

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) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2013. Interest on loan is 9% per annum. The machinery was put to use from 01.01.2014. What is the amount to be charged as borrowing cost for the year ended 31.3.2014 as per AS 16.
- (ii) During a year, Subscription received was ₹ 42,000. It includes ₹ 1,600 for last year and ₹ 600 for next year. Also ₹ 3,000 has still to be received for current year. What is the amount of Subscription to be credited to Income and Expenditure Account?
- (iii) A, B and C are Partners sharing Profits and Losses in the ratio 3:2:1. B retired from the Firm. Partners A and C decided to take his share in 3:1 ratio. What is the New Profit Sharing Ratio?
- (iv) Goods are transferred from Department P to Department Q at a price so as to include a profit of 25% on cost. If the value of closing stock of Department Q is ₹ 20,000, then determine the amount of stock reserve on closing stock.
- (v) Accurate Insurance Company Ltd. received ₹ 2,36,000 as Premium on New Policies and ₹48,000 as Renewal Premium. The Company received ₹36,000 towards Re- insurance Accepted and paid ₹28,000 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?

(b) Fill in the blanks in the following sentences by using the more appropriate word(s) from the alternatives shown in bracket:

[1×5=5]

- (i) When there is no agreement among the partners, the profit or loss of the firm will be shared in their _____ (capital ratio/equally).
- (ii) In Hire Purchase transaction the right to sell or transfer of the goods remains with _____ (Seller/ Hirer).
- (iii) As per the going concern concept, the enterprise should continue to exist _____ (in the foreseeable future/for limited period of time).
- (iv) Inauguration expenses on opening of a new Branch of an existing business will be _____ (capital/revenue) expenditure.
- (v) Trail balance would not disclose _____ (error of omission/omission of posting).

(c) From the four alternative answers given against each of the following cases, indicate the correct answer:

[1×5=5]

- (i) Dual concept in accounting results in the following equation :
- (A) Capital + Liability = Assets
- (B) Revenue = Expenses
- (C) Capital + Profit = Assets
- (D) Total Assets = Total Liability

(ii) Under which of the following heads is claims against a Company not acknowledged as debts shown?

- (A) Unsecured Loan
- (B) Current Liability
- (C) Current Assets
- (D) Contingent Liability

(iii) Which of the following will be the highest amount?

- (A) Paid-up Capital
- (B) Authorised Capital
- (C) Subscribed Capital
- (D) Reserve Capital

(iv) Bank Reconciliation Statement is

- (A) Ledger Account
- (B) Part of Cash Book
- (C) A separate statement
- (D) A sub-division of Journal

(v) Which of the following items is shown in the Income and Expenditure Account?

- (A) Only items of capital nature
- (B) Only items of revenue nature which are received during the year
- (C) Only items of revenue nature pertaining to the period of accounts
- (D) Both the items of capital and revenue nature

(d) Classify the following expenditures into Capital Expenditure and Revenue Expenditure:

[1×5=5]

- (i) Expenses on a foreign tour to purchase a machinery
- (ii) Annual maintenance fee of a machine
- (iii) Compensation paid to workers under voluntary retirement scheme
- (iv) Legal expenses to recover dues from customers
- (v) Salaries paid to Engineering staff in erecting a machine

2.

(a) There was a difference in Trial Balance of Mr. S Basu, a trader, on 31st December, 2013 and the difference in books was carried to a Suspense Account and the books were closed. Subsequently on going through the books, the following errors were located:

- ₹ 1,296 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 696.
- A sale of ₹ 1,400 to Utpal Das entered in the Sales Book as ₹ 2,120.
- A cash discount of ₹ 1,000 received was entered in the Cash Book but was not posted in the ledger.
- ₹ 500 being Purchase Returns posted to the debit of Purchases Account.
- The Purchase of a machine on 1st April, 2013 for ₹ 23,000 was entered in the Purchases Book.
- While carrying forward total of one page in Vikram Garg's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.

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- A cheque of ₹ 6,192 received from Vivek Basu (after allowing her a discount of ₹ 92) was endorsed to Arnab Ghosh in full settlement of ₹ 7,000. The cheque was finally dishonoured but no entries were passed in the books.

Give the Journal entries to rectify the above and prepare the Suspense Account. **[7+4=11]**

- (b)** Calculate the invoice price of the Goods sent to branch and the profit included therein in each of the following alternative cases:

Case – 1 : Goods sent to branch (at cost) ₹ 1,20,000. Goods are invoiced to the Branch at cost plus 25%.

Case – 2 : Goods sent to Branch (at cost) ₹ 1,20,000. Goods are invoiced to the branch to give a gross margin of 20% on sale price.

[2+2=4]

3.

- (a)** The following data has been abstracted from the annual accounts a Company-

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Share Capital: 40,000 Equity Shares of ₹10 each	400	Profit before Tax	280
General Reserve	300	Provision for Tax	168
Investment Allowance Reserve	100	Proposed Dividend	20
15% Long term loan.	600		

Calculate the following ratios – Return on Capital Employed (ROCE).

