right to buy 2 shares at ₹11 each for every 5 shares held. Calculate theoretical market price of one share after right issue.

**(b) From the four alternative answers given against each indicate the correct answer : [5×1=5]**

(i) The cost of a Fixed Assets of a business has to be written off over its

- (A) Natural Life
- (B) Accounting Life
- (C) Estimated Economic Life
- (D) None of the above

(ii) Shortworkings can be recouped out of

- (A) Excess of actual Royalty over minimum rent
- (B) Excess of minimum rent over actual Royalty
- (C) Profit and Loss Account
- (D) Minimum rent

(iii) In Hire Purchase system cash price plus interest is known as

- (A) Capital value of asset
- (B) Book value of asset
- (C) Hire purchase price of asset

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(D) None of the above

(iv) The Receipts and Payments Account generally begins with

- (A) Credit Balance
- (B) Debit Balance
- (C) Both Debit and Credit Balance
- (D) None of the above

(v) Which of the following is a category of Share Capital of a company?

- (A) Authorized Capital
- (B) Called up Capital
- (C) All of the above
- (D) None of the above

(c) State whether the following statements are TRUE (T) or FALSE (F):

[1×5=5]

- (i) When the shareholder cannot pay call moneys for the shares allotted he can return the shares which is called as surrender of shares.
- (ii) Reserve for unexpired risk is applicable for Banking companies.
- (iii) Rebate on bills discounted is disclosed in the balance sheet of a Banking company in the assets side as representing the rebate not yet matured.
- (iv) Double account system is applicable for electricity companies.
- (v) Liquid assets plus stock in trade is called current assets.

(d) State with reasons which of the following items are to be considered as Capital and which are Revenue:

[5×1=5]

- (i) Spent ₹20,000 for remodeling the factory and the value of factory enhanced by ₹15,000 out of that.
- (ii) Wages paid for the installation of Machine amounted to ₹2,000 and cost of carriage for the same also amounted to ₹500.
- (iii) Fees paid to a lawyer for drawing an agreement of lease for an immovable property amounted to ₹2,000.
- (iv) The cost of removal of stock from old factory to the new one amounted to ₹1,000.
- (v) The expenses incurred for whitewashing the factory building amounted to ₹4,000.

2. (a) X's accounting year ends on 30.06.2013 but actual stock was not taken till 08.07.2013 on which date it is valued at ₹29,700. The following additional information is available :

- Sales are entered in the sales book on the date of dispatch and returns inward entered in the credit note register on the day goods are received back.
- Purchases are entered in the purchase book on the day invoices are received.
- Sales from 01.07.2013 to 08.07.2013 are ₹34,400
- Purchases invoiced from 01.07.2013 to 08.07.2013 are ₹2,640 out of which goods ₹240 was not received upto 08.07.2013.
- Invoices for goods purchased upto 30.06.2013 were of ₹2,000 of which goods worth ₹1,400 were received between 01.07.2013 to 08.07.2013
- Rate of G.P. 33.33% on cost.

Find out the value of stock on 30.06.2013.

[6]

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- (b) Show what journal entries would be passed by the Delhi Head Office to record the following transactions in their Books on 31st March, 2014, the closing date :
- A remittance of ₹ 70,000 made by Noida Branch to Head Office on 29th March, 2014 and received by the Head Office on 5th April, 2014.
  - Goods of ₹ 1,26,000 sent by the Head Office to the Ajmer Branch on 28<sup>th</sup> March, 2014 and received by the later on 4th April, 2014.
  - Noida Branch paid ₹ 60,000 as salary to a visiting Head Office Official. [3]

- (c) M Ltd. acquires 2000, 12% Debenture of S Ltd. on 1.4.2013 at ₹ 105 Cum-interest (face value of debentures ₹ 100). Interest is paid on 30th June and 31st December every year. Accounts are closed on 31st December 2013. Ascertain the amount of interest and cost of debentures. [2]

- (d) A Ltd.had issued 11% 5,00,000 debentures of ₹100 each redeemable on 31<sup>st</sup> March 2014 at a premium of 5%.

The company offered three options to debenture holders as under:

- i. 13% Preference shares of ₹10 each at ₹10.50
- ii. 14% debentures of ₹100 at par.
- iii. Redemption in cash.

The options were accepted as under.

Option i. By holders of 1,00,000 debentures.

Option ii. By holders of 1,00,000 debentures.

Option iii. By holders of 3,00,000 debentures.

The company carried out the redemption. Pass the necessary journal entries. [4]

3. (a) Mithil Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa.

From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufactured	₹10,000	₹5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former. [7]

- (b) Define Partnership as per Partnership Act,1932. [2]

- (c) X and Y are partners in a firm sharing profit/loss in the ratio 5:3. They admit their manager Z in the firm for 1/4<sup>th</sup> share in profit, which would be not less than the remuneration received by him as Manager. As Manager, Z is entitled for a salary of ₹ 32,000 per quarter and a commission of 10% on the net profit after charging such salary and commission. If the profit of the firm for the year ended 31<sup>st</sup> March, 2014 amounted to ₹ 4,80,000, show the distribution of firm's profit among the partners. [6]

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4. (a) Nilima Construction Ltd. undertook a contract on 1<sup>st</sup> January to construct a building for ₹80 Lakhs. The Company found on 31<sup>st</sup> March that it had already spent ₹58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹31,50,000.

