

Question Paper

Financial Accounting (CFA510-01): January 2010

- Answer all 73 questions.
- Marks are indicated against each question.

Total Marks : 100

1. Who among the following users of financial statements belong to management group?

- (a) Customers
- (b) Lenders
- (c) Partners
- (d) Suppliers
- (e) Investors.

(1 mark)

2. RJ Ltd., furnished the following information:

Particulars	2007-08 (Rs.)	2008-09 (Rs.)
Assets:		
Current assets	4,50,000	5,50,000
Fixed assets	4,87,500	4,50,000
Liabilities:		
Stakeholder's equity	6,37,500	6,37,500
Current liabilities	1,50,000	1,50,000
Secured loans	1,50,000	2,12,500

Compared to 2007-08, the percentage of net current assets to total assets in 2008-09 was increased by

- (a) 4.00%
- (b) 8.00%
- (c) 2.00%
- (d) 3.80%
- (e) 16.00%.

(2 marks)

3. An expenditure incurred for services to be received in the future is known as

- (a) Miscellaneous expenditure
- (b) Capital expenditure
- (c) Deferred expenditure
- (d) Prepaid expenditure
- (e) Income received in advance.

(1 mark)

4. The amount earmarked for distribution to the shareholders is known as

- (a) Profit after tax
- (b) Retained earnings
- (c) Dividends
- (d) Operating profit
- (e) Profit before tax.

(1 mark)

5. The system of accounting in which revenue is recognized when it is earned and expenses are recognized when they are incurred, is called

- (a) Accrual system
- (b) Hybrid system
- (c) Capital maintenance concept
- (d) Cash system
- (e) Current purchasing power accounting.

(1 mark)

6. Which of the following is an example of application of business entity concept?

- (a) Capital invested by owners in the business is shown as a liability
- (b) Creation of provision for bad debts on debtors
- (c) Charging depreciation on fixed assets
- (d) Classification of assets into fixed and current assets
- (e) Recording of inventory at cost or net realizable value, whichever is lower.

(1 mark)

7. Under the Companies Act, 1956, a company is normally not permitted to have an accounting period extending beyond
- Twelve months
 - Thirteen months
 - Three months
 - Fourteen months
 - Fifteen months.
- (1 mark)
8. Which of the following is **not** a use of fund?
- Acquiring assets
 - Incurring expenses
 - Incurring losses
 - Incurring liabilities
 - Paying dividends.
- (1 mark)
9. A trader who does not keep a complete set of books of accounts gives the following data:
 Started business with Rs.1,00,000 on June 1, 2008. Drawings were made at the rate of Rs.5,000 per month from July 1, 2008. Introduced further capital of Rs.20,000 during the year.
 Total of assets on March 31, 2009 was Rs.2,37,000 and sundry creditors were Rs.30,000 on the same date. Outstanding expenses on March 31, 2009 were Rs.5,000. The Net Profit of the business for the year ended March 31, 2009 was
- Rs.1,30,000
 - Rs.1,12,000
 - Rs.1,27,000
 - Rs.1,42,000
 - Rs.1,02,000.
- (2 marks)
10. The rule applicable to real accounts is
- Debit what comes in and credit what goes out
 - Debit the receiver and credit the giver
 - Debit all expenses and losses and credit all incomes and gains
 - Debit the giver and credit the receiver
 - Debit what goes out and credit what comes in.
- (1 mark)
11. The following data is extracted from the books of Rupa Ltd., for the year 2008-09:

Particulars	Rs.
Cash in hand as on April 1, 2008	75,000
Sundry debtors as on April 1, 2008	1,30,000
Sundry debtors as on March 31, 2009	2,00,000
Bad debts written-off	10,000
Cash sales during the year	8,00,000
List price of goods sold on credit	10,00,000
Payments for various expenses during the year	10,00,000
Prepaid expenses as on April 1, 2008	2,00,000
Trade discount allowed (on list price)	20%
Cash discount allowed (on net credit sales)	2.5%

The balance of cash in hand as on March 31, 2009 was

- Rs.9,75,000
 - Rs.7,75,000
 - Rs.5,75,000
 - Rs.7,70,000
 - Rs.5,70,000.
- (2 marks)

12. Which of the following statements is **false** with respect to cash book?
- Credit side of cash book records cash paid to the creditors in cash column and discount received in the discount column
 - Cheques received and sent to bank for collection on the same day will be entered in bank column of the cash book
 - A separate cash account is not required to be opened in the ledger, when a cash book is maintained
 - Cash received from debtors is recorded in cash column and discount allowed in the discount column on the debit side of the cash book
 - The discount columns in a three column cash book are compulsorily balanced. (1 mark)

13. Rosy Electronics, a dealer in electronic goods, has furnished the following information with respect to credit sales for the month of December 2009:

Date	Particulars	No. of units	Rate per unit (Rs.)	Trade Discount (%)
Dec.01	LCD TV (21")	50	20,000	10
Dec.05	Colour TVs	20	12,000	10
Dec.12	Six-in-one Music System	20	8,000	10
Dec.19	Two-in-one Music System	20	3,000	10
Dec.29	DVD packs	200	60	5

The total of sales day book for the month of December 2009, was

- Rs.13,25,400
 - Rs.13,53,800
 - Rs.13,14,000
 - Rs.13,41,800
 - Rs.13,37,000. (1 mark)
14. Navneeth, a sole proprietor, maintains a three column cash book to record his business transactions. Consider the following data pertaining to his business for the month of March, 2009:

Particulars	Rs.
Cheque received from a customer (after allowing a discount of Rs.2,500)	50,000
Paid the supplier by cheque (discount allowed by the supplier: Rs.10,000)	1,00,000
Received a cheque from Daulat Ram, a customer (after allowing a discount of 10% on the balance outstanding)	14,850
Paid Bharani and Co. in full settlement of their dues of Rs.28,500	26,250
Received from Rama & Bros. in full and final settlement (against an amount of Rs.38,900)	36,200

The total amount of discount recorded on the debit side of the three column cash book for the month of March, 2009 was

- Rs. 5,200
 - Rs. 4,350
 - Rs. 6,850
 - Rs.12,250
 - Rs.18,100. (1 mark)
15. Which of the following errors **affects** the agreement of a trial balance?
- Mistake in balancing an account
 - Omitting to record a transaction entirely in the subsidiary books
 - Recording of a wrong entry in the subsidiary book
 - Recording a correct entry in wrong subsidiary book
 - Posting an entry on the correct side but in the wrong account. (1 mark)

16. Which of the following statements is **true** with reference to rectification of errors?

- (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)

17. The following are the details pertaining to Rama Ltd.:

Particulars	As on March 31, 2009 (Rs.)	As on March 31, 2008 (Rs.)
Salaries outstanding	7,000	6,000
Salaries paid in advance	8,000	9,000

If the salaries shown in Profit and Loss account for the year ended March 31, 2009 was Rs.50,000, the amount of salaries paid during the year 2008-09 was

- (a) Rs.50,000
- (b) Rs.48,000
- (c) Rs.52,000
- (d) Rs.54,000
- (e) Rs.46,000.

(1 mark)

18. In the books of Vadilal Ltd., it was found that Rs.460 paid for freight on machinery purchased on October 01, 2008 was debited to Freight account as Rs.640. The company has a policy of providing depreciation of 10% per annum under straight-line method. If the trial balance did not agree and the company proceeded to close its books pertaining to 2008-09 and prepared the final accounts for the period, the entry required to rectify the error is

		Rs.	Rs.
(a)	Machinery account	Dr. 460	
	To Profit and Loss Adjustment Account		460
(b)	Machinery account	Dr. 437	
	Suspense Account	Dr. 180	
	To Profit and Loss Adjustment Account		617
(c)	Machinery account	Dr. 460	
	To Freight Account		460
(d)	Machinery account	Dr. 460	
	To Suspense Account		460
(e)	Machinery account	Dr. 460	
	To Suspense Account		180
	To Profit and Loss Adjustment Account		280.

