

Question Paper
Financial Accounting (CFA510-01): April 2010

- Answer all 70 questions.
- Marks are indicated against each question.

Total Marks : 100

1. The incomes and expenses pertaining to full trading period are charged to the Profit and Loss account of a business, irrespective of their receipt or payment. This is in recognition of
 - (a) Business entity concept
 - (b) Money measurement concept
 - (c) Accrual concept
 - (d) Going concern concept
 - (e) Duality concept.

(1 mark)
2. Which of the following reserves arises out of gains which are **not** related to normal business operations?
 - (a) General reserve
 - (b) Investment allowance reserve
 - (c) Capital redemption reserve
 - (d) Capital reserve
 - (e) Dividend equalization reserve.

(1 mark)
3. Which of the following statements reflects the financial performance of an entity over a period of time?
 - (a) Income statement
 - (b) Balance sheet
 - (c) Cash flow statement
 - (d) Trial balance
 - (e) Funds flow statement.

(1 mark)
4. The balance in Profit and Loss account which has not been appropriated to any particular reserve account is known as
 - (a) Premium
 - (b) Surplus
 - (c) Deficiency
 - (d) Revenue
 - (e) Equity.

(1 mark)
5. Who among the following external users of financial statements **do not** belong to financing group?
 - (a) Equity shareholders
 - (b) Debenture holders
 - (c) Preference shareholders
 - (d) Suppliers
 - (e) Customers.

(1 mark)
6. According to money measurement concept, which of the following will be recorded in the books of accounts?
 - (a) Health of the Chairman of the company
 - (b) Quality control in the business
 - (c) Value of building
 - (d) ISI certification obtained
 - (e) Election of board of directors.

(1 mark)
7. Which of the following transactions results in an increase in the owners' equity?
 - (a) Sale of fixed assets at book value
 - (b) Earning revenue income
 - (c) Borrowing additional loans
 - (d) Sale of investments at book value
 - (e) Purchase of fixed assets.

(1 mark)

8. Xerox Ltd., furnished the following information as on March 31, 2010:

Particulars	Rs.
Paid-up equity share capital of 30,000 shares of Rs.100 each	30,00,000
Fixed assets	18,40,000
Current assets	17,22,000
Reserves and surplus	1,00,000

If the sundry creditors were one-fourth of total liabilities owed to outsiders, the sundry creditors of Xerox Ltd., as on March 31, 2010 were

- (a) Rs. 1,15,500
- (b) Rs. 5,62,000
- (c) Rs.18,40,000
- (d) Rs.26,38,000
- (e) Rs. 4,62,000.

(2 marks)

9. Different valuation bases are used in accounting and in this context, present value means

- (a) The amount paid or payable to acquire a benefit
- (b) The amount that needs to be paid if the asset is to be acquired currently
- (c) The present discounted value of future inflows that an item is expected to generate in the normal course of business
- (d) The net amount collectible in the event of the asset's disposal
- (e) The amount paid or payable to lose a benefit.

(1 mark)

10. Which of the following is a source of fund?

- (a) Acquiring assets
- (b) Incurring expenses
- (c) Incurring losses
- (d) Incurring liabilities
- (e) Paying dividends.

(1 mark)

11. Which of the following subsidiary books serves the purpose of ledger, in addition to the recording of accounting transactions?

- (a) Purchases book
- (b) Bills receivable book
- (c) Sales book
- (d) Journal proper
- (e) Cash book.

(1 mark)

12. M/s Ravuri Enterprises has provided the following information in respect of its cash and bank balances for the month of March 2010:

Date	Transactions
2010, Mar 1	Cash in hand Rs.18,809; balance at bank Rs.54,215
6	Goods sold for cash Rs.22,400
12	Paid Rs.24,500 into bank
18	Received a cheque for Rs.2,450 from Sidhu
20	Paid into bank Sidhu's cheque
24	Paid to Sunil by cheque Rs.3,430 and discount received Rs.70
31	Withdrew from bank for office use Rs.17,500

The combined balance of cash and bank as on March 31, 2010 was Rs.85,694. On March 28, 2010, the firm has made some cash purchases which were inadvertently omitted to be recorded in the books. The amount of cash purchases made on March 28, 2010 should have been

- (a) Rs.11,200
- (b) Rs. 8,750
- (c) Rs. 6,300
- (d) Rs. 5,320
- (e) Rs.12,180.

(2 marks)

13. The following transactions were extracted from the books of Ms. Amita, a trader of Garments for the month of March 2010:

Mar 2010 10	Purchased from Surya Textiles	10 Jeans @Rs.600 each 5 Ladies suits @Rs.800 each 15 Shirts @Rs.200 each Trade Discount 5%
15	Purchased from Roll Mills	30 Sarees @Rs.500 each 20 Trousers @Rs.300 each 5 Shirts @Rs.200 each Trade discount 6%
20	Goods returned to Surya Textiles	5 Shirts and 3 Jeans
31	Goods returned to Roll Mills	5 Sarees & 5 Trousers

The amount of net credit purchases as on March 31, 2010 was

- (a) Rs.28,200
(b) Rs.26,230
(c) Rs.28,580
(d) Rs.33,030
(e) Rs.26,610.

(2 marks)

14. The following petty cash transactions were extracted from the books of M/s Goodbuy Enterprises for the month of March 2010:

Date	Particulars	Rs.
2010, Mar 1	Cash received from the Chief Cashier	1,200
7	Postal Stamps	160
10	Stationery	64
15	Carriage	32
20	Auto fare to salesman	40
22	Telegrams	50
27	Tea to customers	30
30	Stationery	72

On March 5, 2010, the petty cashier paid a certain amount towards stamp papers. If closing balance on March 31, 2010 was Rs.452, the amount expended for stamp papers was

- (a) Rs.300
(b) Rs.210
(c) Rs.136
(d) Rs.510
(e) Rs.436.

(2 marks)

15. The following are the balance sheets of Rama Enterprises as on March 31, 2009 and March 31, 2010:

(Amount in Rs.)

Liabilities	31.03.09	31.03.10	Assets	31.03.09	31.03.10
Capital	8,000	10,600	Land	8,500	7,500
Bills payable	1,000	500	Buildings	1,050	550
Sundry creditors	4,050	4,100	Stock	1,250	2,750
			Debtors	1,800	4,000
			Cash and bank	450	400
Total	13,050	15,200	Total	13,050	15,200

During the year 2009-10, Mr. Ram, proprietor of Rama Enterprises had introduced additional capital of Rs.1,000 and withdrew Rs.500 from business for personal use. Interest on capital @5% should be provided on opening capital. The amount of profit/loss earned during the year 2009-10 was

- (a) Rs.3,100
(b) Rs.1,700
(c) Rs.2,700
(d) Rs.3,200
(e) Rs.2,200.

(2 marks)

16. Return outward book is maintained by a business to record

- (a) Return of goods purchased on cash
- (b) Return of goods sold on credit
- (c) Return of capital goods purchased on credit
- (d) Return of goods purchased on credit
- (e) Return of capital goods sold on credit.

(1 mark)

17. The three column cash book represents

- (a) Real accounts only
- (b) Both real and nominal accounts
- (c) Personal accounts only
- (d) Both real and personal accounts
- (e) Real, personal and nominal accounts.

(1 mark)

18. Lamba, who is yet to prepare the final accounts found that goods sold on credit to Ramanlal for Rs.3,500 were entered in the sales book as Rs.3,050. Ramanlal's account was credited with Rs.3,050 in the ledger. The entry required to rectify the above error is

		Rs.	Rs.
(a)	Sales account	Dr. 3,500	
	To Ramanlal account		450
	To Suspense account		3,050
(b)	Sales account	Dr. 3,050	
	Purchase account	Dr. 3,500	
	To Suspense account		6,550
(c)	Ramanlal account	Dr. 6,550	
	To Sales account		450
	To Suspense account		6,100
(d)	Profit and Loss Adjustment account	Dr. 6,550	
	To Ramanlal account		450
	To Suspense account		6,100
(e)	Suspense account	Dr. 6,550	
	To Ramanlal Account		6,550.

