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). Choose the right answer of the following alternatives (give working where it is necessary): [18 x 1]

(a) Rectification of Errors are first entered in –
- (i) Journal Proper
- (ii) Subsidiary Books
- (iii) Trial Balance
- (iv) Ledger

(b) Salaries paid ₹ 4,500 is shown on credit side of Trial Balance. The debit side of Trial Balance will be –
- (i) Short by ₹ 4,500
- (ii) Excess by ₹ 4,500
- (iii) Short by ₹ 9,000
- (iv) Excess by ₹ 9,000

(c) Net realizable value is –
- (i) Estimated selling price
- (ii) Estimated Cost Price plus Marketing cost
- (iii) Estimated Selling price less cost incurred in order to make sale.
- (iv) Estimated Selling price plus cost incurred in order to make sale.

(d) Provision for depreciation Account is created by debiting to
- (i) Machinery Account
- (ii) Profit & Loss Account
- (iii) Profit & Loss Appropriation Account
- (iv) None of these

(e) Opening and Closing balance of debtors are ₹ 30,000 & ₹40,000 respectively, Cash collected from debtors ₹ 2,40,000. Discount allowed is ₹15,000 for prompt payment. Bad Debts ₹ 10,000. The total goods sold on credit are _________.
- (i) ₹ 2,55,000
- (ii) ₹ 2,45,000
- (iii) ₹ 2,95,000
- (iv) ₹ 2,75,000

(f) Rohan & Sohan are partners in a firm sharing profits & losses in the ratio 3 : 1. A partner Mohan is admitted and he brought ₹40,000 as goodwill. New profit sharing ratio of all the partners is equal. The amount of goodwill to be shared by old partners is:
- (i) Equally ₹ 20,000 each
- (ii) Rohan ₹ 30,000 & Sohan ₹10,000
- (iii) Rohan ₹ 40,000
- (iv) Rohan received ₹ 50,000 & Sohan paid ₹ 10,000

(g) Where is "Loss on Issue of shares" shown in Financial Statements?
(i) Contingent Liability
(ii) General Reserve
(iii) Other Non-Current Assets
(iv) None of these

(h) Premium on redemption of Debenture is a –
(i) Personal Account
(ii) Real Account
(iii) Nominal Account
(iv) Suspense Account

(i) Which of the following is not a contingent Liability
(i) Claim against enterprises not acknowledged as debt
(ii) Guarantee given in respect of third parties
(iii) Liability in respect of bills discounted
(iv) Penalty imposed by excise officer for violation of provisions of central Excise Act

(j) A firm of builders spent ₹ 4, 00,000 for purchasing a plot of land and erected its own office over 1/4th of the site. The remaining area was developed for sale to public. The expenditure incurred for development is :
(i) Capital
(ii) Revenue
(iii) Deferred Revenue
(iv) None of the above

(k) Match the followings:

A		B	
1.	Goodwill	1.	Non-depreciable
2.	Land	2.	Non-cash expense
3.	Called up	3.	Intangible
4.	Depreciation	4.	Capital

(i) (1,4), (2,3), (3,2), (4,1)
(ii) (1,2), (2,3), (3,4), (4,1)
(iii) (1,4), (2,2), (3,1), (4,3)
(iv) (1,3), (2,1), (3,4), (4,2)

(l) PQR Ltd. held an average inventory of finished goods of ₹ 40,000 (CP) with an inventory turnover ratio of 5. If the gross profit is 25% on the cost of goods sold. What is the total sale during the year?
(i) ₹ 2,00,000
(ii) ₹ 2,50,000
(iii) ₹ 1,25,000
(iv) ₹ 2,40,000

(m) Which of the following item of cost is not a part of inventory
(i) Storage expenses
(ii) Normal wastages
(iii) Inward freight
(iv) Customs duties

(n) When interest on own debentures becomes due it will be credited to
(i) Profit & Loss Account
(ii) Own Debentures Account
(iii) Debentures Interest Account

