

Paper 5- Financial Accounting

Working Notes should form part of the answer.

Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.

Question 1 is compulsory and any 5 questions from the rest

1 (a) From the four alternatives given against each statement, choose the correct

Alternative:

[1×6=6]

(i) In a written agreement amongst the partners, interest @ 5% p.a. is to be provided on loan. The interest given by a partner to the firm will be at an interest at the rate of (A) 5% (B) 6% (c) 8% (D) 10%

(ii) Depreciation accounting is a process of (A)Apportionment (B) Valuation (C)Allocation (D)Appropriation

(iii) X Ltd . has

Equity share @	₹ 100 each
Equity share @	₹ 50 each
Equity share @	₹ 10 each

They are :-

- (A) Same Class
 - (B) Different Class
 - (C) None of the above
 - (D) Both (A) and (B)All of the above
- (iv) AS-6 is related to:
(A) Valuation of inventories
(B) Accounting for Construction Contracts
(C)Cash Flow Statements
(D) Depreciation accounting
- (v) Current Ratio is a:
(A) Current Assets/ Current liability
(B) Current Asset/ Current Liability – Bank Overdraft
(C) Current Assets – Stock/ Current Liability
(D) None of the Above
- (vi) In Accounting Equation:
(A) Equity and assets are dependent variables.
(B) Assets and liabilities are dependent variables.
(C) Equity and liabilities are dependent variables.
(D) Assets and Liabilities are Independent variables.

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(b) State whether following statements are True/False

[1x5 = 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) Stock and debtors system is generally used when the goods are sent to the branch at cost price.
- (iv) Wages incurred by departmental workers of a factory in installing new machinery is revenue expenditure.
- (v) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.

(c) Fill in the blanks

[1 x 5 = 5]

- (i) Dividends are usually paid as a percentage of _____ .
- (ii) Debenture holders are _____ of a company.
- (iii) Minimum partners required for a non-banking partnership firm are _____.
- (iv) Compensation given to old partners for sacrifice made in favour new partner is known as _____.
- (v) Partners X, Y and Z change their profit sharing ratio from 5:3:2 to 3:2:1 respectively and goodwill for the purpose is valued at Rs.10,00,000. Goodwill will be raised by partners in _____ ratio.

(d) Match the following:

[1×5=5]

A	B
(i) AS-3	(A) Accounting for Government grants
(ii) AS-20	(B) Segmental Reporting
(iii) Garner Vs Murray Rule	(C) Cash Flow Statement
(iv) AS-17	(D) Dissolution of Partnership
(v) AS-12	(E) Earnings per Share
	(F) No matching statements found

- (e) (i) During the year ₹ 96,000 was Debited as salary in the Income Expenditure Account. There was outstanding on Salary Account at the beginning and at the end of the year were ₹ 12,000 and ₹ 15,000 respectively. What would be the amount of salary paid shown in Receipt and Payments Account?
- (ii) The capital of a Company comprises of equity shares of ₹ 10 each amounting to ₹ 10 lakhs and 10% Preference Shares of ₹ 2 lakhs. Profit after tax for the year is ₹ 4 lakhs. Dividend declared is @ 25% and current market price of Equity Share is ₹ 80 each. What is the Price- Earnings Ratio?

2. (a) CAS Ltd. furnishes you with the following Balance Sheet as at 31.03.2013

Particulars	(₹ In crores)	
Sources of Funds:		
Share Capital:		
Authorized		100

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Issued:		
12% Redeemable Preference Shares of ₹ 100 each fully paid	75	
Equity shares of ₹ 10 each fully paid	25	100
	260	
Reserves and surplus:		
Capital reserve	15	
Securities premium	25	
Revenue reserves	260	300
		400
Funds Employed in:		
Fixed assets: cost	100	
Less: Provision of depreciation	100	Nil
Investment at cost (market value ₹ 400 Cr.)		100
Current assets	340	
Less: Current liabilities	40	300
		400

The company redeemed preference shares on 1st April, 2013. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets.