(1 mark)

19. Which of the following errors **affects** the agreement of a trial balance?

- (a) Mistake in balancing an account
- (b) Omitting to record a transaction entirely in the subsidiary books
- (c) Recording of a wrong entry in the subsidiary book
- (d) Recording a correct entry in wrong subsidiary book
- (e) Posting an entry on the correct side but in the wrong account.

(1 mark)

20. Which of the following statements is **true**?

- (a) Compensating errors cause a mismatch in the trial balance
- (b) Error of principle affects the agreement of a trial balance
- (c) Recording both aspects of a transaction more than once in the books of accounts affects the agreement of trial balance
- (d) Recording a transaction at an amount which is totally different from the actual amount does not affect the agreement of trial balance
- (e) Error of casting does not affect the agreement of a trial balance.

(1 mark)

21. The balances extracted from the books of M/s. Well Buy as on March 31, 2010 were as under:

Particulars	Rs.
Salaries	22,000
Interest on loan from Mr. Agarkar	4,000
Sales	1,92,000
Purchases	1,86,000
Rent	26,000
Machinery	2,00,000
Sundry debtors	32,000
Sundry creditors	58,000
5% Loan from Mr. Agarkar (taken on April 01, 2009)	1,00,000
Capital account	1,40,000
Cash	20,000

Total 5,00,000
outstanding 1,00,000

However, Mr. Well, the proprietor, omitted to consider the following information:

- Outstanding salaries Rs.2,000.
- Depreciation on Machinery at the rate of 10% per annum.
- Rent paid in advance Rs.2,000.

The total of the adjusted trial balance after considering all the relevant information was

- (a) Rs.4,93,000
- (b) Rs.4,90,000
- (c) Rs.4,92,000
- (d) Rs.5,30,000
- (e) Rs.5,14,000.

(2 marks)

22. Sun Ltd., has furnished the following information for the year 2009-10:

Particulars	Rs.
Balances as on April, 01, 2009:	
Provision for bad debts	10,000
Provision for discount on debtors	4,000
During 2009-10:	
Bad debts written off	2,000
Discount allowed	3,000

The company maintains a provision for bad debts at 5% and provision for discount on debtors at 2.5% of the debtors. If the debtors as on March 31, 2010, before writing off bad debts and discount allowed amounted to Rs.2,00,000, the balance in the provision for discount on debtors account on March 31, 2010 stood at (rounded off to nearest rupees)

- (a) Rs.5,000
- (b) Rs.4,926
- (c) Rs.4,876
- (d) Rs.4,631
- (e) Rs.4,820.

(2 marks)

23. On April 01, 2009, Lekha Ltd., showed a balance of Rs.5,600 to the credit of Provision for bad and doubtful debts. On March 31, 2010 the Sundry Debtors showed a balance of Rs.2,50,400. Out of the total debtors, the status of the following debtors is as follows:

- Sinha Rs.3,800 – identified as bad debt and is to be written off.
- Gupta Rs.9,000 – expected to realize only 80%.
- Patel Rs.8,000 – expected to realize only 60%.
- Iyer Rs.5,500 – likely to file insolvency petition and the percentage of recovery is not known.

All other debts as on the date of finalization of accounts are estimated to be good. The closing balance of provision for bad and doubtful debts for the year ended as on March 31, 2010 was

- (a) Rs.14,300
- (b) Rs. 8,700
- (c) Rs.15,700
- (d) Rs.10,500
- (e) Rs. 4,900.

(2 marks)

24. Sky Ltd., has the practice of creating provision for doubtful debts @ 8% on debtors. The balance of provision for doubtful debts on April 01, 2009 and March 31, 2010 was Rs.12,000 and Rs.18,000, respectively. If the credit sales during the year were Rs.31,00,000, the amount collected from debtors was
- Rs.30,25,000
 - Rs.34,00,000
 - Rs.31,00,000
 - Rs.32,25,000
 - Rs.29,50,000.

(2 marks)

25. Which of the following expenditure is an example of expenditure that improves the earning capacity of the business?
- Preliminary expenditure
 - Acquisition of copyrights
 - Interest paid during construction period
 - Annual maintenance of machinery
 - Discount on issue of debentures.

(1 mark)

26. Following information is extracted from the books of M/s Brown Enterprises for the year 2009-10:

Particulars	Rs.
Opening stock	1,00,000
Purchases	2,50,000
Sales	3,50,000
Returns inward	10,000
Octroi	2,150
Freight inwards	1,500
Returns outward	12,500
Freight outwards	1,000
Salaries	22,000
Closing stock	1,10,000
Commission paid on sales @ 5%	

Goods sold worth Rs.10,000 was recorded in purchase book.

The amount of gross profit for the year 2009-10 was

- Rs.1,05,820
- Rs.1,06,820
- Rs.1,31,000
- Rs.1,28,850
- Rs.1,30,000.

(2 marks)

27. The accountant of M/s. Deep Enterprises reported a net profit of Rs.5,90,000 for the year 2009-10. Subsequently, the following errors and omissions were noticed:

- The company had invested Rs.1,00,000 in 13% Debentures and the entire interest for the year 2009-10 was not accounted for.
- Salary to manager was still outstanding for the month of March 2010 and was not taken while preparing the Profit and Loss account. The manager draws an annual salary of Rs.1,80,000.
- Ms. Sumana returned goods worth Rs.29,000 which were not recorded in the books of account. However, the closing stock includes the returned goods.

The correct net profit of M/s. Deep Enterprises for the year 2009-10 was

- Rs.5,59,000
- Rs.5,88,000
- Rs.5,76,500
- Rs.5,33,000
- Rs.5,42,500.

(2 marks)

28. The balance sheet of a business concern gives information regarding the

- (a) Results of operations of the business concern for a particular period
- (b) Financial position of the business concern during a particular period
- (c) Profit earning capacity of the business concern for a particular period
- (d) Financial position of the business concern as on a particular date
- (e) Operating efficiency of the business concern as on a particular date.

(1 mark)

29. The following balances are extracted from the books of Mount Ltd., as on March 31, 2010:

Particulars	Rs.	Particulars	Rs.
Called-up share capital	6,25,000	Fixed assets	9,62,500
Secured loans	5,00,000	Calls in arrears	37,500
Loans to employees	64,000	Capital reserve	1,12,500
Cash and bank	55,000	Profit and Loss account (credit balance)	62,500
Sundry debtors	1,37,500	Sundry creditors	1,14,000
Stock	1,20,000		
Preliminary expenses	37,500		

The total of the assets side of the balance sheet of Mount Ltd., as on March 31, 2010 was

- (a) Rs.13,76,500
- (b) Rs.13,75,250
- (c) Rs.14,14,000
- (d) Rs.14,26,500
- (e) Rs.13,77,375.

(2 marks)

30. The amount of funds invested at the risk of the owners of the business concern is known as

- (a) Outside liabilities
- (b) Total assets
- (c) Net worth
- (d) Tangible assets
- (e) Current assets.

(1 mark)

31. The following information is extracted from the books of K.V. Ltd., for the year 2009-10:

Particulars	Rs.
Purchases	4,30,000
Sales	5,60,000
Opening stock	40,000
Factory insurance paid	6,000

Purchase invoices aggregating Rs.36,000 were omitted from purchase day book. Sales include Rs.10,000 for goods sent out to M/s. Das & Co., on sale or approval basis at a profit margin of 20% and these goods remained unsold at the end of the year. If the gross profit of the company for the year ended March 31, 2010 was Rs.1,03,000, the value of closing stock (other than unsold stock of goods sent on sale or approval basis) as on that date was

- (a) Rs.57,000
- (b) Rs.65,000
- (c) Rs.59,000
- (d) Rs.75,000
- (e) Rs.29,000.

