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
Section A is compulsory and answer any 5 questions from Section B

Section A

1 **(A) Answer the following questions (give workings):**
Choose the right answer of the following alternatives: [10 x 1]

(a) The solvent partners must share the deficiency of an insolvent partner:
(i) In the profit sharing ratio
(ii) In the capital ratio
(iii)In the gaining ratio
(iv) None of the above

(b) If the unrecorded liabilities are taken over by the new firm, it is transferred to :
(i) Realization accounts.
(ii) Partners' capital accounts.
(iii)Partners' drawings accounts.
(iv) None of the above.

(c) For Buy back of shares, a company has to open
(i) A separate bank account
(ii) An escrow account
(iii)A share capital account
(iv) None of the above

(d) Convertible debentures can be
(i) Partly convertible only
(ii) Fully convertible only
(iii) Partly or fully convertible
(iv) None of the above

(e) Under "Double Account System" profit is disclosed in the
(i) Revenue Account
(ii) Net Revenue Account
(iii)Capital Account (Receipts and Expenditure on Capital Account)
(iv) None of the above.

(f) Basic earnings per share amounts uses the net profit attributable to
(i) both equity and preference shareholders
(ii) Equity shareholders only
(iii) Preference shareholders only
(iv) All the above.

(g) When Sales = ₹ 1,80,000, Purchase = ₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be
(i) ₹ 50,000
(ii) ₹ 44,000
(iii) ₹ 46,000
(iv) None of the above

(h) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then the amount

of stock reserve on closing stock will be
- **(i)** ₹ 6,000
- **(ii)** ₹ 4,500
- **(iii)** ₹ 9,000
- **(iv)** None of the above

(i) Profit earned before incorporation is a /an
- (i) Revenue profit
- (ii) Extra ordinary profit
- (iii) Capital Profit
- (iv) None of the above

(j) A profit on the sale of furniture of a club will be taken to:
- (i) Cash account
- (ii) Receipts and payments account
- (iii) Income and expenditure account
- **(iv)** None of the above

(B) Fill up the Blanks: **[5 x 1]**

(i) As per AS – 6 when there is a change in the method of providing depreciation, the differential account of depreciation would have ______________________ effect.

(ii) A company cannot redeem preference shares unless they are _________________ paid up.

(iii) Profit on revaluation of assets on the admission of a new partner is to be credited to the old partners in their ________________________ profit sharing ratio.

(iv) Amalgamation Adjustments Account is opened in the books of the transferee company to incorporate ___________________________.

(v) When a new partner enters in the partnership firm and the partners decide to maintain the General Reserve in the books of the firm at its original value, the amount of general reserve is Credited to the old partners and _____________________ to all partners

(C) Match the following: [5 x 1]

(i) AS 20	(A) Construction Contract
(ii) AS 13	(B) Net Profit or Loss for the period, prior period items & change in accounting policies.
(iii) AS 7	(C) Earnings Per Share (EPS)
(iv) AS 5	(D) Accounting for Intangible Assets
(v) AS 26	(E) Accounting for Investment

(D) State with reasons whether the following propositions are True or False: **[5 x 1]**
- (i) Short workings arise when minimum rent is less than actual royalty.
- (ii) Revenue recognition of Royalties receivable from foreign countries is made on receipt basis.
- (iii) The accounting principle is general rule followed in preparation of financial Statement
- (iv) The inventory under AS – 2 is valued on the basis of cost price or current replacement cost whichever is lower.
- (v) In admission of a partner new partner's capital amount is shared by old partner in gaining ratio.

2. (a) From the following information, make out a statement of Proprietors' Fund with as many details as possible:

(i) Current Ratio	2.5

(ii) Liquid Ratio	1.5
(iii) Proprietary Ratio (Fixed Assets: Proprietors' Fund)	0.75 or $\frac{3}{4}$
(iv) Working Capital	₹ 6,000
(v) Reserves & Surplus	₹ 4,000
(vi) Bank Overdraft.	₹ 1,000

There are no long-term loans nor any investments in fictitious assets.

(b) Two partnership firms, carrying on business under the name of B&Co and W&Co respectively, decided to amalgamate into G & Co. with effect from 1st January 2014. The respective Balance Sheets are:

Balance Sheet of B & Co. as on 31st December, 2013

Liabilities	₹	Assets	₹
Mr. B's Capital Accounts	38,000	Plant and Machinery	20,000
Sundry Creditors	20,000	Stock-in-trade	40,000
Bank Overdraft	30,000	Sundry Debtors	20,000
		Mr. A's Capital Account	8,000
	88,000		88,000

A and B share profits and losses in the proportion of 1: 2.