(1 mark)

19. Which of the following **correctly** indicates the effect of the rectification of the error mentioned on the net profit?

Error	Net profit
(a) Expenses paid in advance in the previous year had not been brought forward	Increase
(b) Sales book was undercast	Decrease
(c) Goods returned by a customer not entered in the book	Decrease
(d) Acceptance of bill debited to N's a/c instead of M's a/c	Increase
(e) Purchase book was overcast	No effect.

(1 mark)

20. Consider the following data pertaining to Martin Ltd.:

Particulars	Rs.
Provision for doubtful debts as on April 01, 2008	8,370
Debts identified to be written off	5,940
Sundry debtors as on March 31, 2009 (before adjusting bad debts)	2,45,780

The company has the practice of maintaining provision for doubtful debts at 5% on sundry debtors. The amount debited to Profit and Loss account on account of provision for doubtful debts for the year ended March 31, 2009 was

- (a) Rs. 2,318
- (b) Rs.11,992
- (c) Rs. 2,328
- (d) Rs.14,320
- (e) Rs. 9,562.

(2 marks)

21. The following data was extracted from the books of Rolex Ltd., as on March 31, 2009:

- Total sundry debtors as per Trial Balance Rs.60,900.
- Bad debts identified after the preparation of Trial Balance Rs.900.
- Provision for bad debts to be created @ 5% on sundry debtors.
- Provision for discount on sundry debtors to be created @ 2%.

The net amount of sundry debtors shown in the balance sheet of Rolex Ltd., as on March 31, 2009 was

- (a) Rs.55,860
- (b) Rs.60,000
- (c) Rs.57,000
- (d) Rs.60,900
- (e) Rs.58,800.

(2 marks)

22. In the books of Rolex Ltd., the book value of stock as on March 14, 2009 was Rs.65,000. Goods worth Rs.3,000 were destroyed in fire on March 15, 2009, against which claim for Rs.2,000 was admitted by the Insurance Company. Which of the following is the appropriate accounting treatment for the above transaction?

- (a) Debit Rs.2,000 to Profit & Loss a/c and show Rs.2,000 as claim receivable on the asset side of Balance Sheet
- (b) Debit Rs.3,000 to Profit & Loss a/c and show Rs.2,000 as claim receivable on the asset side of Balance Sheet
- (c) Deduct Rs.3,000 from the value of closing stock; debit Rs.1,000 to Profit & Loss a/c and show Rs.2,000 as claim receivable on the asset side of Balance Sheet
- (d) Deduct Rs.3,000 from the value of closing stock; debit Rs.3,000 to Profit & Loss a/c and show Rs.2,000 as claim receivable on the asset side of Balance Sheet
- (e) Credit Rs.1,000 to Profit & Loss a/c and show Rs.2,000 as claim receivable on the asset side of Balance Sheet.

(1 mark)

23. Ashwini Enterprises, which started its operations on April 01, 2008, provided the following ledger balances as on March 31, 2009:

Particulars	Rs.
Sales	7,91,000
Carriage inward	39,200
Other expenses	43,400
Fixed assets	15,26,000
Sundry debtors	1,75,000
Sundry creditors	1,33,000
Cash and bank	91,000
Capital	12,60,000

On verification, it was noticed that balance of purchases account was omitted. Assuming that a trial balance is drawn up with the ledger balances available and if the value of stock as on March 31, 2009 was Rs.70,000, the gross profit for the year 2008-09 was

- (a) Rs.5,12,400
- (b) Rs.5,51,600
- (c) Rs.4,87,200
- (d) Rs.2,91,200
- (e) Rs.8,61,000.

(2 marks)

24. The following data was extracted from the trial balance of Sarovar & Co., as on March 31, 2009:

Particulars	Rs.
Sales	5,50,000
Purchases	4,50,000
Opening stock	40,000
Wages	8,500
Salaries	11,000
Printing and stationery	6,700
Rent paid	12,500
Prepaid insurance	4,000
Selling expenses	2,500
Returns inward	20,000
Returns outward	15,000

Adjustments:

- i. Value of closing stock Rs.20,000.
- ii. Outstanding salaries Rs.1,000.
- iii. Outstanding wages Rs.1,500.
- iv. Prepaid rent Rs.500.

The net profit earned by the firm during the year 2008-09 was

- (a) Rs.31,800
- (b) Rs.30,000
- (c) Rs.38,100
- (d) Rs.56,300
- (e) Rs.55,000.

(2 marks)

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

- (a) Income tax provision relating to current year is a charge against Profit & Loss appropriation account
- (b) Income tax provision relating to previous year should be debited to Profit & Loss account
- (c) Interim dividend should be debited to Profit and Loss account
- (d) Managing director's salary should be debited to Profit & Loss account
- (e) Provision for doubtful debts relating to current year is a charge against Profit & Loss appropriation account.

(1 mark)

26. The total purchases of Linda Ltd., during the year 2008-09 was Rs.1,90,000. If the gross profit of Linda Ltd., was 20% on sales and closing stock was more than the opening stock by Rs.30,000, the gross profit earned by Linda Ltd., during the year 2008-09 was
- (a) Rs.38,000
 - (b) Rs.40,000
 - (c) Rs.50,000
 - (d) Rs.32,000
 - (e) Rs.44,000.
- (1 mark)
27. Which of the following statements reflects the performance of the entity over a period of time?
- (a) Cash flow statement
 - (b) Balance sheet
 - (c) Profit and Loss account
 - (d) Trading account
 - (e) Trial balance.
- (1 mark)
28. Which of following transactions **does not** change the total amount of liabilities in the balance sheet?
- (a) Purchase of office furniture on credit
 - (b) Payment of bank loan
 - (c) Issue of debentures for cash
 - (d) Acceptance of bills drawn by creditors
 - (e) Payment of outstanding rent.
- (1 mark)
29. The assets which do not have physical existence and their real value depends upon the earning capacity of the business concern are known as
- (a) Net worth
 - (b) Tangible assets
 - (c) Current assets
 - (d) Deferred expenditure
 - (e) Intangible assets.
- (1 mark)
30. Which of the following is **not** an example of revenue expenditure?
- (a) Cost of advertisement
 - (b) Purchase of delivery van
 - (c) Purchase of raw-materials
 - (d) Purchase of machine oil
 - (e) Purchase of loose tools.
- (1 mark)
31. Which of the following represents certain outlays such as interest paid out of capital during construction which has **not** been written off?
- (a) Miscellaneous expenditure
 - (b) Investments
 - (c) Unearned incomes
 - (d) Outstanding liabilities
 - (e) Prepaid expenses.
- (1 mark)

32. The following is the summarized Profit and Loss account of Assure Ltd., for the year ended March 31, 2009:

Particulars	Rs. (in crores)
Gross profit	800
Depreciation	40
Other expenses	640
Net profit	120

In the year 2009-10 it is projected that fixed assets will neither be sold nor acquired. Depreciation on all fixed assets is charged at 25% under the written down value method and will be charged at the same rate and under the same method for the year 2009-10. It is expected that gross profit will be 10% higher than that of 2008-09, while other expenses will increase by 20%. The expected net profit for the year 2009-10 is

- (a) Rs.112 crores
- (b) Rs.102 crores
- (c) Rs. 82 crores
- (d) Rs. 72 crores
- (e) Rs. 50 crores.