(2 marks)

32. The directors of Taurus Ltd., had furnished the following information for the year 2009-10:

Particulars	Rs.
Authorized capital	12,00,000
Issued and called up capital	9,60,000
Dividends paid	2,25,000
Calls in arrears	60,000

LOOK UP

If the net profit for the year 2009-10 was Rs.3,84,000, the amount of profits carried forward to the balance sheet after appropriate transfers to reserves and payment of dividends is

- (a) Rs. 38,400
- (b) Rs.3,45,600
- (c) Rs.2,25,000
- (d) Rs.1,59,000
- (e) Rs.1,20,600.

(2 marks)

33. Trinity Ltd., follows perpetual inventory system. On March 31 of every year, the company undertakes physical verification of stock. On March 31, 2010, the value of stock as per the stock records differed from the value as per physical verification. On scrutiny, the following differences were noticed:

- Stock register was overcast by Rs.12,000.
- Goods purchased for Rs.20,000 were received and included in the physical stock but no entry was made in the books.
- Goods costing Rs.60,000 were sold and entered in the books but the stock is yet to be delivered.
- Goods worth Rs.10,000 returned to the suppliers were omitted to be recorded.

On March 31, 2010, if the value of the stock as per physical verification was Rs.3,58,000, the book value of stock as on that date was

- (a) Rs.3,80,000
- (b) Rs.3,58,000
- (c) Rs.3,00,000
- (d) Rs.3,20,000
- (e) Rs.3,60,000.

(2 marks)

34. The weighted average cost of goods held in inventory is recalculated

- (a) On periodic basis
- (b) Every time a fresh purchase is made
- (c) On yearly basis
- (d) Every time material is issued for consumption or sale
- (e) After prefixed time intervals.

(1 mark)

35. Rosy Ltd., is following weighted average cost method for valuing its inventory. The details of purchase and issue of its raw-materials during the period March 29, 2010 to April 3, 2010 are as follows:

- 29.03.2010 Opening stock 50 units value Rs.2,200.
- 30.03.2010 Purchased 100 units @ Rs.47.
- 01.04.2010 Issued 50 units.
- 02.04.2010 Purchased 200 units @ Rs.48.
- 03.04.2010 Issued 100 units.

The value of inventory issued during the week was

- (a) Rs.7,033
- (b) Rs.6,900
- (c) Rs.7,000
- (d) Rs.6,933
- (e) Rs.7,100.

(2 marks)

36. On March 15, 2010 a fire occurred in the godown of Sai Enterprises and some stock was destroyed. The following transactions took place between January 01, 2010 and March 15, 2010:

Particulars	Rs.
Stock salvaged	4,000
Sales	2,50,000
Wages	55,000
Opening stock	1,00,000
Gross profit	50,000

If the value of the stock lost by fire was Rs.86,000, the value of goods purchased during January 01, 2010 to March 15, 2010 were

- (a) Rs.1,27,000
 (b) Rs.1,43,000
 (c) Rs.1,35,000
 (d) Rs.1,31,000
 (e) Rs.1,90,000. (2 marks)
37. In relation to price, the phrase *markup* means
 (a) The first selling price at which goods are offered
 (b) The selling price raised above the original selling price
 (c) Difference between the cost and the original selling price
 (d) Difference between the cost and the first selling price
 (e) The selling price raised above the cost. (1 mark)
38. Which of the following is an example of items that would be costed by their relative sales value?
 (a) Purchase of individual assets
 (b) Purchase of raw materials
 (c) Purchase of intangible assets
 (d) Lumpsum purchases of assets
 (e) Purchase of business. (1 mark)
39. Inventories used in discontinued segments of a business should be written down to their
 (a) Cost value
 (b) Book value
 (c) Historical value
 (d) Present value
 (e) Net realizable value. (1 mark)
40. In a more conservative variation of revenue recognition, in which of the following methods cost of sales is recorded at an amount equal to the installment payment?
 (a) Pure installment method
 (b) Cost-recovery method
 (c) Percentage of completion method
 (d) Production method
 (e) Delivery method. (1 mark)
41. AS-09 in respect of revenue recognition generally deals with
 (a) Revenue arising from royalties
 (b) Revenue arising from construction contracts
 (c) Revenue arising from government grants
 (d) Revenue arising from hire purchase lease agreements
 (e) Revenue arising from government subsidies. (1 mark)
42. As per AS-09, revenues from interest on investments are recognized
 (a) On an accrual basis
 (b) On a cash basis
 (c) On a time proportion basis
 (d) On a mercantile basis
 (e) On a hybrid basis. (1 mark)

43. The items for which revenues are recognized both by conservatism concept and realization concept are identified and the costs of such items are also accounted for in the same period as that of accounting of revenues. This is called as
- Cost concept
 - Revenue concept
 - Duality concept
 - Matching concept
 - Going concern concept.
- (1 mark)
44. GNR Ltd., estimates uncollectible accounts at the rate of 1% of credit sales. The amount of credit sales during the year 2009-10 totaled Rs.10,00,000. As on March 31, 2010, accounts receivable balance and the unadjusted allowance balance for uncollectable accounts are Rs.2,50,000 and Rs.15,000 respectively. The net accounts receivable balance in the balance sheet of GNR Ltd., as on March 31, 2010 was
- Rs.2,25,000
 - Rs.2,35,000
 - Rs.2,40,000
 - Rs.2,60,000
 - Rs.2,65,000.
- (2 marks)
45. If a note is discounted, the difference between the amount of cash received by the holder and the maturity value of the note is called
- Premium
 - Discount
 - Allowance
 - Bad debts
 - Revenue.
- (1 mark)
46. Revenue from lay away sales is generally recognized when the
- Goods are delivered
 - Goods sold by the recipient
 - Cash is received by the seller
 - Time period for rejection of goods has elapsed
 - Goods are in transit.
- (1 mark)
47. In the books of P K Ltd., the machinery account shows a debit balance of Rs.30,000 as on April 1, 2008. The machinery was sold on September 30, 2009 for Rs.15,000. If the company charges depreciation @ 20% p.a. under diminishing balance method, the amount of depreciation and the profit/loss on sale of machinery reflected in the Profit and Loss account of the company for the year ended March 31, 2010 was
- Depreciation of Rs.6,000 and loss on sale of machinery Rs.3,000
 - Depreciation of Rs.4,800 and loss on sale of machinery Rs.4,200
 - Depreciation of Rs.2,400 and loss on sale of machinery Rs.6,600
 - No depreciation and loss on sale of machinery Rs.9,000
 - Depreciation of machinery Rs.4,800 and profit on sale of machinery Rs.4,200.
- (2 marks)
48. On March 31, 2009, the balances of plant and machinery and provision for depreciation on plant and machinery in the books of Click Ltd., were Rs.28,57,000 and Rs.4,27,000 respectively.
- On April 1, 2009 a machine was sold for Rs.1,20,000 (which had cost of Rs.1,00,000 and on which depreciation of Rs.20,000 had been provided).
- Depreciation was Rs.26,000 on Plant and Machinery for the year ended March 31, 2010.
- The net book value of Plant and Machinery as on March 31, 2010 was
- Rs.23,69,800
 - Rs.24,49,800
 - Rs.23,24,000
 - Rs.24,89,900
 - Rs.25,69,800.
- (2 marks)