[4]

- (b)** From the following information of a club, prepare Income & Expenditure Account for the year ended 31st March, 2014 and a Balance Sheet as on that date:

Cash Book

Dr.	₹	Cr.	₹
Receipts		Payments	
To Member's Subscription	5,000	By Upkeep of Pavilion	2,000
To Member's Admission Fees	300	By Expenses regarding Tournaments	700
To Sale of Old Balls, Bats etc.	50	By Rates and Insurance	200
To Hire of Ground	300	By Telephones	50
To Subscription for Tournament	1,000	By Printing & Stationery	100
To Drawn from Bank	4,000	By General Charges	50
To Donations	10,000	By Secretary's Honorarium	170
		By Grass Seeds	20
		By Bats, Balls, etc.	710
		By Deposit in Bank	16,650
	20,650		20,650

Assets on 01.04.2013:	₹
Cash at bank	3,000
Stock of Balls and Bats, etc.,	1,500
Printing & Stationery (Stock)	200
Subscription due	500

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Surplus on account of Tournament and Donations should be kept in reserve for a permanent pavilion. Subscriptions due on 31st March, 2014 ₹750. Write-off 50 per cent of Bats, Balls Account and 25 per cent of Printing & Stationery Account . Treat admission fees as of revenue nature.

[5+6=11]

4.

(a) A and B were carrying on the business as equal partners. It was agreed that A should retire from the firm on 31st March, 2013 and that his son H should join B from 1st April 2013 and should be entitled to one-third of the profits of the partnership.

The balances in the firm's books on 31st March, 2013 were as follows:

Liabilities	₹	Assets	₹
A's Capital Account	34,000	Cash at Bank	11,000
B's Capital Account	28,200	Sundry Debtors	14,100
Sundry Liabilities	7,800	Furniture	14,200
		Building	20,700
		Goodwill	10,000
	70,000		70,000

On 31st March, 2013, Goodwill was valued at ₹ 22,000 and Building at ₹ 24,000. It was also agreed that enough money should be introduced to enable A to be paid out and leave ₹10,000 cash by way of working capital. B and H were to provide such sum as would make their capitals proportion to their shares of profits. A agreed to make a friendly personal loan to H by transfer from his Capital Account of half the amount which H had to provide.

B and H paid in the cash due from them on 7.4.2013 and the amount due to A was paid out on the same day.

Set out Journal Entries with full narration to record the above transactions in the books of the partnership.

[10]

(b) Book value of old assets exchanged ₹16,000
 Additional cash given for exchange of asset ₹10,000
 Determine the cost of new asset acquired and show the accounting treatment in this regard in the following cases:

- If no other information is given
- Fair market value of old asset exchanged is ₹36,000
- Fair market value of new asset acquired in exchange of old asset is ₹50,000.

[1+2+2=5]

5.

(a) Tulip Traders sells Goods on hire purchase basis at cost plus 50%. The following information is provided for the year:

Particulars	Opening (₹)	Closing (₹)
Stock out with Hire Purchase Customers	9,000	?
Stock at shop	18,000	20,000
Installment Due (Customers still Paying)	5,000	9,000

Cash received from hire purchasers amounted to ₹ 60,000, Goods purchased during the year amounted to ₹ 60,000. Goods repossessed (installments unpaid ₹ 2,000 of which ₹ 1,200 were overdue) valued at 25% of Total Unpaid Installments. The vendor spent ₹100 on goods repossessed and then sold for ₹ 800. Prepare Hire Purchase Trading Account.

[12]

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(b) VK Ltd. sold goods worth ₹50,000 to YK Ltd. YK Ltd. asked for discount of ₹8,000 which was agreed by VK Ltd. The sale was effected and goods were dispatched. After receiving, goods worth ₹ 7,000 was found defected, which they returned immediately. They made the payment of ₹ 35,000 to VK Ltd. Accountant booked the sales for ₹ 35,000. Please discuss. [3]

6. (a) Uday Ltd. issued 8% Debentures of ₹3,00,000 in earlier year, on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase its Own Debenture in the Open Market for cancellation thereof. The following purchases were made during the Financial Year 2013-2014 and cancellation made on 31st March 2014 —

- On 1st April, ₹50,000 Nominal Value purchased for ₹49,450 ex-interest.
- On 1st September, ₹30,000 Nominal Value purchased for ₹30,250 cum-interest.

Show the Journal Entries for the transactions held in year 2013-14. [10]

(b) Following information relates to Utkal Ltd. State under which heads these items will appear in the Balance Sheet as per Revised Schedule VI ?

- (i) 2,00,000 8% Preference Share of ₹100 each.
- (ii) Investment of ₹45,00,000 in 40,000 12% Debenture of ₹100 each of Amrit Ltd.
- (iii) License of ₹18,00,000 for Mining Right.
- (iv) Loan repayable on demand of ₹20,00,000 from X Bank.
- (v) Provision for taxation of ₹88,000.

[5]

7.

(a) Calculate the Contract Revenue from the following details:

(₹ In Crores)

Particulars	Years		
	I	II	III
Initial contract revenue	3000	3000	3000
Revenue increase due to escalation in II nd year	---	600	---
Claim			300
Incentive Payment			450
Penalties		150	

[5]

(b) When closing the books of a bank on 31.12.2012 you find in the loan ledger an unsecured balance of ₹2,00,000 in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year.

How would you deal with this item of interest in 2012 account?

During the year 2013, the bank accepts 75 paise in the rupee on account of the total debt due up to 31.12.2012.

Show the entries and the necessary accounts showing the ultimate effect of the transactions in 2013 books of account under Interest Suspense Method. [4+3+3=10]

8. Write a note on any three of the following:

[3×5=15]

- (a) Errors which are not disclosed by a Trial Balance
- (b) Money Measurement Concept
- (c) Recoupment of short workings
- (d) Double Column method of recording transactions in relation to Dependent Branch
- (e) The conditions to be satisfied to classify an asset as Current asset