(2 marks)

33. Consider the following data pertaining to Amruth & Co. for the year ended March 31, 2009:

Particulars	Rs.
Sales	55,000
Purchases	45,000
Opening stock	4,000
Salaries and wages	2,200
Printing and stationery	300
Rent paid	1,200
Prepaid insurance	400
Carriage inward	370
Carriage outward	250
Returns inward	2,000
Returns outward	1,500
Closing stock	2,000

The Manager of the business is entitled to a commission of 6% on profit after charging his commission. The commission payable to the manager for the year 2008-09 was

- (a) Rs.180
- (b) Rs.167
- (c) Rs.237
- (d) Rs.191
- (e) Rs.157.

(2 marks)

34. Effect due to change in the method of depreciation up to the beginning of the year of change is to be debited/credited to

- (a) Capital account
- (b) Miscellaneous expenditure account
- (c) Trading account
- (d) Profit and Loss appropriation account
- (e) Deferred expenditure account.

(1 mark)

35. Which of the following is/are the limitation(s) of a Balance Sheet?

- I. It does not contain certain assets and liabilities despite its claim to be the statement of all assets and liabilities.
- II. The factors, which have a vital bearing on the earnings of the organization, are not disclosed.
- III. Personal judgment plays a great part in determining the figures of the balance sheet.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

(1 mark)

36. Which of the following is **false** in respect of a Balance Sheet?
- (a) Under 'T' form Balance Sheet, generally all liabilities are shown on the left side and assets on the right side
 - (b) Under vertical form Balance Sheet, liabilities and assets are shown as Sources of Funds and Uses of Funds
 - (c) Under liquidity order basis, assets and liabilities are arranged in the order of their realizability and payment preference ✓
 - (d) Under fixity basis, fixed assets and liabilities are arranged on the assumption of being sold or paid on the liquidation of the business ✓
 - (e) Balance sheet is a valuation statement.
- (1 mark)

37. Which of the following assets is held for sale in the ordinary course of business?

- (a) Goodwill
- (b) Inventories
- (c) Copyrights
- (d) Patents
- (e) Machinery spares.

(1 mark)

38. Which of the following items is generally **not** considered as part of inventory?

- (a) Raw-material
- (b) Machinery spares
- (c) Consumables
- (d) Finished goods
- (e) Work-in-process.

(1 mark)

39. Consider the following data pertaining to a Godrej Ltd., for the month of December 2009:

Date	Receipts (Qty)	Rate per unit (Rs.)	Issues (Qty)
December 2	12	6,600	—
December 6	18	7,400	—
December 12	—	—	9
December 31	—	—	16

If the company maintains both the First-In First-Out and Weighted average inventory valuation method, the difference in the value of closing inventory between First-In-First-Out and Weighted average method as on December 31, 2009 was

- (a) Rs.1,600
- (b) Rs.1,500
- (c) Rs.3,200
- (d) Rs.3,000
- (e) Rs.2,500.

(2 marks)

40. The books of Indon Ltd., revealed the following information:

Particulars	Rs.
Opening inventory	8,40,000
Purchases during the year 2008-09	47,60,000
Sales during the year 2008-09	67,20,000

On March 31, 2009, the value of inventory as per physical stock was Rs.4,55,000. The company's gross profit on sales has remained constant at 25%. The management of the company suspects that some inventory might have been pilfered by a new employee. What is the estimated cost of missing inventory?

- (a) Rs.1,05,000
- (b) Rs. 35,000
- (c) Rs.1,40,000
- (d) Rs.2,10,000
- (e) Rs.3,14,000.

(2 marks)

41. Title in the goods passes to the buyer normally at the time and place of shipment, if the seller is required to

- (a) Keep the goods separately
- (b) Keep the goods in his godown
- (c) Send the goods to the buyer
- (d) Keep the goods ready for dispatch
- (e) Keep the goods ready for inspection.

(1 mark)

42. If the selling price is raised above the original selling price, then it is known as
 (a) Markdown
 (b) Markon
 (c) Net mark-up
 (d) Markup
 (e) Net markdown. (1 mark)
43. The recognition of revenue for royalties is done on
 (a) Time proportion basis
 (b) Accrual basis
 (c) Actual receipt basis
 (d) Establishment of the right to receive payment
 (e) Mercantile basis. (1 mark)
44. Accounts receivable are reported in the financial statements at
 (a) Net realizable value
 (b) Book value
 (c) Cost value
 (d) Historical value
 (e) Present value. (1 mark)

45. Rosy Ltd., has furnished the following information for the year 2008-09:

Particulars	Rs.
Credit sales during the year	2,00,000
Accounts receivables as on March 31, 2009	50,000
Unadjusted allowance for uncollectible amounts	3,000

If uncollectible accounts are estimated to be 1% of credit sales, the amount of net accounts receivables shown in the balance sheet was

- (a) Rs.50,000
 (b) Rs.49,000
 (c) Rs.48,000
 (d) Rs.47,000
 (e) Rs.45,000. (2 marks)
46. Under which of the following methods of depreciation, is the cost of asset spread over in equal proportion during its useful economic life?
 (a) Sum-of-the-years'-digits method
 (b) Written down value method
 (c) Units-of-production method
 (d) Straight line method
 (e) Allowance method. (1 mark)
47. Raghu Ltd., has purchased a machinery on December 20, 2007, in exchange of its securities. The machinery was installed on March 31, 2008. The value of securities on the above two dates is Rs.2,22,000 and Rs.2,10,000 respectively. It is expected that the machinery will have a useful life of 10 years after which it will have a salvage value of Rs.6,000. The machinery was put to use with effect from April 01, 2008. If the company follows straight line method of depreciation, the amount of depreciation charged for the year 2008-09 was
 (a) Rs.25,920
 (b) Rs.29,520
 (c) Rs.21,600
 (d) Rs.22,800
 (e) Rs.25,200. (2 marks)
48. Johari's Ltd., depreciates its machinery on straight-line method. The original cost of machinery was Rs.1,40,000 and its economic life was 10 years. At the beginning of the fifth year Rs.28,000 was expended, which considerably improved the operating efficiency of the machine by 50% and extended its useful life by four more years. The value of the machine at the end of its 9th year was
 (a) Rs. 67,200
 (b) Rs. 78,400
 (c) Rs. 56,000
 (d) Rs.1,12,000
 (e) Rs. 44,800. (2 marks)

49. Amith Ltd., depreciates its machinery at 10% p.a. on straight-line basis. On April 01, 2008 the balance in the machinery account of the firm was Rs.8,50,000 (original cost Rs.12,00,000). On July 01, 2008 a new machine was purchased for Rs.25,000. On December 31, 2008 an old machine having a book value of Rs.40,000 as on April 01, 2008 (original cost Rs.60,000) was sold for Rs.30,000. The balance shown in the machinery account of the business as on March 31, 2009 was

- (a) Rs.7,19,125
- (b) Rs.7,91,500
- (c) Rs.7,92,125
- (d) Rs.7,18,500
- (e) Rs.7,21,125.

(2 marks)

50. On March 31, 2009, the debit balance of the machinery account of Crompton Light Ltd., was Rs.7,93,800. The machine was purchased on April 01, 2007. The company charged depreciation at the rate of 10% per annum under diminishing balance method. On March 31, 2009, the company decided to change the system of providing depreciation from the diminishing balance method to the straight-line method with retrospective effect from April 01, 2007. If the rate of depreciation remains same, the amount of additional depreciation charged to Profit and Loss account for the year 2008-09 was

- (a) Rs.8,400
- (b) Rs.9,800
- (c) Rs.9,240
- (d) Rs.8,820
- (e) Rs.4,620.