Balance Sheet of W & Co. as on 31st December, 2013

Liabilities	₹	Assets	₹
Mr. X's Capital Account	20,000	Investment	10,000
Mr. Y's Capital Account	4,000	Stock-in-trade	10,000
Sundry Creditors	19,000	Sundry Debtors	20,000
		Cash in hand	3,000
	43,000		43,000

X and Y share profit and losses equally. The following further information is given:

(i) All fixed assets are to be devalued by 20%.
(ii) All stock in trade is to be appreciated by 50%.
(iii) B & Co. owes ₹ 10,000 to W & Co. as on 31st December 2013. This debit is settled at ₹ 4,000
(iv) Investment is to be ignored for the purpose of amalgamation, being valueless.
(v) The fixed capital accounts in the new firm are to be : Mr. A ₹ 4,000; Mr. B₹ 6,000 Mr. X ₹ 2,000 Mr. Y ₹ 8,000
(vi) Mr. B takes over bank overdraft of B & Co. and gifts to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.
(vii) Mr. X is paid off in cash from W & Co. and Mr. Y brings in sufficient cash to make up his required capital contribution.

Pass necessary Journal Entries to close the books of both the firms as on 31st December 2013.

[5+10]

3.(a) Ram, Laxman and Bharat were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2013, Balance Sheet of the firm stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c's		Buildings	1,37,500
Ram	1,25,000	Furniture	62,500
Laxman	1,00,000	Stock	1,05,000
Bharat	70,000	Debtors	50,000
Creditors	83,750	Cash at Bank	28,000
Outstanding Expenses	4,250		
	3,83,000		3,83,000

On 31st March, 2013 Ram decided to retire and Laxman and Bharat decided to continue as equal partners. Other terms of retirement were as follows:

(i) Building be appreciated by 20%
(ii) Furniture be depreciated by 10%
(iii) A provision of 5% be created for bad debts on debtors.
(iv) Goodwill be valued at two years purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March 2013 was ₹ 62,500. No goodwill account is to be raised in the books of accounts.
(v) Fresh capital be introduced by Laxman and Bharat to the extent of ₹ 25,000 ₹ 87,500 respectively
(vi) Out of sum payable to retiring partner Ram, a sum of ₹ 1,12,500 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% p.a. The loan is to be paid off by 31st March 2015.

One month after Ram's retirement Laxman and Bharat agreed to admit Ram's son Lav as a partner with 1/4th share in profit / losses. Ram agreed that the balance in his loan account be converted into Lav's capital. Ram also agreed to forgo one month's interest on his loan. It was also agreed that Lav will bring in, his share of goodwill through book adjustment, valued at the price on the date of Ram's retirement. No goodwill account is to be raised in the books.

You are required to pass necessary Journal Entries to give effect to the above transactions and prepare Partner's Capital.

(b) The financial year of Mr. C ends on 31st March, 2013 but the stock in hand was physically verified only on 8th April, 2013. You are required to determine the value of Closing Stock (at cost) as at 31st March, 2013 from the following information.

(i) The stock (valued at cost) as verified on 8th April, 2013 was ₹ 37,500.
(ii) Sales have been entered in the Sales Day Book only after the despatch of goods and sales returns only on receipt of goods.
(iii) Purchases have been entered in the Purchase Day Book on receipt of the purchase invoice irrespective of the date of receipt of the goods.
(iv) Sales as per the sales day book for the period 1st April, 2013 to 8th April, 2013 (before the actual verification) amounted to ₹ 15,000 of which goods of a sale value of ₹ 2,500 had not been delivered at the time of verification.
(v) Purchases as per the purchase day book for the period 1st April, 2013 to 8th April, 2013 (before the actual verification) amounted to ₹ 15,000 of which goods for purchases of ₹ 3,750 had not been received at the date of verification and goods for purchases of ₹ 5,000 had been received prior to 31st March, 2013.
(vi) In respect of goods costing ₹ 12,500 received prior to 31st March, 2013, invoices had not been received up to the date of verification of stocks.
(vii) The gross profit is 20% on sales.

