# 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)** The share capital of A Ltd. consists of 2,00,000 equity shares of ₹ 10 each, and 50,000 preference shares of ₹ 100 each, fully called up. Its securities premium account shows a balance of ₹ 80,000 and general reserve of ₹ 14,00,000. The company decides to buy-back 40,000 equity shares of ₹ 12 each.

Pass the journal entry showing the transfer of amount from General Reserve to Capital Redemption Reserve only.

**(ii)** 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.

**(iii)** Salary debited to Income and Expenditure Account for the year was ₹97,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹11,000 and ₹16,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.

**(iv)** Amrit Ltd. has signed at 31$^{st}$ Dec, the Balance Sheet date, a contract where the total revenue is estimated at ₹30 Crores and total cost is estimated at ₹40 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31$^{st}$ December?

**(v)** Calculate the interest income to be recognised for X Bank Ltd. for the year ended 31.03.2013 from the following information: (₹ in Crores)

| Interest | Total Interest collected | Earned but not collected | |
|---|---|---|---|
| | | On PA | On NPA |
| Interest on Cash Credit | 2,000 | 800 | 840 |
| Interest on Overdraft | 600 | 200 | 700 |
| Interest on Term Loan | 2,000 | 80 | 1,000 |

**(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
(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 are 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 drafting 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 30.06.2014 but actual stock was not taken till 08.07.2014 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 01.07.2014 to 08.07.2014 are ₹34,400
- Purchases invoiced from 01.07.2014 to 08.07.2014 are ₹2,640 out of which goods ₹240 was not received upto 08.07.2014.
- Invoices for goods purchased upto 30.06.2014 were of ₹2,000 of which goods worth ₹1,400 were received between 01.07.2014 to 08.07.2014
- Rate of G.P. 33.33% on cost.

Find out the value of stock on 30.06.2014. **[6]**

**(b)** Show what journal entries would be passed by the Delhi Head Office to record the following transactions in their Books on 31st March, 2015, the closing date :

- A remittance of ₹ 87,500 made by Noida Branch to Head Office on 29th March, 2015 and received by the Head Office on 5th April, 2015.
- Goods of ₹ 1,57,500 sent by the Head Office to the Ajmer Branch on 28th March, 2015 and received by the later on 4th April, 2015.
- Noida Branch paid ₹ 75,000 as salary to a visiting Head Office Official. **[3]**

**(c)** M Ltd. acquires 3,000, 14% Debenture of Kumud Ltd. on 1.4.2014 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 2014. Ascertain the amount of interest and cost of debentures. **[2]**

**(d)** Mr. M Purchased 500 equity shares of ₹100 each in PP Ltd. for ₹62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalize its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares one PP Ltd. were quoted at ₹175 per share. After the capitalization, the shares were quoted at ₹92.050 per share. Mr. M sold the Bonus shares and received ₹90 per share. Show Investment Account in Mr. M's Book on average cost basis as per AS – 13. **[4]**

**3. (a)** Vikram & Betal Ltd. firm has a sales of ₹12 crores, Variable cost ₹7 crores and Fixed cost of ₹1.30 crores. The firm has debt and equity resources worth of ₹14 crores and ₹10 crores respectively. With the data given show:

(i) The firm's ROI.

(ii) EBIT if sales decline to ₹8 crores.

**(ii)** If the industry's assets turnover is 4 times, does the firm has high or low asset turnover? The cost of debt is 12%. Ignore taxation. **[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 1/4th 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 31st March, 2014 amounted to ₹ 4,80,000, show the distribution of firm's profit among the partners. **[6]**

**4. (a)** A Ltd. purchased fixed assets costing ₹ 5,100 lakhs on 01.01.13 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal installments. Exchange rates were 1 Dollar = ₹ 42.50 and ₹ 45.00 as on 01.01.13 and 31.12.13 respectively. First installment was paid on 31.12.103. The entire difference in foreign exchange has been capitalized.

You are required to state, how these transactions would be accounted for. **[6]**

**(b)** Discuss the discloser requirement of Accounting Standard-6. **[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 ₹50 lakhs on 31.03.2014. Its actuarial valuation on 31.03.2014 disclosed a net liability of ₹42.50 lakhs. An interim bonus of ₹80,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹1,50,000 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)** Uday Ltd. was incorporated on August 1, 2013. It had acquired a running business of Rana Ltd. 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$^{st}$ March, 2014. **[8]**

**6. (a)** H Ltd. provides you the following information:

- Issued Capital : 2,00,000 Equity Shares of ₹10 each
- Reserves & Surplus : Capital Reserve ₹10,00,000
  Securities Premium ₹18,00,000
  Revenue Reserve ₹30,00,000
  Profit & Loss A/c ₹40,00,000
- Resolution passed to buy back 25% of its Equity Share Capital @ ₹50 per share.
- Pass journal entries to record the above transactions assuming that the company achieved the target of buy-back. **[6]**

**(b)** A machinery is sold on hire purchase. The terms of payment are four annual instalments of ₹ 6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of ₹ 6,000.

Show Machinery Account and Hire Vendor Account in the books of the purchaser who defaulted in the payment of the third yearly payment where upon the vendor repossessed the machinery. The purchaser provides depreciation on the machinery @ 10% per annum on written down value basis.
All workings should form part of your answer. **[9]**

**7. (a)** State four items which are not to be included in determining the cost of inventories in accordance with paragraph 6 of AS 2? **[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 31st 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 |
| | | | | Cost of Refreshments | 90,000 |
| 31.3.14 | Membership Fees | 48,000 | | Fun Fair Expenses | 10,000 |
| | Income from Refreshments | 1,20,000 | | Equipment Purchased | 40,000 |
| | Fun Fair Receipts | 3,000 | | Administrative Expenses | 4,500 |
| | Interest received from Bank | 500 | | Repairs and Maintenance | 16,000 |
| | Interest @ 7.5 p.a. on Securities | 15,000 | | Caretaker's Salary | 15,000 |
| | Sale Proceeds of Plant and Equipment | 28,200 | | Cash in hand | 5,350 |
| | Net Proceeds of Fund Raising match | 35,350 | | 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)** Disclosure requirement as per AS – 11
**(e)** Over/Under Subscription.