# Paper-5: FINANCIAL ACCOUNTING

**Time Allowed: 3 Hours** **Full Marks: 100**

**Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.**
**Working Notes should be form part of your answer**

**Question 1 is compulsory and answers any 5 questions from the rest**

**1. (a)** Answer the following : **[1×5=5]**

(i) A profit on sale of furniture of a club will be taken to
- (A) Cash account
- (B) Receipt & Payment Account
- (C) Income & Expenditure Account
- (D) Profit & Loss Account

(ii) When interest on own debentures becomes due it will be credited to
- (A) Profit & Loss Account
- (B) Own Debentures Account
- (C) Debentures Interest Account
- (D) Interest on own Debentures Account

(iii) Profit prior to incorporation is transferred to
- (A) General Reserve
- (B) Capital Reserve
- (C) Profit & Loss Account
- (D) Development Reserve

(iv) Under installment system of purchase, interest suspense account is debited with
- (A) The difference between installment price and cash price
- (B) Amount of interest included in each installment
- (C) Installment price and discounted cash price
- (D) Difference between Cash Price and Depreciated Value

(v) Free Reserves include
- (A) Securities Premium
- (B) Revaluation Reserve
- (C) Capital Reserve
- (D) All of the above

**(b)** Match the following: **[1×5=5]**

| | |
|---|---|
| (i) AS20 | (A)Revenue Recognition |
| (ii) AS 13 | (B) Construction Contract |
| (iii) AS 7 | (c) Net Profit or Loss for the period, prior period items change in accounting policies |
| (iv) AS 5 | (D) Earnings Per Share (EPS) |
| (v) AS 9 | (E) Accounting for Investment |

**(c)** Fill in the blanks in the following sentences using the appropriate word from the alternatives Indicated**:** **[1×5=5]**

(i) Depreciation is an item of ______________ . (gross profit/expenditure)
(ii) Compensation paid to employees who are retrenched is _____________ expenditure (Capital/Revenue)

(iii) Receipts and Payment Account is a ____________ Account is nature. (Real/Nominal)
(iv) Unclaimed Dividend appears under the head of ___________ in the Balance Sheet of a Company (Deferred Expenditure/Liabilities).
(v) The terms equity and ___________ are used interchangeably.

**(d)** For the year ending 31st December, 2011, the Sales, Purchases, Opening Stock and Closing Stock of a Trader was ₹ 5,00,000, ₹ 3,80,000, ₹ 65,000 and ₹ 52,000 respectively. Some goods were destroyed by fire (without realization of any value) during the year. If the Trader earned Gross Profit @ 25% on Sales for the year, calculate the value of goods destroyed by fire. **[3]**

**(e)** A and B are currently partners in a firm sharing Profit/Loss in the ratio of 4 : 3. A new partner C is admitted and after his admission new profit sharing ratio between A, B and C becomes 5 : 3 :2. What will be the sacrifice ratio of A and B after admission of C? **[2]**

**(f)** State whether following statements are True/False. **[1x 5]**
(i) Issue of bonus shares does not change the amount of equity in the balance sheet.
(ii) Depreciation is charged on "Wasting Assets".
(iii) For buy back of shares, a company has to open a Current bank account.
(iv) Stock and debtors system is generally used when the goods are sent to the branch at cost price.
(v) If the unrecorded liabilities are taken over by the new firm, it is transferred to partners' capital account.

**2. (a)** Mayank furnishes you with the following information and asks you to :
(i) Recorded the transactions in the cash book with bank column for November,2013, and
(ii) Prepare reconciliation statements with State Bank of India as on 31st October, and 30th November 2013.

