Question Paper

Financial Accounting (CFA510): January 2009

- Answer all 75 questions.
- Marks are indicated against each question.

Total Marks : 100

<Answer>

1. Under Hybrid system of accounting for revenue and expenses,

(a) Accrual basis for revenues and cash basis for expenses is used
(b) Accrual basis for expenses and cash basis for revenues is used
(c) Accrual basis is used irrespective of whether an item is a revenue or an expense
(d) Cash basis is used irrespective of whether an item is a revenue or an expense
(e) Accrual basis for capital items and cash basis for revenue items is used. **(1 mark)**

<Answer>

2. Who among the following is an external user of 'Financial Statements'?

(a) Board of Directors
(b) Partners
(c) Investors
(d) Managers
(e) Officers. **(1 mark)**

<Answer>

3. Unidentified intangible assets are amortized in recognition of

(a) Conservatism concept
(b) Going concern concept
(c) Matching concept
(d) Time period concept
(e) Business entity concept. **(1 mark)**

<Answer>

4. When the convention of conservatism is applied to the Balance Sheet, it results in an

(a) Understatement of assets
(b) Understatement of liabilities
(c) Overstatement of both assets and liabilities
(d) Understatement of both assets and liabilities
(e) Understatement of both liabilities and capital. **(1 mark)**

<Answer>

5. Which of the following statements is **false**?

(a) Ledger is the main book of account in which all accounts are maintained
(b) The credit balance of a nominal account indicates income received
(c) Debit balance in commission account indicates commission received in advance
(d) Cash account always shows debit balance
(e) Credit balance of bank account indicates bank overdraft. **(1 mark)**

<Answer>

6. Raasi Electronics, a dealer in electronic goods, has furnished the following information with respect to credit purchases for the month of December 2008:

Date	Particulars	No. of units	Rate per unit (Rs.)	Trade Discount (%)
Dec.01	LCD TV (21")	50	20,000	10
Dec.01	Colour TVs	20	12,000	10
Dec.09	Six-in-one Music System	20	8,000	10
Dec.09	Two-in-one Music System	20	3,000	10
Dec.19	DVD packs	200	60	5
Dec.22	Scribbling pads	240	70	5
Dec.22	Bill books	200	50	5

The total of purchase day book for the month of December 2008, was

(a) Rs.13,25,400
(b) Rs.13,53,800
(c) Rs.13,14,000
(d) Rs.13,41,800
(e) Rs.13,37,000. **(1 mark)**

<Answer>

7. Which of the following events/transactions is **not** recorded in the Triple column cash book of a business?

(a) Withdrawal of cash by the proprietor for domestic expenditure
(b) Withdrawal of cash from the firm bank account for repaying house building loan of the proprietor
(c) Purchase of a new asset in exchange of an old asset; paying part amount by cheque
(d) Receipt of dividend by proprietor on personal investments
(e) Loss of stock by fire for which insurance claim is received by cheque. **(1 mark)**

<Answer>

8. A credit entry in which of the following accounts increases its balance?

(a) Rent receivable account
(b) Carriage outwards account
(c) Goodwill account
(d) Returns outward account
(e) Insurance paid in advance account. **(1 mark)**

<Answer>

9. Puneeth, 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 December, 2008:

Date	Particulars	Rs.
Dec.5	Cheque received from a customer (after allowing a discount of Rs.3,750)	75,000
Dec.12	Paid to the supplier by cheque (discount allowed by the supplier: Rs.15,000)	1,50,000
Dec.15	Sold goods on credit to Arjun for Rs.20,000 at a trade discount of 5%; an additional cash discount of 2% will be allowed if the payment is made within 7 days.	
Dec.19	Received a cheque from Ram, a customer (who owed Rs.24,750 and was allowed a discount of 10%)	22,275
Dec.20	Received cash from Arjun in full settlement of the credit sales made to him on December 15, 2008	
Dec.26	Paid to M/s. Kruthika and Co. in full settlement of their dues of Rs.42,750	39,375
Dec.29	Received from Ramana & Bros. (as against Rs.58,350) in full and final settlement	54,300

The balance of discount allowed account for the month of December 2008 was

(a) Rs.11,275
(b) Rs.10,855
(c) Rs.10,655
(d) Rs.18,375
(e) Rs.20,850. **(2marks)**

<Answer>

10. At the time of finalization of accounts, entries passed for outstanding expenses, depreciation and interest on capital are referred to as