(2 marks)

51. A new machine costing Rs.1,00,000 was purchased by a company to manufacture a special product. The scrap value at the end of its useful life was estimated to be Rs.10,000. The production plan for the next 5 years using the above machine is as follows:

Year	Units
2010-11	5,000
2011-12	10,000
2012-13	12,000
2013-14	20,000
2014-15	25,000

The depreciation expenditure for the year 2012-13 under units-of-production method will be

- (a) Rs.16,667
- (b) Rs.15,000
- (c) Rs.20,000
- (d) Rs.18,000
- (e) Rs.19,000.

(2 marks)

52. A machine was acquired by a company five years ago at a price of Rs.13,000. It is being depreciated to its scrap value Rs.1,000 on straight line basis over 8 years. The amount of depreciation accumulated upto date is Rs.7,500. The company reestimates the life of the machine in a more realistic manner to be 10 years. The amount of excess depreciation provided on the machinery for the past five years amounts to

- (a) Rs. 300
- (b) Rs. 600
- (c) Rs. 900
- (d) Rs.1,200
- (e) Rs.1,500.

(2 marks)

53. The profits of Karuna Ltd., for the past 3 years are as under:

Year	Rs.
2006-07	3,75,000
2007-08	4,50,000
2008-09	7,42,500

The company noticed the following errors, while computing the average profits for the purpose of valuation of goodwill:

- On October 01, 2006, repair expenses of Rs.30,000 of machinery were capitalized. Karuna Ltd., provides depreciation at the rate of 10% on straight-line method.
- The profit for the year 2008-09 includes profit of Rs.22,500 on sale of plant.

The average adjusted profit of the company to be considered for valuation of goodwill is

- (a) Rs.5,07,500
- (b) Rs.3,79,500
- (c) Rs.2,84,100
- (d) Rs.5,00,100
- (e) Rs.3,78,500.

(2 marks)

54. Which of the following unidentifiable intangible asset increases the earning capacity of a business?

- (a) Patents
- (b) Copyrights
- (c) Trade marks
- (d) Know-how
- (e) Goodwill.

(1 mark)

55. Dinakar operates a garment store in a hired premises at a rent of Rs.1,20,000 per annum. The owner of the premises, who has recently completed her fashion-designing course, wishes to purchase the garment store. The details of the business of Dinakar are as under:

- The profit for the year 2008-09 is Rs.2,30,000.
- The capital employed by Dinakar is Rs.20,00,000.
- The value of the premises is Rs.4,00,000.

If the normal return on capital employed is 12%, the super profit for calculation of goodwill is

- (a) Rs. 58,000
- (b) Rs. 62,000
- (c) Rs.1,10,000
- (d) Rs.1,20,000
- (e) Rs.1,78,000.

(2 marks)

56. The closing capital employed of Vimal Ltd., as on March 31, 2009 amounted to Rs.7,88,000. The profit before tax for the year 2008-09 was Rs.1,52,000. Profit includes Rs.10,000 income from non-trade investments. If income tax rate is 50%, the average trading capital employed for the purpose of goodwill valuation of the company was

- (a) Rs.6,36,000
- (b) Rs.6,46,000
- (c) Rs.7,12,000
- (d) Rs.7,50,000
- (e) Rs.7,52,500.

(2 marks)

57. The process of converting cost of intangible assets to expense is called

- (a) Depreciation
- (b) Amortization
- (c) Depletion
- (d) Deterioration
- (e) Application.

(1 mark)

58. Consider the following data pertaining to Bond Bros:

	Particulars	Rs.
i.	Average profits of the last four years	1,21,500
ii.	Remuneration from alternative employment of the partners	21,500
iii.	Capital employed	6,00,000

If fair rate of return in similar business is 12% on capital employed, the value of goodwill on the basis of three years' purchase of super profits of the business, is

- (a) Rs.1,21,500
- (b) Rs.1,00,000
- (c) Rs. 84,000
- (d) Rs. 72,000
- (e) Rs. 28,000.

(2 marks)

59. Which of the following is **false** while forecasting the expected average annual profit?

- (a) The average annual profit expected to accrue in the future
- (b) Any abnormal gain in the past period considered in the computation of profit should be deducted to arrive at the actual profits
- (c) Any non-recurring gain in the past period considered in the computation of profit should be deducted to arrive at the actual profits
- (d) Any abnormal expense of past periods considered in the computation of profit should be deducted to arrive at the actual profits
- (e) The trend of the profits in the immediate past must be estimated.

(1 mark)

60. The balance sheet of Zee Ltd., as on March 31, 2008 shows Profit and Loss account (Cr.) Rs.3,00,000 and Investments at Rs.85,000. In the year 2008-09, the company earned a profit of Rs.60,000, 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 25,000 shares having a face value of Rs.10 each, at a premium of Rs.5 per share, paying underwriting commission of Rs.18,750. The articles of association permit 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, 2009 was

- (a) Rs.3,41,250
- (b) Rs.3,51,250
- (c) Rs.3,60,000
- (d) Rs.3,70,000
- (e) Rs.3,98,750.

(2 marks)

61. The Managing Director of Charanya Ltd., is entitled to a commission of 7% on net profits before charging such commission. The net profit of the company for the year ended March 31, 2009 was reported to be Rs.25,50,000. Subsequently, it was noticed that the following transactions were omitted:

Particulars	Rs.
Payment of Director's remuneration	50,000
Payment of bonus to Production Executive	50,000
Payment of income tax and super tax	5,000
Issue of 20,000 equity shares of Rs.10 each, at a premium of Rs.2	2,40,000

The net profit of Charanya Ltd., after charging Managing Director's commission is

- (a) Rs.22,78,500
- (b) Rs.22,79,100
- (c) Rs.24,70,000
- (d) Rs.25,70,000
- (e) Rs.22,00,000.

(2 marks)

62. Which of the following will **not** come under the category of Loans and Advances?
- Loans and advances to subsidiaries
 - Bills receivables
 - Provision for losses of subsidiary companies
 - Advances recoverable in kind
 - Loans and advances to partnership firms in which the company or any of its subsidiaries is a partner.
- (1 mark)
63. Which of the following is the system of accounting prescribed under the Companies Act, 1956?
- Cash basis
 - Accrual basis
 - Hybrid basis
 - Cash and hybrid basis
 - Accrual and hybrid basis.
- (1 mark)
64. If payment of interest out of capital is authorized by the Articles of a company, the period of payment should be determined by the
- Central Government
 - Statutory auditor
 - Board of Directors
 - Registrar of Companies
 - Shareholders.
- (1 mark)
65. Tax deducted at source on the payments made by a company appears in the Balance Sheet of the company on the
- Liabilities side under current liabilities
 - Liabilities side under provisions
 - Assets side under current assets
 - Assets side under loans and advances
 - Assets side under miscellaneous expenditure.
- (1 mark)
66. Where the Central Government orders to conduct a special audit of a company under section 233-A, the expenses incurred for the audit will be
- Determined by the auditor and paid by the company
 - Determined by the Central Government and paid by the company
 - Determined by the Comptroller and Auditor General of India and paid by the Central Government
 - Determined by the Comptroller and Auditor General of India and paid by the company
 - Determined by the Registrar of Companies and paid by the Central Government.
- (1 mark)
67. The auditor of a company gives a report that the financial statements of the company reflect a true and fair view subject to certain reservations. Such a report opinion is known as
- Clean report
 - Qualified opinion
 - Unqualified opinion
 - Provisional report subject to issue of final report
 - Expert opinion.
- (1 mark)
68. Which of the following persons can be appointed as an Auditor of a company?
- A body corporate
 - A person indebted to the company for Rs.1,500
 - A person holding the shares of the company as a trustee
 - A person disqualified to be appointed as an auditor of its subsidiary company
 - An officer of the company.
- (1 mark)

69. 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) Period between the two AGMs.