- On October 31, 2013 there was bank overdraft of ₹14,000 as per Cash Book and cash in hand of ₹ 7,500.
  Bank Statement as on that date showed cheques deposited but not yet realized of ₹40,000 while cheques issued but not presented for payment amounted to ₹60,000.
- During the month, customers paid ₹4,50,000 which were deposited into bank. Of these, cheques of ₹50,000 were deposited on 30th November 2013, and realized subsequently. The bank realized all the other cheques and charged ₹300 as collection expenses. These charges are to be entered in the Cash Book and not kept as reconciliation item.
- Cheques issued during the month totaled to ₹4,20,000. Bank statement showed that cheques presented for payment totaled to ₹4,50,000 only of which one cheque of ₹7,000 issued in October,2013 was returned on 5.11.2013 for want of Mayank's signature on the cheque. Mayank paid cash to the payee of the cheque and cancelled the cheque. The bank charged ₹25 for cheque return.
- Cheque presented for payment during the month included cash withdrawal from bank ₹15,000. 40% of this cash is handed over on various dates to the petty cashier while 50% is taken by Mayank for his personal use.
- Bank Charged ₹200 for cheque book issued.

**(b)** Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

| Plant | Cost of Asset | Remarks |
|---|---|---|
| Plant A | 100 Lakhs | No specific Borrowings |
| Plant B | 125 Lakhs | Bank loan of ₹ 65 Lakhs at 10% |
| Plant C | 175 Lakhs | 9% Debenture of ₹ 125 Lakhs were issued |

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16. **[8+7]**

**3.(a)** A limited Company was registered with a capital of ₹ 5,00,000 in share of ₹ 100 each and issued 2,000 such shares at a premium of ₹ 20 per share, payable as ₹ 20 per share on application, ₹ 50 per share on allotment (including premium) and ₹ 20 per share on first call made three months later. All the money payable on application, and allotment were duly received but when the first call was made, one shareholder paid the entire balance on his holding of 30 shares, and another shareholder holding 100 shares failed to pay the first call money.
Required:
Give Journal entries to record the above transactions.

**(b)** Alpha Co. Ltd. has a paid up equity share capital of ₹ 20,00,000 in 2,00,000 shares of ₹ 10 each. It resolved to buy-back 50,000 equity shares at ₹ 15 per share. For this purpose it issued 20,000 12% preference shares of ₹ 10 each, at par, payable along with application. The company has to its credit ₹ 2,50,000 in securities premium account and ₹ 10,00,000 in the general reserve account. The company utilized the whole of the securities premium and for the balance, general reserve. Pass the necessary journal entries.

**(c)** State the features of Receipts and Payments **[6 + 5 + 4]**

**4.(a)** The Dreamers' Club makes up its accounts to 31st December in each year. On 31st December, 2013 the cashier of the club absconded leaving behind no information or cash. An examination of the records showed that the books had not been written up for a considerable time and it was decided to reconstruct the figures from 1.1.2013.
A summary of the Bank Account for the year showed that:

| Receipts | Amount ₹ | Payments | Amount ₹ |
|---|---|---|---|
| Balance on 01.01.2013 | 420 | Rent & Rates | 460 |
| Bank Deposits | 42,610 | Insurance | 40 |
| | | Light & Heat | 156 |
| | | Bar Purchases | 35,067 |
| | | Telephone | 59 |
| | | Cash Withdrawn | 5,848 |
| | | Balance as on 31.12.13 | 1,400 |
| | 43,030 | | 43,030 |

The following information is also obtained:

(i) The Barman places takings in the bank night safe on his way home for crediting to the club account. The bar takings totaled ₹ 44,610 for the year. The treasurer had no access to bar takings.

(ii) The receipt counterfoils for members' subscriptions totaled ₹ 3,050 for the year.

(iii) A summary of expenditure for petty cash and wages revealed Glasses, crockery maintenance— ₹ 1,310; Wages—₹ 2,650; Sundry Expenses—₹ 475

(iv) Outstanding or Prepaid Amounts Were:

| | 31.12.2012 ₹ | 31.12.2013 ₹ |
|---|---|---|
| Prepaid rates | 26 | 28 |
| Outstanding Expenses | 64 | 100 |

The Bar Stock on 01.01.2013 was ₹ 3,607 and 31.12.13 ₹ 2,916. Opening Cash with the Cashier at the beginning of the year 2008 was ₹ 35 only.
Prepare an Income & Expenditure Account of the club for the year ended 31.12.2013.