49. Which of the following statements is **false** in respect of the useful life of a depreciable asset?
- The useful life of a depreciable asset is shorter than its physical life
 - The useful life of a depreciable asset can be reduced by technological changes also
 - The useful life of a depreciable asset is not dependant upon the number of shifts worked
 - The useful life of a depreciable asset is dependant upon repair and maintenance policy of organization
 - The useful life of a depreciable asset can be predetermined by legal obligations.
- (1 mark)
50. Avon Ltd., has been charging depreciation on the straight line method. It charges a full year depreciation even if the machinery is utilized only for part of the year. An equipment which was purchased for Rs.7,00,000 now stands at Rs.5,95,000 after depreciating at the rate of 5% on a straight line basis. Now the company decides to change the method of depreciation with retrospective effect. The applicable reducing balance rate for this machinery would be 8% p.a. Assuming that before the effect of this change could be accounted, depreciation for the current year is already charged based on straight line method and is reflected in the depreciated value of Rs.5,95,000, the extra depreciation to be provided based on the changed method during the year is
- Rs.49,918
 - Rs.35,000
 - Rs.21,000
 - Rs.93,526
 - Rs.72,526.
- (2 marks)
51. Which of the following depreciation methods takes into consideration the output from the asset?
- Straight line method
 - Written down value method
 - Sum-of-the-years' digits method
 - Units-of-production method
 - Declining balance method.
- (1 mark)
52. The balance in the accumulated depreciation account of Sita Ltd., as on April 01, 2009 was Rs.2,00,000, when the original cost of the assets amounted to Rs.10,00,000. The company charges 10% depreciation on a straight line basis. One such asset costing Rs.5,00,000 (accumulated depreciation of Rs.80,000) was disposed off at the beginning of the year. The balance of the accumulated depreciation account as on March 31, 2010 was
- Rs.2,20,400
 - Rs.1,70,000
 - Rs.1,20,000
 - Rs.2,50,000
 - Rs.1,75,000.
- (1 mark)
53. Consider the following information pertaining to the office equipment purchased by MT Ltd.:
- | | |
|---|-------------|
| Office equipment purchased on April 01, 2009 | : Rs.50,000 |
| Accumulated depreciation up to March 31, 2010 | : Rs. 8,000 |
| Salvage Value | : Rs. 2,500 |
- The cost of the equipment that is yet to be charged against profits in subsequent years is
- Rs.10,500
 - Rs.47,500
 - Rs.42,000
 - Rs. 8,000
 - Rs.39,500.
- (1 mark)

54. The following is the Balance Sheet of Kick Ltd., as on March 31, 2010:

Liabilities	Rs.	Assets	Rs.
90,000 equity shares of Rs.10 each, fully paid	9,00,000	Goodwill	72,000
General reserve	3,96,000	Plant and Machinery	10,20,000
Bank loan	1,80,000	Other current assets	2,40,000
Sundry creditors	5,04,000	Sundry debtors	4,80,000
Total	19,80,000	Preliminary expenses	1,68,000
		Total	19,80,000

Additional Information:

- Sundry debtors include a debt of Rs.1,08,000 of which only Rs.72,000 is likely to be recovered. A provision has to be made for the balance.
- The average profit earned by the company during the last four years was Rs.1,44,000.
- The average rate of dividend paid by the company during the last four years was 12%.

The value of goodwill of the company by using the capitalization method is

- Rs. 72,096
- Rs. 1,80,000
- Rs. 1,44,000
- Rs.10,20,000
- Rs.12,00,000.

(2 marks)

55. The pre-tax profits of Lancer Ltd., for the past four years are as under:

Year	Profit (Rs.)
2006-07	2,64,000
2007-08	2,90,000
2008-09	3,00,000
2009-10	3,60,000

- The profit for the year 2006-07 includes income of Rs.4,000 from non-trading investments.
- The closing stock of the year 2007-08 was overvalued by Rs.40,000.
- During the year 2009-10, Rs.30,000 was incurred towards a major repair of the machinery to increase its operating capacity and the same was charged to revenue.
- The applicable tax rate is 35%.

The simple average annual post-tax profit of Lancer Ltd., for the purpose of valuation of goodwill, is

- Rs.2,01,500
- Rs.1,95,000
- Rs.3,10,000
- Rs.3,00,000
- Rs.1,91,750.

(2 marks)

56. Amortization of intangible assets, such as copyrights or patents, is the accounting process of

- Determining the cash flow from operations for the current period
- Systematically allocating the cost of the intangible assets to the period of use
- Accumulating a fund for the replacement of the asset at the end of its useful life
- Systematically reflecting the change in general price level over the current period
- Asset valuation based on net realizable value at the statement of financial position.

(1 mark)

57. Mohit Ltd., operates a showroom in a leased property, which will expire on December 31, 2015. In January 2010, Mohit Ltd., decorated the showroom and made leasehold improvements of Rs.60,000. The company has estimated that the economic life of the improvements will be 8 years. Currently the company is following straight-line depreciation method. The amount to be reported as improvements to leasehold property in balance sheet as on March 31, 2010 was

- Rs.45,000
- Rs.54,000
- Rs.51,200
- Rs.57,500
- Rs. 9,000.

(2 marks)

58. On October 01, 2009, Sun Ltd., acquired 60% interest in outstanding common stock of Moon Ltd., at a cost of Rs.18,75,000.

Balance Sheet of Moon Ltd., as on March 31, 2010

Liabilities	Rs.	Assets	Rs.
Share capital (2,00,000 Equity shares Rs.10 each)	20,00,000	Fixed assets	28,50,000
Capital reserve	6,00,000	Current assets	3,80,000
Profit and Loss account	4,00,000		
Current liabilities	2,30,000		
Total	32,30,000	Total	32,30,000

Sun Ltd.'s share in capital profits of Moon Ltd., was Rs.4,20,000. The amount of goodwill or excess of cost over book value is

- (a) Rs.6,75,000
- (b) Rs.2,85,000
- (c) Rs.2,55,000
- (d) Rs.3,75,000
- (e) Rs.1,35,000.

(2 marks)

59. The amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal is known as

- (a) Present value
- (b) Book value
- (c) Historical value
- (d) Fair value
- (e) Residual value.

(1 mark)

60. The following information is taken from the Profit and Loss account of Vybra Ltd.:

Particulars	Rs.
Managing Director's Salary	60,000
Directors Fees	10,000
Donation to Ramakrishna Mission	30,000
Ex-gratia payments to an employee	7,000
Interest on debentures	5,000
Depreciation	27,500
Income tax	14,000
The net profit for the year (before adjustments after considering the above terms)	1,50,500

Other information:

- i. Depreciation calculated in accordance with income tax provisions is Rs.24,000.
- ii. Capital expenditure of Rs.12,000 was included in general expenses and charged to Profit and Loss Account.
- iii. Managing director is entitled to commission of 1% of net profit after charging such commission.

After considering the above information, the commission payable to the managing director is

- (a) Rs.1,755
- (b) Rs.1,824
- (c) Rs.1,851
- (d) Rs.1,950
- (e) Rs.2,000.

(2 marks)

61. An adjusting entry is passed to recognize interest expense incurred but not yet paid. Such interest expenses is a

- (a) Current asset
- (b) Prepaid expense
- (c) Deferred expense
- (d) Provision for interest expenditure
- (e) Current liability.

(1 mark)

62. The balance in the 'Expenses on issue of debentures account' is
- Shown under miscellaneous expenditure in the balance sheet
 - Added to the capital reserve account in the balance sheet
 - Deducted from the securities premium account in the balance sheet
 - Deducted from the capital reserve account in the balance sheet
 - Added to the securities premium account in the balance sheet.

(1 mark)

63. Rokets Inc., has both cumulative 2,250 12% Preference shares of Rs.100 each, fully paid up and 1,00,000 Equity shares of Rs.10 each fully paid up. The company paid a total amount of Rs.1,96,000 which includes a dividend arrear of Rs.43,000 of previous year. The percentage of dividend paid on the equity paid-up capital for the current year is
- 19.20%
 - 12.60%
 - 15.60%
 - 16.90%
 - 17.50%.