(iv) Interest on own Debentures Account

(o) The General Manager is entitled to a commission of 10% on net profit after charging the commission of Works Manager. The Works Manager is entitled to a commission of 5% on the net profits after charging the commission of General Manager. The profit before charging any commission is ₹ 7,500. The commission of the Work Manager to the nearest rupee will be:
(i) ₹ 321
(ii) ₹ 333
(iii) ₹ 337
(iv) ₹ 326

(p) X and Y are Partners with capital of ₹9,000 and ₹10,000 respectively. Z is admitted into the firm for 1/3rd share of profit and he brings ₹12,000 as his share of capital. How much will be the Goodwill of the firm :
(i) ₹ 5,000
(ii) ₹ 6,000
(iii) ₹ 10,000
(iv) ₹ 12,000

(q) If for redemption of preference Share capital of ₹ 1,00,000. 5,000 equity share of ₹ 10 each are issued at a discount of 10%, the amount to be transferred to capital redemption reserve fund will be-
(i) ₹ 60,000
(ii) ₹ 50,000
(iii) ₹ 55,000
(iv) ₹ 45,000

(r) Deep Ltd. issued 1,00,000 7% debentures of ₹ 100 each at a discount of 4%, redeemable after 5 years at a premium of 6%. Loss on issue of debenture.
(i) ₹ 10,00,000
(ii) ₹ 6,00,000
(iii) ₹ 16,00,000
(iv) ₹ 4,00,000

(B) Fill in the blanks of the following: [7x1]

(i) A company cannot redeem preference shares unless they are ___________ paid up.
(ii) Unclaimed dividend is shown under ______________ head in the Balance Sheet of a banking company.
(iii) Tax deducted at source, from interest on investment is shown under_________ in Schedule III.
(iv) Selling Commission is apportioned among departments in the ratio of ___________ of each department.
(v) By products should be valued as lower of cost and _____________.
(vi) When minimum rent is more than the Royalty, the amount paid to landlord is the __________.
(vii) Where hire vendor reckons the profit on the basis of installment received, the method is known as ______________.

SECTION B

2. Fill in the blanks of following Trading , Profit and Loss and Balance Sheet by using the Ratio

Dr. Trading and Profit & Loss Account for the year ended 31.03.2014 Cr.

Particulars	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)	Particulars	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)
To, Opening Stock To, Purchase (Baln. fig) To, Gross Profit c/d (40% of Sales)		- - -	By , Sales - Cash Sales - Credit Sales By, Closing Stock	 - - 	 - -
		112			112
To, Other Expenses To, Depreciation To , Net Profit (10% on sales)		25 5 -	By, Gross Profit b/d		-

Balance Sheet as 31.03.2014

Liabilities	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)	Assets	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)
Share Capital (Baln. fig) Reserve and Surplus Debenture Sundry Creditors		- - - -	Fixed Assets Less: Depreciation Current Assets: Closing Stock Sundry Debtors Cash	- 5 - - -	 -
		40			40

Other Information:

(i) Debtors Turnover Ratio 2 months
(ii) Creditors Turnover Ratio 1.5 months
(iii) Inventory Turnover Ratio 2 months
(iv) Current Ratio 2.5 months
(v) Debenture to Equity Share Capital 10%
(vi) Opening Stock was less than the Closing Stock by ₹ 4 lakhs
(vii) The ratio of Cash Sales to Credit Sales 16:9
(viii) Depreciation was charged on Fixed Asset at 20%.
(ix) No dividends were declared during the year. Ignoring taxation.
(x) Other expenses included the interest on debenture. **[15]**

3. (a) Gupta Limited, an Indian Company has a branch at New York (USA). The trial balance of the branch as at 31st March, 2014 is as follows:

Particulars	US$	
	Dr.	Cr.
Fixed Assets	51,200	-
Opening Stock	22,400	-
Purchases/ Sales	96,000	1,66,400
Goods Sent from HO	32,000	-
Carriage Inward	600	-
Branch Expenses	4,800	-
H.O. Account	-	45,600
Sundry Debtors / Creditors	9,600	6,800
Cash at Bank	2,200	-
	2,18,800	2,18,800

The following further information's are given:

(i) Expenses outstanding $ 400.