(c) Amit Industries Ltd. is in the business of manufacturing and export. In 2011, the Government put a restriction on export of goods exported by Amit Industries Ltd leading to impairment of its assets. Amit Industries acquired at the end of 2007, identifiable assets worth ₹800 Lakhs for ₹1,200 lakhs, the balance being treated as Goodwill. The useful life of the identifiable assets is 15 years and depreciated on straight – line basis. When Government put the restriction at the end of 2011, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹544 Lakhs. In 2013, the "restriction" was withdrawn by the Government and due to this favourable change, Amit Industries Ltd estimates its recoverable amount at ₹684 Lakhs.

(i) Calculate and allocate Impairment Loss in 2011.
(ii) Compute reversal of Impairment Loss and its allocation in 2013. **[8+3+4]**

4. (a) On 1st January, 2013, Shivaji acquired furniture on the hire-purchase system from Barcelona Aids, agreeing to pay four semi-annual installments of ₹ 800 each, commencing on 30th, June, 2013. The Cash price of the furniture was ₹ 3,010 and interest of 5% per annum at half yearly rest was chargeable. On 30th September,2013, Shivaji expresses his inability to continue and Barcelona Aids seized the property. It was agreed that Shivaji would pay the due proportion of the installment upto the date of seizure and also a further sum of ₹ 250 towards depreciation. At the time of re-possession, Barcelona Aids valued the furniture at ₹1,500. The company after incurring ₹ 500 towards repairs of the furniture sold the items for ₹ 1,800 on 15th October, 2013.

Required: Prepare the Ledger Accounts in the books of the Vendor and the Purchaser presuming that the purchaser charges depreciation @ 10% p.a.

(b) A Ltd. was incorporated on 01.01.2013 with an authorized capital of 25 crore. The subscribers to the memorandum and articles of association subscribed for 1,000 shares of ₹ 10 each. The promoters and well wishers subscribed and paid for 49,900 equity shares of ₹ 10 each. The company took over the running business of Magadha Bros, and allotted 1,50,000 equity shares of ₹ 10 each at par. The company made a public issue of 8,00,000 equity shares of ₹ 10 each at par, ₹ 5 being payable on application, ₹ 3 on allotment and ₹2 on call. Application monies were receivable by 28.02.2013, allotment was made on 31.03.2013, allotment monies were due by 30.4.2013, first call was made on 31.5.2013; first call was due by 30.6.2013.

Public applied for in full. Allotment monies were received from all members except holders of 500 shares. Call monies were received from all members except holders of 800 shares (including those who had not paid allotment money).

After due notice, the 800 shares were forfeited on 30.9.2013. They were re-issued on 31.10.2013 at ₹ 11 per share.

You are asked to:

Record the above transactions through the Journal of A Ltd **[10+5]**

5. (a) The Promoters of proposed Air Ltd. purchased a running business on 01.01.2013 from Pollution Ltd. Air Ltd. was incorporated on 1st May 2013. The combined Profit and Loss Account of the company prior to and after the date of incorporation is as under:

Profit and Loss account for the year ended 31st December, 2013

Particulars	Amount ₹	Particulars	Amount ₹
To Rent, Rates & Salaries etc.	9,000	By Gross Profit	1,50,000
To Directors' sitting Fees	4,900	By Discount received from Creditors	6,000
To Preliminary Expenses	3,600		
To Carriage Outwards	6,500		
To Interest Paid to Vendors	12,000		
To Net Profit	1,20,000		

	1,56,000		1,56,000

Following further information is available:
(i) Sales up to 31.04.2013 were ₹3,00,000 out of total sales of rs.15,00,000 for the year.
(ii) Purchase up to 31.04.2013 were ₹3,00,000 out of total purchase of ₹9,00,000 for the year.
(iii) Interest paid to vendors on 1st November, 2013 @ 12% p.a. ₹1,00,000 being purchase consideration.
Prepare a profit & Loss Account for the year ended 31st December, 2013 showing the profits earned prior to and after incorporation showing the transfer of the same to appropriate accounts.

(b) A Head Office of Bombay has a Branch at Madras in charge of a manager. The ratio of gross profit on turnover at the Breach was 25 per cent throughout the year. The Branch Manager is entitled to a commission of 10% of the profit earned by the Branch calculated before charging his commission, but subject to a deduction from such commission a sum equal to 50% of any ascertained deficiency on Branch Stock. All goods were supplied by the Head Office to the Branch.
From the following figures extracted from the Branch Books, calculate the commission due to the manager for the year ended 31st December, 2013.