**(b)** Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for total sales but they maintain a steady gross profit rate of 25% on sales.
An abstract of their cash transactions for the year ended 30th June, 2013 is:

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| Cash in hand | 21,600 | Salaries | 44,000 |
| Receipts from Customers | 5,40,000 | Rent | 8,800 |
| Cash Sales | 64,000 | Advertising | 3,600 |
| | | Printing | 3,200 |
| | | General expenses | 38,200 |
| | | Payment to Trade Creditors | 4,48,000 |
| | | Doll's Drawings | 8,000 |
| | | Cash in hand | 71,800 |
| | 6,25,600 | | 6,25,600 |

The following balances are available from their books as on 30th June 2012 and 30th June 2013:

| | As on 30.06.2012 | As on 30.06.2013 |
|---|---|---|
| | ₹ | ₹ |
| Stock-in-trade | 88,000 | 1,00,000 |
| Sundry Debtors | ? | 1,40,000 |
| Sundry Creditors | 93,600 | 74,000 |
| Furniture | 12,000 | ? |

Other information:

(i) Discount allowed ₹5,600;
(ii) Discount earned ₹4,800;
(iii) Outstanding Printing ₹1,000;
(iv) Capital of Doll as on 30th June 2011 was ₹8,000 more than Capital of Dolly;
(v) Provide depreciation on Furniture @ 10% p.a.

From the above, you are required to prepare:
- The Trading and Profit and Loss Account for the year ended 30th June 2013, and,
- The Balance Sheet as on that date, in the books of Doll and Dolly. **[7+8]**

**5.(a)** Two partnership firms, carrying on business under the style of R & Co. (Partners A & B) and W & Co. (Partners C & D) respectively, decided to amalgamate into RW & Co. with effect from 1st April 2013. The respective Balance Sheets of both the firms as on 31st March, 2013 are in below:

| Liabilities | R (₹) | W (₹) | Assets | R (₹) | W (₹) |
|---|---|---|---|---|---|
| Capital B | 19,000 | - | Goodwill | - | 5,000 |
| Capital C | - | 10,000 | Machinery | 10,000 | - |
| Capital D | - | 2,000 | Stock-in-trade | 20,000 | 5,000 |
| Bank Loan | 15,000 | - | Sundry Debtors | 10,000 | 10,000 |
| Creditors | 10,000 | 9,500 | Cash in hand | - | 1,500 |
| | | | Capital - A | 4,000 | - |
| | 44,000 | 21,500 | | 44,000 | 21,500 |

Profit sharing ratios are: A & B = 1:2; C & D = 1:1. Agreed terms are:

(i) All fixed assets are to be devalued by 20%.

(ii) All stock in trade is to be appreciated by 50%.

(iii) R & Co. owes ₹ 5,000 to W & Co. as on 31st March 2013. This is settled at ₹ 2,000. Goodwill is to be ignored for the purpose of amalgamation.

(iv) The fixed capital accounts in the new firm (RW & Co.) are to be : Mr. A ₹ 2,000; Mr. B ₹ 3,000; Mr. C ₹ 1,000 and Mr. D ₹ 4,000.

(v) Mr. B takes over bank overdraft of R & Co. and contributed to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.

(vi) Mr. C is paid off in cash from W & Co. and Mr. D bring in sufficient cash to make up his required capital contribution.

Pass necessary Journal entries to close the books of R & Co. as on 31st March 2013.