(2 marks)

64. Following is the data pertaining to Lotus Ltd., as on March 31, 2010:

Particulars	Rs.
Authorized share capital (25,000 shares of Rs.100 each)	25,00,000
Issued/subscribed/called-up capital	15,05,000
Calls in arrear	5,000
Interim dividend declared	1,05,000
Current year profit	3,37,000

If final dividend of 10% is declared (in addition to interim dividend), the amount that will have to be transferred to General Reserve in lieu of dividend declared (inclusive of interim dividend) out of current year profit would be

- Rs. 8,425
 - Rs.16,850
 - Rs.33,700
 - Rs.15,000
 - Rs.25,275.
65. As per Schedule VI of the Companies Act, 1956, which of the following statements is **true** regarding the treatment of calls-in-arrears in the final accounts of a company?
- The amount will be shown under the head 'current assets' on the assets side of the balance sheet
 - The amount will be deducted from the called-up capital in the balance sheet
 - The amount will be shown under the head 'current liabilities' in the balance sheet
 - The amount will be shown in the Profit and Loss account as a loss without showing it in the balance sheet
 - The amount will be added to the share capital in the balance sheet.

(2 marks)

(1 mark)

66. Consider the following data pertaining to Roy Ltd., for the year ended March 31, 2010:

Particulars	Rs.
Sales	8,00,000
Excess of opening stock over closing stock	80,000
Plant & Machinery	3,40,000
Rent received	1,10,000
Purchases	5,70,000
Sales commission paid	24,000

Additional information:

- Rent received in advance amounted to Rs.5,000.
- A credit purchase of Rs.30,000 was wrongly recorded in sales day book as Rs.1,02,000.
- The company has the practice of depreciating the Plant and Machinery at the rate of 15% per annum on straight line method. The original cost of the Plant and Machinery was Rs.4,00,000.
- Sales commission was paid only to the extent of two thirds of the amount payable.

The net profit of the company for the period ended March 31, 2010 was

- Rs.36,000
- Rs.39,000
- Rs.27,000
- Rs.56,000
- Rs.37,000.

(2 marks)

67. The balance sheet of Real Ltd., as on March 31, 2009 showed Profit and Loss account (Cr.) Rs.3,00,000 and Investments at Rs.65,000. In the year 2009-10, the company earned a profit of Rs.85,000, after charging depreciation on fixed assets at the rate of 10% p.a. and interest due on debentures but before giving effect to the following:

- i. The company issued 35,000 shares having a face value of Rs.10 each, at a premium of Rs.2 per share, paying underwriting commission of 5%. The Articles of Association permits the company to write-off the underwriting commission completely in the same year.
- ii. During the period the company sold its investments for Rs.95,000.

The balance of profit in Profit and Loss Appropriation account for the year ended March 31, 2010 was

- (a) Rs.4,15,250
- (b) Rs.3,51,250
- (c) Rs.3,60,000
- (d) Rs.3,74,000
- (e) Rs.3,94,000.

(2 marks)

68. An auditor appointed at the Annual General Meeting (AGM) will hold office from the

- (a) Beginning of the current AGM to the conclusion of the next AGM
- (b) Conclusion of the current AGM to the conclusion of the next AGM
- (c) Conclusion of the current AGM to the beginning of the next AGM
- (d) Beginning of the current AGM to the beginning of the next AGM
- (e) Beginning of the current AGM to the conclusion of period of one year.

(1 mark)

69. According to Provisions of the Companies Act 1956, the first auditor of a company shall be appointed by the Board of Directors of the company within

- (a) One month from the date of first annual general meeting of the company
- (b) One month from the date of registration of the company
- (c) Three months from the date of registration of the company
- (d) Six months from the date of registration of the company
- (e) Twelve months from the date of registration of the company.

(1 mark)

70. The annual financial statements should be first approved by the

- (a) Board of Directors
- (b) Registrar of Companies
- (c) Shareholders
- (d) Audit Committee
- (e) Nominee directors.

(1 mark)

END OF QUESTION PAPER

Suggested Answers

Financial Accounting (CFA510-01): April 2010

ANSWER	REASON
1. C	The incomes and expenses pertaining to full trading period are taken to the Profit and Loss account of a business, irrespective of their receipt or payment is in recognition of accrual concept.
2. D	Revenue reserves represent accumulated retained earnings from the profits of normal business operations. These are held in various forms: • General reserve • Investment allowance reserve • Capital redemption reserve • Dividend equalization reserve. Capital reserve arises out of gains which are not related to normal business operations.
3. A	The income statement reflects the financial performance of an entity over a period of time.
4. B	The balance in Profit and Loss account which has not been appropriated to any particular reserve account is known as surplus.
5. E	• Equity shareholders – financing group. • Debentureholders – financing group. • Preference shareholders – financing group. • Suppliers – financing group. • Customers – public group.
6. C	According to money measurement concept the Value of building will be recorded in the books of accounts. All other events cannot be measured in terms of money and hence not recorded in books of accounts.
7. B	Earning revenue income will increase the owners' equity. The following transactions will not result in an increase in the owners' equity • Borrowing additional loans • Sale of fixed assets at book value • Sale of investments at book value • Purchase of fixed assets.
8. A	Total assets = Owner's equity + Outside liabilities Fixed assets + current assets = Capital + Reserves + Outside liabilities Rs.18,40,000 + Rs.17,22,000 = Rs.30,00,000 + Rs.1,00,000 + Outside liabilities Rs.35,62,000 = Rs.30,00,000 + Rs.1,00,000 + Outside liabilities Outside liabilities = Rs.35,62,000 – Rs.31,00,000 = Rs.4,62,000 Sundry creditors = Rs.4,62,000 ÷ 4 = Rs.1,15,500.
9. C	• Present value is the present discounted value of the future inflows that an item is expected to generate in the normal course of business. • Current cost is the amount that needs to be paid if the asset is to be acquired currently. • Historical cost is the amount paid or payable to acquire a benefit. • Realizable value is the net amount collectible in the event of the asset's disposal. • Future value is the future value of cash inflows that an item is expected to generate in the normal course of business.
10. D	Incurring liability is a source of fund but not a use of fund. Acquiring assets, incurring expenses, incurring losses and paying dividends are all uses of funds.

11. E Cash book is a special journal in which all cash transactions are recorded directly. The cash book resembles a ledger with the debit and credit sides and the balance represents the cash on hand and at bank at the end of the accounting period. Hence, it serves the purpose of ledger. Cash account and bank account are not opened when a cash book is maintained. Purchases book, sales book, bills receivables book and journal proper are the books of original entry and they do not serve the purpose of ledger.

12. B Three column cash book of M/s Ravuri Enterprises for the month of March, 2010

Dr.						Cr.					
Date	Receipts	L.F.	Dis	Cash Rs.	Bank Rs.	Date	Payments	L.F.	Dis	Cash Rs.	Bank Rs.
2010						2010					
Mar 1	To bal b/d			18,809	54,215	Mar, 12	By Bank	C		24,500	
6	To Sales			22,400		20	By Bank	C		2,450	
12	To Cash	C			24,500	24	By Sunil		70		3,430
18	To Sidhu			2,450		28	By Purchases (b.f.)			8,750	
20	To Cash	C			2,450	30	By Cash	C			17,500
30	To Bank	C		17,500			By bal c/d			25,459	60,235
				61,159	81,165					61,159	81,165

13. E Purchase Book

Date	Particulars	L/F	Rs.	Rs.
2010	Surya Textiles			
Mar 10	10 Jeans @ Rs.600 each		6,000	
	5 Ladies suits @ Rs.800 each		4,000	
	15 Shirts @ Rs. 200 each		3,000	
			13,000	
	Less: Trade discount@ 5%		650	12,350
Mar 15	Roll Mills			
	30 Sarees @ Rs.500 each		15,000	
	20 trousers @ Rs.300 each		6,000	
	5 Shirts @ Rs. 200 each		1,000	
			22,000	
	Less: Trade discount @ 6%		1,320	20,680
	TOTAL			33,030

Purchase Returns Book

Date	Particulars	L/F	Rs.	Rs.
2010	Surya Textiles			
Mar 20	3 Jeans @ Rs.600 each		1,800	
	5 Shirts @ Rs.200 each		1,000	
			2,800	
	Less: Trade discount@ 5%		140	2,660
Mar 31	Roll Mills			
	5 Sarees @ Rs.500 each		2,500	
	5 trousers @ Rs.300 each		1,500	
			4,000	
	Less: Trade Discount @ 6%		240	3,760
	TOTAL			6,420

The amount of net credit sales as on March 31, 2010 = Rs.33,030 – Rs.6,420 = Rs.26,610.