You are asked to:

- (i) Pass journal entries to record the above
- (ii) Prepare balance Sheet
- (iii) Value equity share on net asset basis.

- (b) NDA Limited purchased a machine of ₹ 20 lakhs including excise duty of ₹ 4 lakhs. The excise duty is Cenvatable under the excise laws. The enterprise intends to avail CENVAT credit and it is reasonably certain to utilize the same within reasonable time. How should the excise duty of ₹ 4 lakhs be treated? **[12+3]**

3. (a) Prepare the working capital requirement from the following information:

Average collection period	60 days
Average payment period	75 days
Inventory holding period	90 days

(Calculate with reference to cost of goods sold)

Cash and Bank balance 2.5% of sales.

Sales ₹ 2,00,000, gross profit 25%

Credit purchase = 1/3 of cost of goods sold.

The company expects 50% sales increment during the next year. (Assume 1 year = 360 days)

- (b) X, Y and Z were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. No interest was to be allowed on current or capital accounts of the partner but their loan accounts were to carry an interest of 10% p.a.

Due to persistent losses and the continued illness of Y, the firm decided to get dissolved on 31st March 2013. Its accounts were closed for the last time on 31st Dec. 2012 on which date its Balance Sheet was:

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Particulars	Amount (₹)	Particulars	Amount (₹)
₹			
Capital Account		Plant and Machinery	60,000
X 48,000		Furniture & Fittings	10,000
Y <u>33,000</u>	81,000	Motor Cars	40,000
Loan A/c—X	22,000	Stock	55,000
Trade Creditors	80,000	Sundry Debtors	40,000
Bank Overdraft	30,000	Capital A/c	
		Z	8,000
	2,13,000		2,13,000

Between 31st Dec. 2012 and 31st March 2013, goods to the value of ₹ 30,000 were purchased and sales amounted to ₹ 45,000. In addition to payment to trade creditors, payments made were for Salaries, Wages ₹ 12,000 and for general and office expenses ₹ 6,000. Drawings of each partner were ₹ 800 p.m. On 31st March 2012, debtors, creditors and stock-in-trade were ₹ 60,000; ₹ 70,000 and ₹ 45,000, respectively. In dissolution proceedings the partners agreed to transfer the entire business (with all assets and liabilities including partners' loan) as a going concern to D for a consideration of ₹ 90,000. Cost of dissolution amounted to ₹ 2,800 which were met by X. Show the necessary entries for the dissolution of the firm and also the capital account of the partners, assuming that all of them are solvent. **[5+10]**

4 (a) S had patented a new type of pocket transistor. On 1.1.2010 he granted P a licence to manufacture and sell the transistors on the following terms:

- (i) P to pay a royalty of ₹ 5 for each transistor manufactured and a further royalty of ₹ 3 for each transistor sold with a minimum rent of ₹ 8,000 per annum.
- (ii) If in any year the royalties calculated on the transistors manufactured and sold be less than the minimum rent, P to have the right to recoup short working out of the royalties in excess of the minimum rent during the two years immediately following, subject to a maximum amount of ₹ 2,000 per annum.

The number of transistors manufactured and sold for the first 4 years were as follows:

Year	Manufactured	Sold
2010	800	500
2011	1,000	700
2012	2,500	1,500
2013	500	2,000

All the payments were made by P on due dates. Prepare (1) P's Account; (2) Royalty Receivable Account and (3) Short working Account in the books of S.