	₹
Stock on 1.1.13 at Selling Price	20,806
Goods received from Head Office at Cost	54,360
Sales	73,200
Establishment Expenses	11,250
Drawings by Manager against commission	500
Stock on 31.12.13 at selling price	19,900

(c) Best Ltd. gives you the following information to find out Total Sales and Total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 01.01.2012	65,000	Discount allowed by suppliers	8,000
Creditors as on 01.04.2012	80,000	Discount allowed to customers	10,000
Bills receivable received during the year	45,000	Endorsed bills receivable dishonoured	5,000
Bills receivable issued during the year	52,000	Sales return	9,000
Cash received from customer	1,55,000	Bills receivable discounted	8,000
Cash paid to suppliers	1,70,000	Discounted bills receivable dishonoured	3,000
Bad debts recovered	16,000	Cash sales	1,68,000
Bills receivables endorsed to creditors	28,000	Cash purchase	1,95,000
Bills receivables dishonoured by customers	6,000	Debtors as on 31.03.2013	83,000
		Creditors as on 31.03.2013	95,000

[5+5+5]

6. (a) The following is the Receipts and Payments Account of the East Bengal Club for the year ended December, 31, 2013:

Receipts	₹	Payment	₹
Cash in hand	2,000	Remuneration to Club Coach	4,000

Balance at Bank as per Pass Book:		Groundman's Pay	3,000
		Purchase of Equipments	15,500
Savings A/c	19,300	Bar Room Expenses	2,000
Current A/c	6,000	Ground Rent	2,800
		Club Night Expenses	4,000
Bank Interest	500	Printing & Stationery	3,000
Entrance Fees	1,800	Repairs to Equipments	5,000
Donations & Subscriptions	25,000	Honoraria to Secretary for the year 2013	4,000
Bar Room Receipts	4,000		
Contribution to Club Night	1,000	Balance at Bank as per Pass Book:	
Sale of Equipment	800	Savings A/c	20,400
Net Proceeds of Club Night	7,800	Current A/c	2,000
		Cash in hand	2,500
	68,200		68,200

You are given the following additional information:

	1.1.13	31.12.13
(i) Subscription due from members	1,500	1,000
(ii) Sums due for Printing & Stationery	1,000	800
(iii) Unpresented cheques on Current A/c, being payments for repairs	3,000	2,500
(iv) Interest on Savings Account not entered in Pass Book	---	200
(v) Estimated value of Equipments	8,000	17,500
(vi) For the year ended 31st December, 2013, the honoraria to secretary are to be increased by a total of ₹ 2,000 and the grounds' man is to receive a bonus of ₹ 2,000.		

You are required to prepare: (a) an Income & Expenditure Account for the year ended 31st December, 2013 and (b) a Balance Sheet on that date.

(b) Ghuri Ltd undertook a Contract to construct a building for ₹ 85 Lakhs. At the end of the financial year, the Company found that it had already spent ₹ 65,99,000 on Construction. Prudent estimate of the additional cost for completion was ₹ 33,01,000. What is the additional provision for foreseeable loss which must be made in the final accounts for the year ended 31st March? If the progress billings received were ₹ 50 Lakhs on 31st March, what is the amount due from / to customers? **[8+7]**

7. (a) ICICI Lombard, a Insurance Company commenced its business on 1.4.2012. It submits you the following information for the year ended 31.3.2013:

	₹
Premium received	15,00,000
Re-insurance premium paid	1,00,000
Claim paid	7,00,000
Expenses of Management	2,50,000
Commission paid	1,00,000
Claims outstanding on 31.3.2013	1,00,000

Create reasons for unexpired risk @ 40%.
Prepare Revenue Account for the year ended 31st March, 2013.

(b) The Trial Balance of S. Auddy as on 31.12.2013 did not agree and the difference was transferred to a Suspense Account.
Subsequently the following errors were detected:
(i) The total of one page of the Sales Day Book was carried forward to the next page as ₹4,513 instead of ₹ 4,531.
(ii) The total of the Purchase Day Book was undercast by ₹400.
(iii) A Cash discount of ₹ 150 received from a creditor was debited to Discount

account.

(iv) ₹1,450 spent on repairs of Delivery Van was debited to Motor Vehicles Account.

(v) ₹300 received from M. Ghosh was debited to the Account of N. Ghosh in the Sales Ledger.

(vi) Goods worth ₹700 returned by Islam were not entered in the books at all.

(c) Mention three names of Intangible Assets other than goodwill, patents and copy right.

[6+6+3]

8. Write on short notes (any 3) [3 x 5 = 15]

(a) Conditions of Buy Back

(b) Maintenance of the Cash Reserve under section 18 of the Banking Companies

(c) Valuation of Inventory (As – 2)

(d) Capital Redemption Reserve