(ii) Depreciation charged on Fixed Assets @10% p.a. at W.D.V.

(iii) The H.O. sent goods to Branch for ₹ 15,80,000.

(iv) The H.O. shown an amount of ₹ 20,50,000 due from branch.

(v) Closing Stock $ 21,500.

(vi) There were no transit items either at the start or at the end of the year.

(vii) On April 1, 2012 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 2013 the rate was ₹47 per $. On March 31,2014 the rate was ₹50 per $. Average rate during year was ₹45 to one $.

Assuming that the branch is an Integral Foreign Operation of the Indian Company. Calculate the Difference in Exchange and show its Accounting treatment as per AS 11.

(b) What are the disclosure requirements as per Accounting Standard 10? **[12+3]**

4. (a) The following balances appeared in the books of lessee as on 1st January, 2011: Landlord Account (Cr.) ₹ 30,000; Shortworking Account (Dr.) ₹ 10,000 out of which ₹ 5,000 arose in 2010, ₹ 3,000 in 2009 and ₹ 2,000 in 2008.

The agreement of Royalty provided the following:

(i) Minimum Rent ₹ 60,000.

(ii) The power to recoup shortworkings within three years immediately following the year in which it arises.

(iii) Payment to the landlord to be made as under: 50% of the amount is payable in the year in which it becomes due and the balance 50% in the next year.

You are given the following particulars from 2011 to 2014:

Year	Payment to Landlord	Short workings (₹)	Short workings Recouped (₹)
2011	60,000	-	1,800
2012	62,000	-	6,000
2013	62,000	4,000	-
2014	64,000	-	4,000

You are required to show the Royalty Account and Short workings Account from 2011 to 2014.

(b) During the year ended 31st March 2014, Sourav Cricket Club received subscriptions as follows:

	(₹)
For year ended 31st March,2013	12,000
For year ended 31st March,2014	6,15,000
For the year 2014-15	18,000
Total	6,45,000

There are 700 members and annual subscription is ₹ 1,000 per member.
On 31st March, 2014, a sum of ₹ 15,000 was still in arrear for subscription for the year ended 31st March, 2013.
Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March,2014.Also show how the items would appear in the Balance Sheet as on 31st March,2013 and the Balance Sheet as on 31st March,2014. **[(8+4) +3]**

5. (a) From the following information, compute the amount of provision to be made against the advances of a commercial bank

(₹ in '00,000)

Particulars	Amount ₹
Advance fully secured	140
Advance overdue for 15 months	40
Advance overdue for more than 2.5 year but less than 3 years	20
(Secured by mortgage of land & building valued ₹ 10 lakhs)	-
Unsecured advance not recoverable	40
Total amount of Loans & Advances	240

(b) DESC Limited decided to replace one of its old plants by an improved plant. This plant was built in 1974 for ₹ 33,75,000. To build a new plant of the same size and capacity it would now cost ₹ 50,00,000. The cost of the new plant with larger capacity was ₹ 1,06,25,000 and in addition, materials of the old plant valued at ₹ 3,43,750 were used in the construction of the new plant. The balance of the old plant was sold for ₹ 1,87,500.
You are required to calculate the amount to be charged to Revenue Account and the amount to be capitalized. Also show the Plant Account and the Replacement Account. **[5+(2+2+3+3)]**

6. P, Q and R were carrying on business in partnership, sharing profits and losses in the ratio of 5 : 4 : 3 respectively. The trial balance of the firm as on 31st March, 2014 was the following:

Particulars		Debit (₹)	Credit (₹)
Plant and Machinery		85,000	---
Stock		64,200	---
Sundry Debtors		66,500	---
Sundry Creditors		---	84,700
Capital Accounts:	P	---	63,000
	Q	---	42,000
	R	---	21,000
Drawings Accounts:	P	20,000	---
	Q	20,000	---
	R	15,000	---
Depreciation on Plant and Machinery		---	25,000
Trading profit for the year		---	1,23,300
Cash at Bank		88,300	---
		3,59,000	3,59,000

Interest on Capital accounts @ 5% p.a. on the amount standing to the credit of partner's Capital Account at the beginning of the year was not provided before preparing the above Trial Balance. On 31st March, they formed a Private Limited Co. with an authorized share capital of ₹ 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of partnership.