(a) Opening entries
(b) Journal entries
(c) Adjustment entries
(d) Contra entries
(e) Closing entries. **(1 mark)**

<Answer>

11. Which of the following statements is **false**?

(a) Balancing of an account means to make the total of amounts column appearing on the debit and credit side equal to each other
(b) If the debit side total is greater than the credit side total, the difference between the two sides is known as debit balance
(c) If the debit side total is greater than the credit side total, the account is ruled off by placing the difference on the credit side saying 'By balance carried down'
(d) If the credit side total is greater than the debit side total, the account is ruled off by placing the difference on the debit side saying 'To balance carried down'
(e) Nominal accounts are balanced by placing the difference on the lesser side saying 'To' or 'By' balance carried down during finalization of accounts. **(1 mark)**

<Answer>

12. The balance in the creditors account of Raccoon Ltd., as on December 1, 2008 was Rs.34,000. During the month a sum of Rs.18,500 was paid to the creditors and goods purchased on credit from them amounted to Rs.24,700. Purchase returns were Rs.800. The creditors allowed a sum of Rs.480 as cash discount. A bill for Rs.800 accepted earlier by the company in favour of a creditor was dishonored on December 20, 2008. The balance of creditors account as on December 31, 2008 was

(a) Rs.40,200
(b) Rs.39,420
(c) Rs.39,720
(d) Rs.40,520
(e) Rs.40,320. **(1 mark)**

<Answer>

13. The total of debit column of trial balance of a company is Rs.4,90,000 and that of the credit column is Rs.5,45,800. Subsequently, the following mistakes are discovered:

Particulars	Correct Amount (Rs.)	Amount which appears in trial balance (Rs.)
Opening stock	81,000	81,200
Advertisement expenses	30,000	30,000 (credit column)
Interest from investments	72,000	60,000
Sundry creditors	1,52,000	1,60,000

The total of the correct trial balance should be

(a) Rs.5,49,800
(b) Rs.5,19,800
(c) Rs.5,50,200
(d) Rs.5,69,800
(e) Rs.5,65,600. **(1 mark)**

<Answer>

14. Manju found that an item of a purchase of goods worth Rs.5,283 was entered in the sales day journal as Rs.3,528 and posted to the credit of supplier's account as Rs.5,013.The rectification entry to be passed is

			Debit (Rs.)	Credit (Rs.)
(a)	Supplier's account	Dr.	270	
	To Purchases account			270
(b)	Purchases account	Dr.	5,283	
	Sales account	Dr.	3,528	
	To Suspense account			8,811
(c)	Purchases account	Dr.	5,283	
	Sales account	Dr.	3,528	
	To Supplier's account			270
	To Suspense account			8,541
(d)	Purchases account	Dr.	5,283	
	Sales account	Dr.	3,528	
	To Supplier's account			1,485
	To Suspense account			7,326
(e)	Purchases account	Dr.	5,283	
	Sales account	Dr.	3,528	
	To Supplier's account			1,755
	To Suspense account			7,056.

(2marks)

<Answer>

15. Which of the following statements is **false**?

(a) An error in casting the subsidiary books is an error of commission
(b) An error in wrong casting of the sales day book will not affect the personal accounts of debtors
(c) Mistake in transferring the balance of an account to the trial balance will not affect the agreement of the trial balance
(d) The mistake of treating a liability as an income or vice versa will not affect the agreement of a trial balance
(e) The mistake of treating rent expense as salary will not affect the agreement of a trial balance. **(1 mark)**

<Answer>

16. A trader purchased goods worth Rs.50,000 and paid Rs.1,000 as carriage for bringing them to his premises. He sold the goods for Rs.65,000 and incurred Rs.1,000 as free-delivery expenses. He also incurred Rs.9,000 towards other business expenditure. The gross profit of the trader is

(a) Rs.15,000
(b) Rs. 6,000
(c) Rs.14,000
(d) Rs.13,000
(e) Rs. 4,000. **(1 mark)**

<Answer>

17. Which of the following indicates the **correct** effect on the net profit after rectification of the under mentioned errors?