What amount should be charged to revenue and what amount of Contract Value to be recognised as Turnover in the accounts for the year ended 31<sup>st</sup> March as per provision of AS – 7 (revised)? [6]

- (b) Amra Sobai Society receives an entrance fee of ₹ 10,000 from new members. Members are also required to pay a membership fee of ₹3,000 at the time of entrance. The membership fee permits only membership and all other services or products are paid for separately. Give the accounting treatment for entrance fees and membership fees. [3]

- (c) List the expenses that are not included in Segment expense as per AS-17. [6]

5. (a) The Life Insurance Fund of Bharat Life Insurance Co. Ltd. was ₹25 lakhs on 31.03.2014. Its actuarial valuation on 31.03.2014 disclosed a net liability of ₹21.25 lakhs. An interim bonus of ₹40,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹75,000 and to divide the balance between policy holders and the shareholders.

Show the — Valuation Balance Sheet; Net profit for the two-year period; and Distribution of profits. [7]

- (b) Rana Limited was incorporated on August 1, 2013. It had acquired a running business of Rana & Co. with effect from April 1, 2013. During the year 2013-14, the total sales were ₹36,00,000. The sales per month in the first half year were half of what they were in the later half year. The net profit of the company, ₹2,00,000 was worked out after charging the following expenses:

(i) Depreciation ₹1,23,000, (ii) Director's fees ₹50,000, (iii) Preliminary Expenses ₹12,000, (iv) office expenses ₹78,000, (v) Selling Expenses ₹72,000 and (vi) Interest to vendors upto August 31, 2013 ₹5,000.

Please ascertain pre-incorporation and post-incorporation profit for the year ended 31<sup>st</sup> March, 2014. [8]

6. (a) Calculate Rebate on Bills discounted of Kuber Bank Ltd. as on 31 December, 2013 from the following data and show journal entries:

	Date of Bill	₹	Period	Rate of Discount
(i)	15.10.2011	50,000	5 months	8%
(ii)	10.11.2011	30,000	4 months	7%
(iii)	25.11.2011	40,000	4 months	7%
(iv)	20.12.2011	70,000	3 months	9%

[6]

- (b) List the statistical books to be maintained by a banking company. [2]

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(c) On 1.1.2012 B Ltd. purchased a Truck from T Ltd. on hire purchase system. At the time of Agreement a sum of ₹ 1,92,000 was paid out of the cash down price of the Truck and the balance was be payable in 3 equal installments together with interest @ 5% p.a. The amount of last installment including interest was ₹ 2,68,800 .

Show the calculation of Cash Price, the interests paid and the Hire Purchase Price of the Truck. [7]

7. (a) Guri Ltd. took a factory premises on lease on 01.04.11 for ₹2,00,000 per month. The lease is operating lease. During March, 2012, Guri Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2014. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2014 should be provided in the accounts for the year ending 31.03.2012. What should Guri Ltd. do? [3]

(b) Opening and Closing Balances of Receipts and Payments Account are given as per Pass Book.

From the following Receipts and Payments Account of Kapil Cricket Club and the additional information prepare the Income & Expenditure Account for the year ended 31st March 2014 and the Balance Sheet on that date:

Receipts and Payments Account of the year ended 31<sup>st</sup> March, 2014

Date	Receipts	₹	Date	Payment	₹
1.4.13	Cash in hand	4,400	31.3.14	Wages	36,000
	Current Account balance as per pass book	9,400		Ground Rent	12,000
31.3.14	Membership Fees	48,000		Cost of Refreshments	90,000
	Income from Refreshments	1,20,000		Fun Fair Expenses	10,000
	Fun Fair Receipts	3,000		Equipment Purchased	40,000
	Interest received from Bank	500		Administrative Expenses	4,500
	Interest @ 7.5 p.a. on Securities	15,000		Repairs and Maintenance	16,000
	Sale Proceeds of Plant and Equipment	28,200		Caretaker's Salary	15,000
	Net Proceeds of Fund Raising match	35,350		Cash in hand	5,350
				Current Account balance as per Pass Book	35,000
		2,63,850			2,63,850

Additional Information:

	On 01.04.2013	On 31.03.2014
Value of Plant and equipment	45,000	50,000
Membership fees due	5,000	2,000
Interest not entered in the pass book	---	150
Cheques issued for repair works, but not presented	1,500	3,500
Administrative expenses outstanding	1,000	500

Depreciation is to be provided on the closing balance of plant and equipment at 10% Bonus payable to workers ₹ 3,000 is to be provided. Caretaker's Salary in the Receipts and Payments Account pertains to the accounting year 2012-13. The Salary for 2013-14 ₹18,000 has not yet been paid. [12]

8. Write Short Notes on any three :

[3x5=15]

- (a) Surrender value of Policy
- (b) Accounting convention of consistency;
- (c) Changes in Accounting Policies and its disclosure as per AS – 5
- (d) Distinction between revaluation account and realization account