14. A

Date	Particulars	Rs.	Rs.
2010, Mar 1	Cash received from the Chief Cashier		1,200
5	Stamp papers (bal. fig.)	300	
7	Postal Stamps	160	
10	Stationery	64	
15	Carriage	32	
20	Auto fare to salesman	40	
22	Telegrams	50	
27	Tea to customers	30	
30	Stationery	72	748
31	Closing balance		452

15. B

Capital account of Ram

Particulars	Rs.	Particulars	Rs.
To Drawings	500	By Balance b/d	8,000
To Balance c/d	10,600	By Cash (addl. Capital)	1,000
		By Interest on capital	400
		By Profit and Loss account	1,700
	11,100		11,100

16. D Return outward book is maintained by a business to record return of goods purchased on credit.

17. E The three column cash book is a refinement over single column cash book and double column cash book. Under three column cash book an additional column for discount is included on either side. Thus, it represents cash column-real account, Bank column-personal account and discount column-nominal account. The three-column cash book represents real, personal and nominal accounts.

18. C The rectification entry is

Particulars		Rs.	Rs.
Ramanlal account (Rs.3,500 + Rs.3,050)	Dr.	6,550	
To Sales account (Rs.3,500 - Rs.3,050)			450
To Suspense account			6,100

19. A The mistake in balancing an account affects the agreement of a trial balance (a) is the correct answer. The other mistakes do not affect the agreement of trial balance. The Omission to record a transaction entirely in the subsidiary books (b) will not affect the agreement of a trial balance because both the aspects of a transaction are omitted to be recorded. Recording of a wrong entry in the subsidiary books (c) will not cause disagreement of a trial balance because, the wrong entry so recorded has the effect of posting the transaction in the manner it is recorded. Recording a correct entry in wrong subsidiary book (d) has the effect of posting the transaction in the manner it is recorded and has no impact on the agreement of a trial balance. Posting an entry on the correct side in the wrong account (e) does not affect the tallying of a trial balance because the aspect of the transaction is posted to the correct side of an account. Thus, (a) is the correct answer.

20. D The errors may arise because of mathematical mistakes, erroneous application of principles or misuse of existing information and depending upon their nature, they are classified as errors disclosed by the trial balance as they affect its agreement and errors not disclosed by trial balance. The statement (d) is true because if the recording of a transaction in the books of original entry is for an amount different from actual, the transaction is recorded/posted everywhere for the same amount. Ultimately it has no effect on agreement of trial balance. To illustrate, if a credit sale of Rs.15,000 to Mr. X is recorded as Rs.1,500 in sales day book and posted to the debit of Mr. X as Rs.1,500, it has no affect in the agreement of trial balance.
- The alternative (a), compensating errors cause a mismatch in the trial balance is false, because if any error caused at first instance is compensated by a second error or series of errors, the trial balance will be in agreement and these are quite difficult to detect.
- The alternative (b), error of principle involves an incorrect allocation of expenditure or receipt between capital and revenue. Such errors do not affect the agreement of trial balance and they are not disclosed by trial balance. Thus, the alternative (b) is false.
- The statement (c), recording both aspects of a transaction more than once in the books of accounts does not affect the agreement of trial balance. For example, if sales of Rs.7,000 made to Ram Ltd., is entered in the sales book twice, the error will not cause a mismatch in the totals of the trial balance.
- The statement (e), error of casting does not affect the agreement of trial balance is false because wrong totaling in a subsidiary book/ledger account results in either higher amount or lower amount than actual and ultimately results in mismatch of the trial balance.

21. A

Adjusted Trial Balance

Particulars	Debit Rs.	Credit Rs.
Salaries (Rs.22,000 + Rs.2,000)	24,000	
Outstanding salaries		2,000
Interest on loan from Mr. Agarkar (Rs.4,000 + Rs.1,000)	5,000	
Outstanding Interest		1,000
Sales		1,92,000
Purchases	1,86,000	
Rent (Rs.26,000 – Rs.2,000)	24,000	
Prepaid rent	2,000	
Machinery (Rs.2,00,000-Rs.20,000)	1,80,000	
Depreciation (10% of Rs.2,00,000)	20,000	
Sundry debtors	32,000	
Sundry creditors		58,000
Loan from Mr. Agarkar		1,00,000
Capital account		1,40,000
Cash	20,000	
	4,93,000	4,93,000

22. D

Provision for Discount on Debtors

Particulars	Rs.	Particulars	Rs.
To Discount allowed	3,000	By Balance b/d	4,000
To Balance c/d (2.5% on Rs.1,85,250)	4,631	By Profit and Loss a/c.	3,631
	7,631		7,631

Sundry debtors	Rs.2,00,000
Less: Bad debts written off	Rs. 2,000
Discount allowed	<u>Rs. 3,000</u>
	Rs.1,95,000
Less: Provision for bad debts @5%	<u>Rs. 9,750</u>
	<u>Rs.1,85,250</u>

Provision for discount @ 2.5% on Rs.1,85,250 = Rs.4,631.25 = Rs.4,631.

23. D The amount debited to profit and loss account in respect of provision for doubtful debts is Rs.8,700 and the closing provision is Rs.10,500.

Provision for bad and doubtful debts

Dr.			Cr.	
Particulars	Rs.	Rs.	Particulars	Rs.
To Bad debts (Sinha)		3,800	By Balance b/d	5,600
To Provision	1,800		By Profit and loss account	8,700
Gupta 20% of Rs.9,000				
Patel 40% of Rs.8,000	3,200			
Iyer 100% of Rs.5,500	5,500			
To Balance c/d		10,500		
		14,300		14,300

24. A Dr. Sundry Debtors Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
April 01, 2008	To Balance b/d (12,000/8%)	1,50,000	2008-09	By Cash (Balance figure)	30,25,000
2008-09	To Credit sales	31,00,000	March 31, 2009	By Balance c/d (18,000/8%)	2,25,000
		32,50,000			32,50,000

25. B Acquisition of copy rights is an example of expenditure that improves the earning capacity of the business.

- Preliminary expenditure – resulting in long-term benefit to the business.
- Interest paid during construction period - resulting in long-term benefit to the business.
- Annual maintenance of machinery – resulting in benefit of which is derived in the same year.
- Discount on issue of debentures – resulting in long-term benefit to the business.

26. D Trading account of Brown Enterprises for the year ended March 31, 2010

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening stock		1,00,000	By Sales	3,50,000	
To purchases	2,50,000		Less: returns inwards	10,000	
Less: returns outwards	12,500		Add: sales wrongly recorded in purchase book	10,000	3,50,000
Less: sales wrongly recorded in purchase book	10,000	2,27,500			
To Octroi		2,150			
To Freight inwards		1,500	By closing stock		1,10,000
To Gross profit (Bal fig)		1,28,850			
		4,60,000			4,60,000

(Freight outwards commission paid on sales and salaries do not appear in the Trading account, they are to be debited to Profit and loss account).