You are informed as under.

(a) Plant and Machinery is to be transferred at ₹ 66,000.
(b) Shares in the company are to be issued to the partners, in such numbers and such classes as will give the partners, by reason of their share holdings alone, the same rights as regards interest on capitals and the sharing of profit and losses as they had in the partnership.
(c) Before transferring the business, the partners wish to draw from the partnership their profit to such an extent that the Bank balance is reduced to ₹ 50,000. For this purpose, sufficient profits of the year are to be retained in profit sharing ratio.
(d) All assets and liabilities except plant and machinery and the bank balance are to be transferred at their values in the books of the partnership as on 31st March.

You are required to prepare:

(i) Profit and Loss Account for the year ending on 31.03.2014.
(ii) Capital Accounts showing all the adjustments required to dissolve the partnership.
(iii) A statement showing the number of shares of each class to be issued by the company to each of the partners and details of rights attaching to those shares.
(iv) The Balance Sheet of the company immediately after acquiring the partnership and issuing of shares. **[2+5+2+6]**

7. (a) Mr. X runs a retail business. Suddenly he finds on 31.03.2014 that his Cash and Bank Balances have reduced considerably. He provides you the following information:

(i) Balances	31.03.2013 ₹	31.03.2014 ₹
Sundry Debtors	40,400	58,800
Sundry Creditors	79,400	22,400
Cash at Bank	1,08,400	2,500
Cash in Hand	10,400	500
Rent (Outstanding for one Month)	2,400	3,000
Stock	11,400	20,000
Electricity and Telephone Bill – Outstanding	---	6,400

(ii) Bank Pass Book reveals the following:	₹
Total Deposits	10,34,000
Withdrawals:	
Creditors	8,90,000
Professional Charges	34,000
Furniture and Fixtures (acquired on 1.10.2013)	54,000
Proprietor's Drawings	1,61,900

(iii) Rent has been increased from January, 2014.
(iv) Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, and electricity and telephone charges.
(v) Mr. X made all purchases in credit.
(vi) His credit sales during the year amounts to ₹ 9,00,000.
(vii) He incurred ₹ 6,500 per months towards wages.
(viii) He incurred following expenses:
  (a) Electricity and telephone charges ₹ 24,000 (paid)
  (b) Shop expenses ₹ 23,000 (paid).
(ix) Charge depreciation on furniture and fixtures @ 10%

Finalize the accounts of Mr. X and compute his profit for the year ended 31.03.2014. Prepare his Statement of Affairs and reconcile the Profit and Capital balance.

(b) A Das & Co. has two departments A & B, Department A sells goods to Department B at normal selling prices. From the following particulars prepares departmental trading and profit and loss account for the year ended 31st March, 2014 and also ascertain the net profit to be included in balance sheet:

Particulars	Deptt. A ₹	Deptt. B ₹
Opening stock	5,00,000	Nil
Purchases	28,00,000	3,00,000
Goods from department A	---	8,00,000
Wages	3,50,000	2,00,000
Travelling expenses	20,000	1,60,000
Closing stock at cost to the department	8,00,000	2,09,000
Sales	30,00,000	20,00,000
Printing and stationery	30,000	25,000

The following expenses incurred for both the departments were not apportioned between the departments:

(i) Salaries ₹ 3,30,000.
(ii) Advertisement expenses ₹ 1,20,000.
(iii) General expenses ₹ 5,00,000.
(iv) Depreciation is to be charged @ 30% on the machinery value of ₹ 96,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation apportioned in the ratio of 2 : 1 and 1 : 3 respectively. General expenses are to be apportioned in the ratio of 3 : 1. **[10 + 5]**

8. Write a short notes of any 3 of the followings: [3 x 5]

(a) Level I Entities for applicability of accounting standards.
(b) Accounting Standard 9 is not applicable in the case of specified revenue or gain.
(c) Difference between Departmental Accounting and Branch Accounting.
(d) Various methods of Redemption of Debentures.