(1 mark)

70. Annual financial statements of a company should be signed by

- (a) Any two directors of the company
- (b) The manager and one director of the company
- (c) The manager or secretary of the company (if any) and by not less than two directors of the company, one of whom shall be a managing director where there is one
- (d) The company secretary and the managing director of the company
- (e) The company secretary and any one director of the company.

(1 mark)

71. The following balances were extracted from the books of Agni Ltd., as on March 31, 2009:

Particulars	Rs.	Particulars	Rs.
Called-up share capital	2,50,000	Fixed assets	3,85,000
Secured loans	2,00,000	Calls in arrears	15,000
Loans to employees	25,600	Capital reserve	45,000
Cash	2,000	Profit and Loss account	25,000
Sundry debtors	55,000	(credit balance)	
Stock	48,000	Sundry creditors	45,600
Bank balance	20,000	Preliminary expenses	15,000

The total of the liabilities side of the balance sheet of Agni Ltd., as on March 31, 2009 was

- (a) Rs.5,50,600
- (b) Rs.5,50,100
- (c) Rs.5,65,600
- (d) Rs.5,70,600
- (e) Rs.5,50,950.

(2 marks)

72. Xavier agreed to purchase the business of Yahoo Enterprises on July 01, 2009. Goodwill is valued according to super profit method. Xavier would like to attach weights for the profits of the three years in such a way that the most recent profits would be assigned a higher weight than the profits for other years. Profits earned by Yahoo Enterprises for the three preceding years were as below:

Year ending profits	Rs.
2006-07	46,000
2007-08	40,000
2008-09	42,000

The weighted average annual profit is

- (a) Rs.42,000
- (b) Rs.42,667
- (c) Rs.21,333
- (d) Rs.26,667
- (e) Rs.80,000.

(2 marks)

73. During the year 2008-09, Hrithik Ltd., reported a profit of Rs.8,40,000 after paying tax at the rate of 50%. This profit includes an income of Rs.90,000 being a claim lodged in the month of January 2008 for which no entry was passed in the year 2007-08. The company expects to introduce a new product in the year 2009-10. The introduction of the new product leads to an increase of fixed expenses by Rs.1,00,000. The estimates of new product are as follows:

Particulars	Rs.
Sales	10,00,000
Direct expenses (including material and wages)	4,50,000

The future maintainable post-tax profits of the company are

- (a) Rs. 8,95,000
- (b) Rs.10,20,000
- (c) Rs. 9,50,000
- (d) Rs. 5,20,000
- (e) Rs. 9,40,000.

(2 marks)

END OF QUESTION PAPER

Suggested Answers

Financial Accounting (CFA510-01): January 2010

ANSWER

REASON

1. C Partners are the users of financial statements who belong to management group.
2. B

Particulars	2007-08 Rs.	2008-09 Rs.
Current assets	4,50,000	5,50,000
Less: Current liabilities	1,50,000	1,50,000
Net Current Assets	3,00,000	4,00,000

Particulars	2007-08 (Rs.)	2008-09 (Rs.)
Current assets	4,50,000	5,50,000
Fixed assets	4,87,500	4,50,000
Total assets	9,37,500	10,00,000

% of net current assets to total assets in 2007-08 = $\text{Rs.}3,00,000/\text{Rs.}9,37,500 = 32\%$

% of net current assets to total assets in 2008-09 = $\text{Rs.}4,00,000/\text{Rs.}10,00,000 = 40\%$

Therefore percentage of net current assets to total assets from 2007-08 to 2008-09 has increased by $40\% - 32\% = 8\%$.

3. D An expenditure incurred for services to be received in the future is known as Prepaid expenditure.
4. C Dividends represent the amount earmarked to distribute to the shareholders. Hence option (c) is the answer.
The amount of taxes is to be deducted from profit before tax and the amount to be transferred to reserves and other appropriations, if any, need to be made from profits after tax. Operating profit is the amount of profit other than non-operating surplus. Interest, taxes, other appropriations should be made to operating profit. Hence this is not the amount earmarked for distribution to shareholders.
5. A The system of accounting in which revenue is recognized when it is earned and expenses are recognized when they are incurred, is called accrual system.
6. A
 - Capital invested by owners in the business is shown as a liability – Business entity concept.
 - Creation of provision for bad debts on debtors – Conservatism concept.
 - Charging depreciation on fixed assets – Matching concept.
 - Classification of assets into fixed and current assets – Going concern concept.
 - Recording of inventory at cost or net realizable value whichever is lower – Conservatism concept.
7. E Under the Companies Act, 1956, a company is normally not permitted to have an accounting period extending beyond Fifteen months.
8. 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.

9. C

Provisional Balance Sheet as on 31st March 2009

Liabilities	Rs.	Assets	Rs.
Capital	2,02,000	Total of assets	2,37,000
Creditors	30,000		
Outstanding expenses	5,000		
	2,37,000		2,37,000

Particulars	Rs.	Rs.
Capital at the end of the year		2,02,000
Add: Drawings (Rs.5,000 ×9)		45,000
		2,47,000
Less: Additional capital	20,000	
Capital at the beginning of the year	1,00,000	1,20,000
Profit earned during the year		1,27,000

10. A The rule applicable to real account is debit what comes in and credit what goes out.

11. C Sundry Debtors account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,30,000	By Cash (Bal. fig.)	7,00,000
To Credit sales (List price Rs.10,00,000 – TD 20%)	8,00,000	By Discount allowed (2.5% of Rs.8,00,000)	20,000
		By Bad debts written-off	10,000
		By Balance c/d	2,00,000
	9,30,000		9,30,000

Particulars	Rs.
Opening cash balance	75,000
Add: Cash sales	8,00,000
Cash received from debtors	7,00,000
	15,75,000
Less: Payments for various expenses	10,00,000
Closing cash balance	5,75,000

12. E The discount columns in a three column cash book are simply totaled and not balanced.
All the other statements are true. Hence, option (e) is correct answer.

13. A Sales Day Book

Date	Particulars	Details (Rs.)	Total (Rs.)
December 01	50 LCD (21") T.V. @ Rs.20,000 each Less: Trade discount @ 10%	10,00,000 1,00,000	9,00,000
December 05	20 Colour T.V. @ Rs.12,000 each Less: Trade discount @ 10%	2,40,000 24,000	2,16,000
December 12	20 pieces of Six-in-one Music System @ Rs.8,000 each Less: Trade discount @ 10%	1,60,000 16,000	1,44,000
December 19	20 pieces of Two-in-one Music System @ Rs.3,000 each Less: Trade discount @ 10%	60,000 6,000	54,000
December 29	200 pieces of DVD packs @ Rs.60 each Less: Trade discount @ 5%	12,000 600	11,400
	Total		13,25,400

14. C Discount recorded on debit side of cash book represents the discount allowed to the customers.

	Rs.
= Cheque received and allowed discount	2,500
+ Discount allowed to Rama & Bros	
Rs.38,900 – Rs.36,200)	2,700
+ Cheque received from Daulat Ram	
Discount allowed 10% of (Rs.14,850/0.9)	<u>1,650</u>
Discount allowed to customers	<u>6,850</u>

Total amount of discount recorded on debit side of three column cash book is Rs.6,850.