27. A

Particulars	Rs.
Profit as reported by the accountant	5,90,000
Add: Interest on investments	13,000
	6,03,000
Less: Manager's salary	15,000
Less: Sales returns	29,000
The correct net profit	5,59,000

28. D Balance sheet is prepared to know the financial position of the concern as on a particular date. Thus option D is correct answer.

39.

A

Balance Sheet of Mount Ltd. as on March 31, 2010

Liabilities		Rs.	Assets	Rs.
Share capital	6,25,000		Fixed assets	9,62,500
Less call in arrears	37,500	5,87,500	Sundry debtors	1,37,500
Capital reserve		1,12,500	Stock	1,20,000
P & L A/c		62,500	Loans to employees	64,000
Secured loans		5,00,000	Cash and Bank	55,000
Sundry creditors		1,14,000	Preliminary expenses	37,500
		13,76,500		13,76,500

30.

C

The amount of funds invested at the risk of the owners of the business concern is known as Net worth.

31.

A

Trading Account for the year ending 31.03.2010

Dr.			Cr.		
Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		40,000	By Sales	5,60,000	
To Purchases	4,30,000		Less: Sale on	<u>10,000</u>	5,50,000
Add: Purchase	<u>36,000</u>	4,66,000	Approval		
invoice omitted			By Closing Stock	57,000	
To Factory insurance		6,000	Add: cost of goods	<u>8,000</u>	
To Gross Profit		1,03,000	sent on sale or		65,000
			approval		
			(Rs.10,000 – Rs.2,000)		
		6,15,000			6,15,000

32.

E

$$\text{Rate of dividend declared by directors} = \frac{\text{Dividend paid}}{\text{Paid-up capital}} \times 100 = \frac{\text{Rs.2,25,000}}{\text{Rs.9,00,000}} \times 100 = 25\%$$

Paid-up capital = called-up capital – calls in arrears = Rs.9,60,000 – Rs.60,000 = Rs.9,00,000.

As the dividend proposed exceeds 20 percent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 10 percent of the current profits i.e. Rs.3,84,000 × 10% = Rs.38,400.

Amount carried forward to balance sheet = Rs.3,84,000 – Rs.38,400 – Rs.2,25,000 = Rs.1,20,600.

33.

C

Computation of Inventory

Particulars	Rs.	Rs.
Value of the stock as per physical verification		3,58,000
Add: Returns outward	10,000	
Amount overcast in stock register	12,000	22,000
		3,80,000
Less: Purchases received but not yet accounted	20,000	
Goods sold yet to be delivered	60,000	80,000
Book value of stock as on March 31, 2010		3,00,000

34.

B

The average cost of goods held in inventory is recalculated every time a fresh purchase is made and goods issued or sold out of inventory are priced at such average price till such time as the next lot is purchased.

35.

A

Stores Ledger in the books of Rosy Ltd.

Date	Purchases			Issues			Balance		
	Quantity (units)	Rate Rs.	Rs.	Quantity (units)	Rate Rs.	Rs.	Quantity (units)	Rate Rs.	Rs.
29.03.10	-	-	-	-	-	-	50	44	2,200
30.03.10	100	47	4,700	-	-	-	150	46	6,900
01.04.10	-	-	-	50	46	2,300	100	46	4,600
02.04.10	200	48	9,600	-	-	-	300	47.33	14,200
03.04.10	-	-	-	100	47.33	4,733	200	47.33	9,467
Value of goods issued during the week						7,033			

36. C Trading account in the books of Sai Enterprises for the period January 1, 2010 to March 15, 2010

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Opening stock	1,00,000	By Sales	2,50,000
To Purchases (Bal. fig.)	1,35,000	By Stock lost by fire	86,000
To Wages	55,000	By stock salvaged	4,000
To Gross profit	50,000		
	3,40,000		3,40,000

37. B The phrase *markup* means the selling price raised above the original selling price.
38. D Determining the relative sales cost of inventory items is used when costs cannot be determined individually. Joint products, lumpsum purchase of assets (basket purchase) and large assets which are subdivided (real estate tracts) are examples of items that would be costed by their relative sales value.
39. E Inventories used in discontinued segments of a business should be written down to their Net realizable value.
40. B In a more conservative variation, under Cost-recovery method, cost of sales is recorded at an amount equal to the installment payment.
41. A The following aspects generally does not deal with the revenue recognition as per AS-09 to which special considerations apply:
- Revenue arising from construction contracts
 - Revenue arising from Government grants
 - Revenue arising from hire purchase lease agreements
 - Revenue arising from Government subsidies.
42. C As per AS-09, revenues from interest on investments are recognized on a time proportion basis taking into account the amount outstanding and the rate applicable.
43. D The items for which revenues are recognized both by conservatism concept and realization concept are identified and the costs of such items are also accounted for in the same period as that of accounting of revenues. This is called as matching concept.

44. A

Particulars	Rs.
Accounts receivable balance as on March 31, 2010	2,50,000
Unadjusted allowance balance for uncollectable accounts as on March 31, 2010	(15,000)
Estimates uncollectible accounts @1% on Rs.10,00,000	(10,000)
Net accounts receivable balance in the balance sheet as on March 31, 2010	2,25,000

45. B If a note is discounted, the difference between the amount of cash received by the holder and the maturity value of the note is called the discount.
46. A Revenue from lay away sales is generally recognized when the Goods are delivered.

47. C

Machinery Account

Date	Particulars	Rs.	Date	Particulars	Rs.
April 1, 08	To Balance b/f	30,000	March 31, 09	By Depreciation	6,000
			March 31, 09	By Balance c/d	24,000
		<u>30,000</u>			<u>30,000</u>
			Sept.30, 09	By Depreciation	2,400
April 1, 09	To Balance b/f	24,000		By Bank	15,000
			March 31, 10	By P&L a/c	6,600
		<u>24,000</u>			<u>24,000</u>

Enrol No: 6010010905563

Date : May 21, 2010

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Dear Student,

Sub : Comprehensive Feedback: April '2010 Examinations

We refer your application for the Comprehensive Feedback sought by you for the subject(s) referred below which you have appeared for, during April 2010 examinations.

The marks scored by you are placed below.

CFA510 Financial Accounting Marks : 38

The Comprehensive Feedback for this Subject is as follows:-

1. Following Questions are answered Correctly

1,2,5,6,10,14,16,18,19,20,25,26,27,28,29,33,34,35,41,43,44,45,49
51,52,56,60,65,68,70

2. Following Questions attempted, are found to be wrongly answered.

3,7,8,9,11,12,13,15,17,21,22,24,30,31,32,36,37,38,39,40,42,46,47,50
53,54,55,57,58,59,61,62,64,67

3. Following Questions are found not attempted

4,23,48,63,66,69

Comments : We advice you to improve your subject knowledge on :

- 1 Accounting of Intangible Assets
- 2 Principal Financial Statements
- 3 Trial Balance and Adjustments



for Controller of Examinations

Enclosed : 1) Copy of the subject Question Paper.
2) Copy of the subject Suggested Answers.

48. C

Particulars	Rs.
Cost as on 31.03.2009	28,57,000
Less: sale of machinery	1,00,000
	27,57,000
Less: Depreciation Up to 31.03.09	4,27,000
	23,30,000
Add: Depreciation recouped on sale	20,000
	23,50,000
Less: Depreciation for the year	26,000
Book value as on 31.03.10	23,24,000

49. C The useful life of a depreciable asset is not dependant upon the number of shifts worked is false.

50. A Straight line depreciation per annum = Rs.7,00,000 × 5% = Rs.35,000

Number of years for which depreciation has been charged on this basis

$$= \frac{\text{Rs.7,00,000} - \text{Rs.5,95,000}}{\text{Rs.35,000}} = 3 \text{ years}$$

If 8% depreciation was charged by the reducing balance method, written down values (WDV's) would be

WDV at the end of the 1st year (Rs.7,00,000 × 92%) = Rs.6,44,000

WDV at the end of 2nd year (Rs.6,44,000 × 92%) = Rs.5,92,480

WDV at the end of 3rd year (Rs.5,92,480 × 92%) = Rs.5,45,082

So extra depreciation to be provided = Rs.5,95,000 – Rs.5,45,082 = Rs.49,918.