(b) Define Computer Software and explain what should be the period of amortization of the computer software. **[10+5]**

5 (a) The Income and Expenditure Account of the Bombay Club for the year 2013 is as follows:

Expenditure	₹	Income	₹
To Salaries	1,20,000	By Subscriptions	1,70,000
To Printing & Stationery	6,000	By Entrance Fee	4,000

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To Postage	500	By Contribution for Dinner	36,000
To Telephone	1,500		
To General Expenses	12,000		
To Interest and Bank Charges	5,500		
To Audit Fees	2,500		
To Annual Dinner Expenses	25,000		
To Depreciation	7,000		
To Surplus	30,000		
	2,10,000		2,10,000

The account has been prepared after the following adjustments:

Subscriptions outstanding on 31.12.2012	16,000	The club owned a building since 2012	1,90,000
Subscriptions outstanding on 31.12.2013	18,000	The club had sports equipments on 31.12.2012 valued at	52,000
Subscriptions received in advance on 31.12.2012	13,000	At the end of the year after depreciation of ₹ 7,000 equipments amounted to	63,000
Subscriptions received in advance on 31.12.2013	8,400	In 2012, the club had raised a bank loan which is still unpaid	30,000
Salary outstanding on 31.12.2012	6,000	Cash in hand on 31.12.2013	28,500
Salary outstanding on 31.12.2013	8,000	Audit fees for 2013 not paid	2,500
Audit fees for 2006 paid during 2013	2,000		

Prepare the Receipts and Payments Account of the Club for 2013 and the Balance Sheet as on 31st December, 2013. All workings should form part of your answer.

(b) Distinguish between Hire Purchase System and Installment Payment System. **[10+5]**

6(a) Bombay Ltd. sends goods to its Madras branch at cost plus 25 per cent. The following particulars are available in respect of the Branch for the year ended 31st March, 2013.

	₹
Opening Stock at Branch at cost to Branch	80,000
Goods sent to Branch at Invoice Price	12,00,000
Loss-in-transit at invoice price	15,000
Pilferage at invoice price	6,000
Sales	12,19,000
Expenses	60,000
Closing Stock at Branch at cost to Branch	40,000
Recovered from Insurance Company against loss-in-transit	10,000

Show the ledger accounts in the head office books for : (a) Branch Stock Account; (b) Branch Adjustment Account (c) Branch Profit & Loss Account .

(b) State the various accounting concepts.

(c) What do you understand by gradual realization of assets and piecemeal distribution? State the priority that should be followed in piece meal distribution. **[9+3+3]**

7 (a) The following balances are appearing in the books of X Ltd on 01.04.2013:

Redeemable Preference Share Capital (Shares of ₹10 each) ₹2,00,000; Calls in Arrear ₹ 2,000; General Reserve ₹1,00,000; Securities Premium ₹5,000

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The Preference Shares are fully called up and are due for redemption at a premium of 10%. Calls-in-arrear are in respect of final call at the rate of ₹ 4 per share and these shares are held by Mr. M. Sen whose whereabouts are not known.

The Board of Directors decided that 50% of the General Reserve to be utilized for the purpose of redemption of Redeemable Preference Share Capital and for the balance necessary Amount of equity shares of ₹ 10 each were issued at a premium of 10%.

The redemption of Preference Shares are duly carried out and subsequently the company utilizes the balance of Capital Redemption Reserve A/c to issue Equity Shares at ₹ 10 each as bonus to shareholders.

You are required to pass the necessary Journal Entries in the books of X Ltd (workings must be shown).

- (b) On 31st March, 2012 Risk Bank Ltd. has a balance of ₹ 9 crore in "Rebate on Bills Discounted" account. During the year ended 31.3.2013, Risk Bank Ltd. Discounted bill of exchange of ₹ 4,000 crore charging interest at 18% per annum, the average period of discount being for 73 days. Of these, bills of exchange of ₹600 crore were due for realization from the acceptors/customers after 31st March 2013, the average period outstanding after 31st March, 2013 being 36.5 days.

Uncertain Bank Ltd. Asks you to pass Journal Entries and the Ledger Accounts pertaining to :

- (i) Discount of Bills of Exchange; and
(ii) Rebate on Bills Discounted.

[8+7]

8 Write short notes on any three

[3 x 5 =15]

- (a) Features of Income and Expenditure Account.
(b) Profit prior to Incorporation.
(c) Cum-interest and ex-interest price.
(d) Surrender value of Policy.