**(b)** State the various limitations of Ratio Analysis (mention at least 5 points). **[10+5]**

**6.(a)** K and L are two partners sharing profits and losses in the ratio of 5:3. Their Balance Sheet as at 30th June, 2013 is a follows:

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Creditors | | 30,000 | Furniture | | 40,000 |
| Reserve | | 14,000 | Patent | | 10,000 |
| Capital Account : | | | Debtors | 44,000 | |
| K | 40,000 | | *Less* : Reserve for Bad Debts | 5,000 | 39,000 |
| L | 50,000 | | Stock | | 20,000 |
| | | 90,000 | Cash in hand | | 25,000 |
| | | 1,34,000 | | | 1,34,000 |

On 1st July, 2013, they take M into partnership. M brings ₹ 25,000 as his capital and brings ₹ 3,600 as his share of goodwill. The new profit sharing ratio of K, L and M is 2:4:1. Patent is written off from the books and a reserve for Bad Debt is created at 5%. Reserve appears in the books of new firm at its original figure.

Show the necessary Journal entries to carry out the above transactions and prepare a Balance Sheet of the new firm as at 1st July, 2013.

**(b)** Mr. Gulab sells goods on hire purchase basis. He fixes hire purchase price at 331/3%profit on invoice price of the goods. The following are the figures relating to his hire purchase business for the year ending on 31st March 2013 :

| | 01.04.2012 ₹ | 31.03.2013 ₹ |
|---|---|---|
| Hire purchase Stock | 60,000 | ? |
| Hire Purchase Debtors | 1,5000 | ? |
| Shop Stock | 50,000 | 75,000 |

Goods purchased during the year ₹ 3,27,000, Cash received from customers during the year ₹4,62,000. Total amount of installments that fell due during the year ₹4,63,500. One customer to whom goods had been sold for ₹6,000 paid only 5 installments of ₹500 each. On his failure to pay the monthly installment of ₹ 500 each on 4th March 2008, the goods were repossessed on 27th March 2008 after due legal notice.
Required: Prepare the Hire Purchase Trading Account. **[7 + 8]**

**7. (a)** Blue and Yellow are two department of Red Company of Calcutta. Blue department sells goods to Yellow Department at normal market price. From the following particulars, prepare a Trading and Profit and Loss Account of the two departments for the year ended 31st March, 2013.

| | Dept. Blue ₹ | Dept. Yellow ₹ | General ₹ |
|---|---|---|---|
| Stock on April 1, 2012 | 12,000 | Nil | |
| Purchases | 2,76,000 | 24,000 | |
| Goods from Ocean Department | --- | 84,000 | |
| Wages | 12,000 | 19,200 | |
| Salaries | 8,000 | 5,000 | |
| Stock on 31st March, 2013, at Cost | 60,000 | 21,600 | |
| Sales | 2,76,000 | 1,74,000 | |
| Stationary & Printing | 2,560 | 1,960 | |
| Plant & Machinery | --- | 14,400 | |
| Salaries (General) | | | 18,000 |
| Miscellaneous Expenses | | | 3,600 |
| Advertisement | | | 9,600 |
| Bank Charges | | | 2,400 |

Depreciate Plant and Machinery by 10%. The general unallocated expenses are apportioned in the ratio Ocean: 3, Kite: 2

**(b)** C Electric Company Ltd. decides to replace its old plant with a modern one with a large capacity. The plant was installed in 1940 at a cost of ₹80 lakhs. The components of materials labour and overhead are in the ratio 5:3:2. It is ascertained that the costs of material and labour have gone up by 50% and 100%, respectively. The proportion of overheads to total costs is expected to remain the same as before.
The cost of the new plant as per improved design is ₹ 180 lakhs and, in addition, materials recovered from the old plant having value of ₹4,00,000 was used in the construction of the new plant. The old plant was scrapped and sold for ₹15,00,000. The accounts of the company are maintained under Double Account System.
Show the entries in the books of C Electric Company.

**(c)** When can revenue be recognized in the case of transaction of sale of goods? **[7+6+2]**

**8.** Write Short Notes on: **[5×3]**
(a) Capital Adequacy Ratio;
(b) Capital Redemption Reserve;
(c) Cum-interest and ex-interest price.