51. D The depreciation rate according to units-of-production method is applied to the number of units produced during an accounting period. Hence, it is related to the usage of the asset. Straight line method, written down value (declining method) and sum-of-the-years' digits method take into consideration the cost of the asset, salvage value and useful life but not the output from the asset. Hence the answer is (d).

52. B

Particulars	Rs.
The opening balance in the accumulated depreciation A/c as on April 01, 2009	2,00,000
Less: Accumulated depreciation of the asset disposed	80,000
	1,20,000
Add: Current year's depreciation (Rs.10,00,000 – Rs.5,00,000) × 10%	50,000
The balance of the accumulated depreciation account as on March 31, 2010	1,70,000

53. E

Particulars	Rs.
Cost of office equipment	50,000
Less: Accumulated depreciation	8,000
Net written down value	42,000
Less: Salvage value	2,500
The cost of the equipment that is yet to be charged against profits in subsequent years	39,500

54. B

Computation of net tangible assets of Kick Ltd.

Particulars	Rs.	Rs.
Plant & machinery		10,20,000
Other current assets		2,40,000
Sundry debtors		4,80,000
		17,40,000
Less: Liabilities:		
Bank loan	1,80,000	
Sundry creditors	5,04,000	
Provision for bad debts	36,000	7,20,000
Net tangible assets		10,20,000

$$= \text{Total value of the business} = \frac{\text{Average maintainable profit}}{\text{Normal rate of return}} \times 100$$

$$= \frac{\text{Rs. 1,44,000}}{12\%} = \text{Rs. 12,00,000}$$

Goodwill = Total value of the business – Net tangible assets

$$= \text{Rs. 12,00,000} - \text{Rs. 10,20,000} = \text{Rs. 1,80,000.}$$

55. A

Particulars	2006-07 Rs.	2007-08 Rs.	2008-09 Rs.	2009-10 Rs.
Profits	2,64,000	2,90,000	3,00,000	3,60,000
Less: Overvaluation of closing stock		(40,000)		
Add: Overvaluation of opening stock			40,000	
Add: Major repair				30,000
Less: Income from non-trading investments	(4,000)			
Adjusted pre-tax profits	2,60,000	2,50,000	3,40,000	3,90,000

$$\text{Average pre-tax profits} = \text{Rs.}(2,60,000 + 2,50,000 + 3,40,000 + 3,90,000) / 4 = \text{Rs. 3,10,000}$$

$$\text{Average post-tax profits} = \text{Rs. 3,10,000} \times 65\% = \text{Rs. 2,01,500.}$$

56. B Amortization is the accounting process of systematically allocating cost of intangible assets to the period of use. It is not the process of determining cash flow from operations. It is not creating any fund to replace the asset. It is not the process of adjusting the change of price level, and it is not the asset valuation process. Hence (b) is correct.

57. D Leasehold improvements are to be capitalized and amortized over the period of remaining lease term or the expected economic life of the improvement, whichever shorter. In the given case, as the remaining lease term (from January 2010 to December 2015) is 6 years and it is less than the expected economic life (8 Years), Rs.60,000 is to be amortized over 6 years at a rate of Rs.10,000 i.e. 60,000/6 per year. Thus the amount to be amortized is Rs.10,000 $\times$ 3/12 = Rs.2,500 and the amount to be reported net of amortization in balance sheet is Rs.(60,000 – 2,500) = Rs.57,500.

58. C

Particulars	Rs.	Rs.
Cost of investments		18,75,000
Face value of investments Rs.(20,00,000 $\times$ 60%)	12,00,000	
Share in capital profits	4,20,000	16,20,000
Excess of cost over book value (Goodwill)		2,55,000

59. E The amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal is known as residual value.

60.

C

	Rs.
Net profit as per profit and loss account	1,50,500
Add: Income tax	14,000
Depreciation (Rs.27,500 – Rs.24,000)	3,500
Ex-gratia payments	7,000
Capital expenditure	<u>12,000</u>
	<u>1,87,000</u>

Commission payable :1% on net profit after charging commission

$$= \text{Rs. } 1,87,000 (1/101) = \text{Rs. } 1,851.$$

61.

E

The adjusting entry would involve a debit to an expense account and a credit to a liability account. The expense is an accrued expense; it has been incurred and is being recognized as expense of relevant accounting year.

62.

A

The balance in the 'Expenses on issue of debentures account' is shown under Miscellaneous expenditure in the balance sheet. Hence option (a) is correct answer.

63.

B

Total dividend paid during the year 2009-10	=	Rs.1,96,000
Less: Previous year's arrears	=	<u>Rs. 43,000</u>
		Rs.1,53,000

Less: 12%Preference dividend (2,25,000 × 12%) Rs. 27,000

Dividends paid for the current year Rs.1,26,000

The equity paid-up capital = Rs.10,00,000 (1,00,000 × Rs.10)

Therefore, the percentage of dividends paid on equity paid-up capital

$$= (\text{Rs. } 1,26,000 \div \text{Rs. } 10,00,000) \times 100 = 12.6\%.$$

64.

E

Calculation of Transfer to General Reserve:

Final dividend declared Rs.15,05,000 – Rs.5,000 × 10% = Rs.1,50,000

Total of dividend declared and proposed during the year

$$= \text{Rs. } (1,05,000 + 1,50,000) = \text{Rs. } 2,55,000$$

Dividends as a percent of paid-up capital = $(2,55,000 / 15,00,000) \times 100 = 17\%$

Since this rate of dividend falls in the slab – greater than 15% but less than 20% – the transfer to reserves should be 7.5% of the current profits.

$$\text{Transfer to reserves} = (7.5/100) \times 3,37,000 = \text{Rs. } 25,275.$$

65.

B

As per Schedule VI of the Companies Act, 1956, the amount of calls-in-arrears will be deducted from the called-up capital in the liability side of the balance sheet. Hence, (b) is correct answer.

66.

C

Net Profit of Joy Ltd. for the year ending March 31, 2010

Dr.			Cr.		
Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Purchases	5,70,000		By Sales	8,00,000	
Add: Omitted to be recorded	30,000	6,00,000	Less: Wrong Credit	1,02,000	6,98,000
To Excess of opening stock over closing stock		80,000			
To Gross Profit		18,000			
		<u>6,98,000</u>			<u>6,98,000</u>
To Sales Commission	24,000		By Gross Profit		18,000
+ Accrued	12,000	36,000	By Rent received	1,10,000	
To Depreciation		60,000	Less: received in advance	5,000	1,05,000
To Net Profit		27,000			
		<u>1,23,000</u>			<u>1,23,000</u>

The net profit is Rs.27,000.

67. E

Cost of investment	Rs.65,000
Sale value	Rs.95,000
Profit on sale	Rs.30,000

The balance of Profit and loss a/c as on March 31, 2010 was

Profit after depreciation and interest on debentures	Rs. 85,000
Add: Profit on sale of investment	Rs. 30,000
	Rs.1,15,000
Less: Underwriting commission (35,000 × (Rs.10 + Rs.2) × 5%)	Rs. 21,000
	Rs. 94,000
Add: Profit brought forward	Rs.3,00,000
Balance in Profit and Loss Appropriation a/c as on March 31, 2010	Rs.3,94,000

68. B An auditor at the Annual General Meeting (AGM) will hold office from the conclusion of the AGM to the conclusion of the next AGM

69. B According to the provision of Companies Act, the first auditor of a company should be appointed by the board of directors within one month from the date of registration of the company. Hence (b) is true.

70. A The annual financial statements should be approved by the Board of directors before being signed by the company and the auditors.

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