15. A The mistake in balancing an account affects the agreement of a trial balance 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.

16. 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 alternative (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 alternative (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.

17. B

Particular	Rs.
Salaries as shown in profit and loss account	50,000
Add: Outstanding as on March 31, 2008	6,000
Add: Paid in advance as on March 31, 2009	8,000
	<u>64,000</u>
Less: Outstanding as on March 31, 2009	7,000
Less: Paid in advance as on March 31, 2008	9,000
Salaries paid during the year	<u>48,000</u>

18. B

Particulars		Rs.	Rs.
Machinery account	Dr.	437	
Suspense Account	Dr.	180	
To Profit and Loss Adjustment account			617

Since freight spent on machinery is to be capitalized, Rs.460 should have been capitalized. However, it was debited as freight in the Profit and loss account wrongly. Another mistake is not Rs.460, but Rs.640 was debited to the profit and loss account.

When machinery is understated by Rs.460, it results in understating of depreciation by Rs.23. The net effects are:

Machinery understated by $(Rs.460 - Rs.23) = Rs.437$.

Profit and loss account understated by $(Rs.640 - Rs.23) = Rs.617$.

To rectify the above mistake, machinery should be debited with Rs.437, profit and loss adjustment account to be credited with Rs.617, and the balance of Rs.180 debited to suspense account as above.

19. C
- Expenses paid in advance had not been brought forward and when rectified, current years expenses will increase and profit will be reduced.
 - Sales book which was undercast, when the error is rectified the sales figure will increase and net profit too.
 - Goods returned not entered in the sales return book- when the error is rectified sales figure will be reduced and decrease net profit.
 - Debiting N's a/c instead of M's a/c does not affect profit.
 - Purchase book was under cast-when the error is rectified purchase figure will go up and net profit will come down.

20. E

Dr.		Provision for bad debts accounts		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Bad debts	5,940	By balance b/d	8,370		
To balance c/d		By Profit and Loss account	9,562		
$(Rs.2,45,780 - Rs.5,940) \times 5\%$	11,992	(balancing figure)			
	17,932				17,932

21. A

Particulars	Rs.	Rs.
Total sundry debtors as per Trial Balance	60,900	
Less: Bad debts identified after the preparation of Trial Balance	900	60,000
Less: Provision for bad debts @5% on Rs.60,000		3,000
		57,000
Provision for discount on sundry debtors will be $\frac{2}{100} \times Rs.57,000$		1,140
The net amount of sundry debtors shown in the balance sheet		55,860

22. C
- Deduct Rs.3000 from the value of closing stock; Debit Rs.1,000 to P&L A/c and show Rs.2000 as claim receivables on the asset side of balance sheet –To estimate the actual stock held, value of stock destroyed in fire to be deducted. As against the loss of Rs.3000 claim admitted is only Rs.2000. The difference of Rs.1,000 to be treated as a loss and taken to P&L A/c. As the claim amount is receivable it is to be taken on the asset side of B/s.

23.

A

Trial balance as on March 31, 2009

Particulars	Dr. (Rs.)	Cr. (Rs.)
Sales		7,91,000
Purchases (balancing figure)	3,09,400	
Carriage inward	39,200	
Other expenses	43,400	
Fixed assets	15,26,000	
Sundry debtors	1,75,000	
Sundry creditors		1,33,000
Cash and bank	91,000	
Capital		12,60,000
	21,84,000	21,84,000

Trading account for the year ended March 31, 2009

Particulars	Rs.	Particulars	Rs.
To Purchases	3,09,400	By Sales	7,91,000
To Carriage inward	39,200	By Closing stock	70,000
To Gross profit	5,12,400		
	8,61,000		8,61,000

24.

A

Dr. Trading and Profit and loss account for the year ended March 31, 2009 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening stock		40,000	By Sales	5,50,000	
To Purchases	4,50,000		Less : Returns inward	20,000	5,30,000
Less : Returns outward	15,000	4,35,000	By Closing stock		20,000
To Wages	8,500				
Add: outstanding	1,500	10,000			
To Gross profit		65,000			
		5,50,000			5,50,000
To Salaries	11,000		By Gross profit		65,000
Add: Outstanding	1,000	12,000			
To Printing and stationery		6,700			
To Rent	12,500				
Less: Prepaid	500	12,000			
To Selling expenses		2,500			
To Net Profit		31,800			
		65,000			65,000

25.

D

Profit and loss account is usually prepared on accrual basis. All expenses, incurred and due whether they are actually paid for or not and provisions are debited to profit and loss account. Managing director's salary is an expenditure and is to be debited to profit and loss account like any other expenditure. Hence, the statement is true.

The other alternatives are not correct because

- Profit and loss appropriation account is a financial statement wherein allocation of profits is reflected. Income Tax provision relating to current year is a charge against profit and loss account and not profit and loss appropriation account.
- Income tax provision relating to previous year is a charge against profit and loss appropriation account and not profit and loss account.
- Interim dividend is allocation of profit and it is a charge against profit and loss appropriation account and should not be debited to profit and loss account.
- Provision for doubtful debts is a potential expenditure and it is a charge against profit and loss account and not profit and loss appropriation account.

26. B Cost of goods sold = Purchases + (opening stock – closing stock)
 = Purchases – (closing stock – opening stock)
 = Purchases – excess of closing stock over opening stock
 = Rs.1,90,000 – Rs.30,000 = Rs.1,60,000
 Sales = Rs.1,60,000 / 80% = Rs.2,00,000
 Gross profit = Rs.2,00,000 – Rs.1,60,000 = Rs.40,000.
27. C Profit and Loss account or income statement reflects the performance of the entity over a period of time.
28. D Acceptance of bills drawn by creditors will not result in any change in the amount of liabilities of balance sheet, because it will decrease the balance of creditors and increase the balance of bills payable by the same amount. So (d) is correct, other transactions change the total amount of liabilities of the balance sheet.
29. E The assets which do not have physical existence and their real value depends upon the earning capacity of the business concern are known as Intangible assets.
30. B Purchase of delivery van is not revenue expenditure. It is a capital expenditure. Raw-materials and loose tools form part of inventory and purchase of machine oil is a revenue expenditure.
31. A Miscellaneous expenditure represents certain outlays such as interest paid out of capital during construction which has not been written off.
32. C Increase in gross profit at the rate of 10% of Rs.800 crores = Rs.80 crores; therefore projected gross profit will be Rs.880 crores i.e., Rs.800 crores + Rs.80 crores.
 WDV of all fixed assets at the beginning of 2008-09 = Rs.40 crores $\times$ 100/25 = Rs.160 crores.
 WDV of all fixed assets at the beginning of 2009-10 = Rs.160 – Rs.40 crores = Rs.120 crores.
 Depreciation for 2008-09 @ 25% on WDV of all fixed assets = Rs.120 crores $\times$ 25% = Rs.30 crores
 Other expenses increase by 20 % = Rs.640 crores $\times$ 120% = Rs.768 crores
 Projected Net profit in crores for the year 2009-10

Particulars	Rs. (in Crores)	Rs. (in Crores)
Projected gross profit		880
Less: Other expenses	768	
Depreciation	30	798
Expected Net profit		82

33. A Trading account and Profit and loss account for the year ended March 31, 2009.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening stock		4,000	By Sales	55,000	
To Purchases	45,000		Less: Returns inward	2,000	53,000
Less: Returns outward	1,500	43,500	By Closing stock		2000
To Carriage inward		370			
To Gross profit		7,130			
		55,000			55,000
To Salaries and wages		2,200	By Gross profit		7,130
To Printing and stationery		300			
To Rent		1,200			
To Carriage outward		250			
To Manager's commission		180			
To Net Profit		3,000			
		7,130			7,130

Profit before charging Manager's commission = Rs.3,180

Manager's Commission = (Rs.3,180/106) $\times$ 6 = Rs.180.

34. D Effect due to change in the method of depreciation up to the beginning of the year of change is to be debited/credited to profit and loss appropriation account.

35. E Though the balance sheet is claimed to be the statement of all assets and liabilities, still it does not contain certain assets and liabilities. For example, the efficient management force is a human asset available to the organization. Though efforts are being made to quantify and present the human resources, most of the balance sheets do not present the same. Also dissatisfied labor force is a liability to the organization. The factors, which have a vital bearing on the earnings of the organization such as changes in the managerial personnel, cessation of agreements, loss of markets, are not disclosed. Personal judgment plays a great part in determining the figures for the balance sheet. Example: Provisions for depreciation, stock valuation, provision for bad debts are more based on the personal judgment. Balance sheet is therefore not free from bias. Hence the answer is (e).
36. E Balance sheet is not a valuation statement. Statement in alternative (e) is a false statement. Under 'T' form Balance-Sheet, all liabilities are shown on the left side and assets on the right side and under Vertical form Balance-Sheet, liabilities and assets are shown as Sources of Fund and Uses of fund. Under Liquidity basis, assets and liabilities are arranged according to realizability and payment order and under Fixity basis fixed assets and liabilities are arranged on the assumption of being sold or paid on the liquidation of the business.
37. B Inventories are held for sale in the ordinary course of business.
38. B Machinery spares is not considered as part of inventory. All other items are included in inventory and treated as current asset.
39. A Under FIFO method, the closing inventory consists of the latest stock thus,

Stores ledger in the books of Godrej Ltd. (FIFO Method)

Date	Purchases			Issues			Balance		
	Qty Units	Rate Rs.	Rs.	Qty Units	Rate Rs.	Rs.	Qty Units	Rate Rs.	Rs.
02-12-09	12	6,600	79,200				12	6,600	79,200
06-12-09	18	7,400	1,33,200				12	6,600	79,200
							18	7,400	1,33,200
12-12-09				9	6,600	59,400	3	6,600	19,800
							18	7,400	1,33,200
31-12-09				3	6,600	19,800			
				13	7,400	96,200	5	7,400	37,000

Stores ledger in the books of Godrej Ltd. (Weighted average Method)

Date	Purchases			Issues			Balance		
	Qty Units	Rate Rs.	Rs.	Qty Units	Rate Rs.	Rs.	Qty Units	Rate Rs.	Rs.
02-12-09	12	6,600	79,200				12	6,600	79,200
06-12-09	18	7,400	1,33,200				30	7,080	2,12,400
12-12-09				9	7,080	63,720	21	7,080	1,48,680
31-12-09				16	7,080	1,13,280	5	7,080	35,400

Therefore, the difference in First-in First-out method and Weighted average method is Rs.37,000 – Rs.35,400 = Rs.1,600.

79,200
+ 1,33,200
= 2,12,400
- 2,12,400
30
= 7,080

40. A

Stock account

Particulars	Rs.	Particulars	Rs.
To Opening balance	8,40,000	By Cost of goods sold	50,40,000
To Purchases	47,60,000	(Rs.67,20,000 × 75%)	
		By Missing inventory	1,05,000
		(balancing figure)	
		By Closing balance	4,55,000
		(physical count)	
	56,00,000		56,00,000

41. C Title on goods passes to the buyer normally at the time and place of shipment if the seller is required to Send the goods to the buyer.
42. D In relation to price, when the selling price raised above the original selling price is known as Markup.
43. B The recognition of revenue for royalties is done on accrual basis.
44. A Accounts receivable are reported in the financial statements at net realizable value.

45. E

Calculation of Net accounts receivable shown in the balance sheet

Particulars	Rs.	Rs.
Accounts receivables as on March 31, 2009		50,000
Unadjusted allowance for uncollectable amounts	3,000	
Current year Allowance for uncollectable amounts (1% of Rs.2,00,000)	2,000	5,000
Net accounts receivable shown in the balance sheet		45,000

46. D Under straight line method of depreciation, the depreciable asset whether tangible or intangible is depreciated over its useful life with an equal amount of depreciation in each period. The following formula may be applied for calculation of depreciation under straight line method.

$$\text{Annual depreciation} = \frac{\text{Asset value} - \text{Salvage value}}{\text{Estimated useful life}} \times 100$$

47. C The value of securities on date of acquisition of asset should be taken as value of machinery.

$$\text{Annual depreciation} = \frac{\text{Asset value} - \text{Salvage value}}{\text{Estimated useful life}} \times 100$$

$$\text{Depreciation} = (\text{Rs.2,22,000} - \text{Rs.6,000}) \div 10 \text{ years} = \text{Rs.21,600}$$

48. C Calculation of value of the machine in 9th year of its economic life

Particulars	Rs.
Original cost	1,40,000
Less: Fours years' depreciation	56,000
	84,000
Additional expenditure incurred to improve the operating efficiency at the beginning of 5th year	28,000
New depreciable base	1,12,000
Divided by : Useful life (6 + 4) in years	10
Amount of annual depreciation	11,200
Therefore, book value of machinery at the end of 5th year was (Rs.1,12,000 – Rs.11,200)	1,00,800
Book value at the end of 6th year was	89,600
Book value at the end of 7th year	78,400
Book value at the end of 8th year	67,200
Book value at the end of 9th year	56,000

Dr.			Machinery Account			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.			
April 01, 2008	To Balance b/d	8,50,000	Dec. 31, 2008	By Bank a/c (sale of old machine)	30,000			
July 01, 2008	To Bank a/c (new machine)	25,000	Dec. 31, 2008	By Depreciation a/c (WN – 2)	4,500			
			Mar. 31, 2009	By Profit & loss a/c (WN – 2)	5,500			
			March 31, 2009	By Depreciation a/c (WN – 1)	1,15,875			
			March 31, 2009	By Balance c/d	7,19,125			
		8,75,000			8,75,000			

Working Notes:

1. Calculation of depreciation for year 2008-09	Rs.	2. Calculation of loss on sale of machinery	Rs.
Opening balance (original)	12,00,000	Book value on April 01, 2008	40,000
Less : Original cost of machine sold	60,000	Less : Depreciation @ 10% p.a. on Rs.60,000 for 9 months)	4,500
	11,40,000	Written down value on December 31, 2008 (Date of sale)	35,500
Depreciation @ 10% p.a. (old machine)	1,14,000	Less: Sales value	30,000
Depreciation for 9 months (new machine)	1,875	Loss on Sale	5,500
	1,15,875		

50.

B

The balance outstanding to the debit of machinery account Rs.7,93,800

Cost of machinery on April 1, 2007

$$\text{Rs.7,93,800} \times 100/90 \times 100/90 = \text{Rs.9,80,000}$$

Note : Depreciation provided on reducing balance method :

2007-08 (10% on Rs.9,80,000) Rs. 98,000

2008-09 (10% on Rs.8,82,000) Rs. 88,200

Rs.1,86,200

Depreciation to be provided on the straight line method :

2007-08 (10% on Rs.9,80,000) Rs. 98,000

2008-09 (10% on Rs.9,80,000) Rs. 98,000

Rs.1,96,000

Further depreciation to be provided for the year 2008-09:

$$\text{Rs.1,96,000} - \text{Rs.1,86,200} = \text{Rs. 9,800.}$$

51.

B

The formula for calculation of depreciation under units-of production method is original cost minus scrap value multiplied by the number of units produced during the particular year divided by the total number of units produced during the entire useful life of the asset. i.e.,

$$(\text{Rs.1,00,000} - \text{Rs.10,000}) \times 12,000/72,000 = \text{Rs.15,000.}$$

52.

E

Depreciation before revision (Rs.12,000/8)	Rs.1,500
Depreciation after revision (Rs.12,000/10)	Rs.1,200
Difference per year	Rs. 300

$$\text{Total adjustment for 5 years} = 5 \times \text{Rs.300} = \text{Rs.1,500.}$$

53. A

Particulars	2006-07 Rs.	2007-08 Rs.	2008-09 Rs.	Total Rs.
Profit	3,75,000	4,50,000	7,42,500	
Less: repair expenses	- 30,000			
Add: Depreciation on capitalized repairs	1,500	3,000	3,000	
Less: profit on sale of plant			22,500	
Adjusted profits	3,46,500	4,53,000	7,23,000	15,22,500

Average adjusted profits = Rs.15,22,500 / 3 = Rs.5,07,500

54. E Goodwill is the unidentifiable intangible asset that increases the earning capacity of a business. The other intangibles Patents, (b) Copyrights (c) Trade marks and (d) Know-how are identifiable intangible assets that increase the earning capacity of a business. Alternative (e) is the correct answer.

55. B

Particulars	Rs.
Profit for the year 2008-09	2,30,000
Add: Rent (not relevant if the owner of the premises operates the business)	1,20,000
Adjusted maintainable profits	3,50,000
Capital employed by Dinakar	20,00,000
Add: Value of premises	4,00,000
Total capital employed	24,00,000
Normal profit (12% of Rs.24,00,000)	2,88,000
Super profits (Rs.3,50,000 – Rs.2,88,000)	62,000

56. E

Particulars	Rs.
Profit for the year	1,52,000
Less : Non-trading income	10,000
	1,42,000
Less : Income tax (50%)	71,000
Current year's profit	71,000
Closing Capital employed	7,88,000
Less : ½ of current year's profit (excluding non-trading income) after tax	35,500
Average capital employed	7,52,500

57. B Amortization is the method of converting cost of intangible assets to expense. Intangible assets like patents, trademarks, franchises are amortized over a period of time. The other alternatives – (a) Depreciation is the process of allocating to expense the cost of fixed assets over its useful life in a rational and systematic manner. (c) Depletion is the process of allocating the cost of natural resources like coal petroleum etc. to expense in a rational and systematic manner. (d) Deterioration is the physical process of wearing out. Thus, the alternatives (a), (c), (d) and (e) are not relevant to intangible assets.

58. C

Calculation of super profit:

Particulars	Rs.
Average profits:	1,21,500
Less: Remuneration from alternative employment	21,500
	1,00,000
Less: Normal profit @ 12% on capital employed (12% of Rs.6,00,000)	72,000
Super Profit	28,000

Goodwill: 3 years purchase of super profits $3 \times \text{Rs.}28,000 = \text{Rs.}84,000$.

59. D Any abnormal expense of past periods considered in the computation of profit should be deducted to arrive at the actual profits while forecasting the expected average annual profit. These expenses should be excluded by adding them back to the actual profits.

60. B
- | | |
|--------------------|-----------|
| Cost of investment | Rs.85,000 |
| Sale value | Rs.95,000 |
| Profit on sale | Rs.10,000 |
- The balance of Profit and loss a/c as on 31st March 2009 was
- | | |
|--|--------------------|
| Profit after depreciation and interest on debentures | Rs. 60,000 |
| Add: Profit on sale of investment | <u>Rs. 10,000</u> |
| | Rs. 70,000 |
| Less: Underwriting commission | <u>Rs. 18,750</u> |
| | Rs. 51,250 |
| Add: Profit brought forward | <u>Rs.3,00,000</u> |
| Balance of Profit and loss a/c as on 31 st March 2009 | <u>Rs.3,51,250</u> |

61. A

Particulars	Rs.	Rs.
Net Profit as calculated		25,50,000
Less: Directors' remuneration	50,000	
Bonus paid to production executive	50,000	1,00,000
Net Profit		<u>24,50,000</u>

The director's remuneration and the bonus paid to any member of company's staff should be deducted, whereas Income tax and super tax should not be deducted.

Credit should not be given to profits by way of premium on shares

Managing Director's Commission = Rs.24,50,000 × 7% = Rs.1,71,500

Profit after charging commission = Rs.24,50,000 – Rs.1,71,500 = Rs.22,78,500.

62. C The item provision for losses of subsidiary companies, comes under profit and loss account to calculate the right amount of profit. Except that all the other items come under the category of loans and advances. Hence, alternative (c) is correct answer
63. B Companies have to compulsorily maintain their accounts only on the accrual basis.
64. A In certain circumstances the company may pay interest out of capital if the company is authorized by the articles or by passing a special resolution. The period of such payment shall be determined by the Central Government. Hence, (a) is the answer.
65. A Tax deducted at source is the liability of the company towards the tax authority. It is also payable to the tax authority within very short period. So, it is the item of current liabilities. It cannot be treated as provisions or assets.
66. B Where the Central Government orders to conduct a special audit of a company under section 233-A, the expenses incurred for the audit will be determined by the Central Government and paid by the company.
67. B When the auditor is having reservations in respect of some material matters then he will give a qualified opinion.
68. C According to Section 226(3) of the Companies Act, 1956, a body corporate, an officer of the company, a person indebted to the company for an amount exceeding Rs.1,000, a person disqualified to be appointed as an auditor of its subsidiary company, a person holding any security of the company are disqualified to be appointed as an auditor. However, a person holding the shares of the company as a nominee or a trustee for any third person and in which the holder has no beneficial interest shall not be disqualified. Hence the answer is (c).
69. 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.
70. C Annual financial statements of a company should be signed by the manager or secretary of the company (if any) and by not less than two directors of the company, one of whom shall be a managing director where there is one.

71. A

Balance Sheet of Agni Ltd., as on March 31, 2009

Liabilities	Rs.	Assets	Rs.
Share capital	2,50,000	Fixed assets	3,85,000
Less call in arrears	15,000	Sundry debtors	55,000
Capital reserve	45,000	Stock	48,000
P & L A/c	25,000	Loans to employees	25,600
Secured loans	2,00,000	Cash	2,000
		Bank	20,000
Sundry creditors	45,600	Preliminary expenses	15,000
	5,50,600		5,50,600

72. A The weighted average annual profit of the business was

Year	Profits (Rs.)	Weights	Product (Rs.)
2006-07	46,000	1	46,000
2007-08	40,000	2	80,000
2008-09	42,000	3	1,26,000
		6	2,52,000

Weighted average annual profit = $\text{Rs.} 2,52,000 / 6 = \text{Rs.} 42,000$

73. B

Particulars	Rs.	Rs.
Post-tax profits of 2008-09		8,40,000
Pre-tax profits of 2009-09 (8,40,000 / 50%)		16,80,000
Less: Income relating to 2007-08		90,000
Normal profit of 2008-09		15,90,000
Add: Estimated profit from new product		
Sales	10,00,000	
Less: direct expenses	4,50,000	
Less: Additional fixed expenses	1,00,000	4,50,000
		20,40,000
Less: Tax @50%		10,20,000
Future maintainable profit		10,20,000

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