(a) A credit sale wrongly passed through purchase book – decreases the net profit
(b) Cartage for the newly purchased furniture wrongly posted to cartage a/c – decreases the net profit
(c) Goods sold for Rs.500 entered in the sales book as Rs.5,000 – increases the net profit
(d) Last year's salary advance not carried forward to this year – decreases the net profit
(e) Return outward wrongly entered in return inward book – decreases the net profit. **(1 mark)**

<Answer>

18. Which of the following transactions is recorded in the wrong subsidiary book?

(a) Goods purchased on credit - Purchase Book
(b) Goods returned by customers - Returns inward Book
(c) Goods sold by receiving a cheque - Cash Book
(d) Obsolete asset sold on credit - Sales Book
(e) Office Equipment purchased on credit - Journal Proper. **(1 mark)**

<Answer>

19. The following is the summarized Profit and Loss account of Assure Ltd., for the year ended March 31, 2008:

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

In the year 2008-09 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 2008-09. It is expected that gross profit will be 10% higher than that of 2007-08, while other expenses will increase by 20%. The expected net profit for the year 2008-09 will be

(a) Rs.112 crores
(b) Rs.102 crores
(c) Rs. 82 crores
(d) Rs. 72 crores
(e) Rs. 50 crores. **(2marks)**

<Answer>

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

(a) Provision for discount on debtors can be estimated only after computing the provision for doubtful debts
(b) Under cash system of accounting, incomes received in advance are treated as current gains
(c) Under accrual system of accounting, cash balance on hand shows whether the business has earned profit or sustained loss
(d) Capital expenditure should be shown in the books by debiting asset account and crediting supplier or cash account
(e) The distinction between capital and revenue is essential for determination of business income. **(1 mark)**

<Answer>

21. Consider the following data pertaining to M/s. Surya Enterprises as on March 31, 2008:

Particulars	Rs.
Total sales	80,000
Total purchases	45,000
Wages paid	2,500
Returns inward	1,500
Returns outward	1,000
Carriage inward	500
Carriage outward	500
Gas, water and fuel	1,000
Raw materials destroyed by fire	1,000

Additional Information:

Particulars	As on April 01, 2007 (Rs.)	As on March 31, 2008 (Rs.)
Inventory	13,500	20,000
Outstanding wages	250	350

The stock as on April 01, 2007 was under valued by Rs.2,500, while stock as on March 31, 2008 was over valued by Rs.5,000. Gross profit of M/s. Surya Enterprises for the year ended March 31, 2008 was

(a) Rs.40,400
(b) Rs.30,400
(c) Rs.35,400
(d) Rs.32,900
(e) Rs.37,600. **(2marks)**

<Answer>

22. The book value of stock as on March 01, 2008 was Rs.1,30,000. Goods worth Rs.6,000 were destroyed in fire on March 15, 2008 against which claim for Rs.4,000 was admitted by the Insurance Company. Which of the following is the appropriate accounting treatment for the above transaction?

(a) Debit Rs.4,000 to Profit & Loss a/c and show Rs.4,000 as claim receivable on the asset side of Balance Sheet
(b) Debit Rs.6,000 to Profit & Loss a/c and show Rs.4,000 as claim receivable on the asset side of Balance Sheet
(c) Deduct Rs.6,000 from the value of closing stock; debit Rs.2,000 to Profit & Loss a/c and show Rs.4,000 as claim receivable on the asset side of Balance Sheet
(d) Deduct Rs.6,000 from the value of closing stock; debit Rs.6,000 to Profit & Loss a/c and show Rs.4,000 as claim receivable on the asset side of Balance Sheet
(e) Debit Rs.2,000 to Profit & Loss a/c and show Rs.4,000 as claim receivable on the asset side of Balance Sheet. **(2marks)**

<Answer>

23. The balances of outstanding wages of a company as on March 31, 2007 and March 31, 2008 were Rs.80,640 and Rs.65,440 respectively. If the wages paid by the company during the year 2007-08 was Rs.2,40,000, then the total wages shown in the Trading account for the year ended March 31, 2008 was

(a) Rs.3,20,640
(b) Rs.3,05,440
(c) Rs.2,55,200
(d) Rs.2,40,000
(e) Rs.2,24,800. **(1 mark)**

<Answer>

24. Which of the following is **not** a contingent liability?

(a) Debts included in sundry debtors which are doubtful in nature
(b) Uncalled liability on partly paid shares
(c) Claims against the company not acknowledged as debt
(d) Arrears of fixed cumulative dividend
(e) Liability on bills receivable previously discounted. **(1 mark)**

<Answer>

25. The amount that needs to be paid if the asset is to be acquired currently is called

(a) Historical cost
(b) Current cost
(c) Realizable value
(d) Present value
(e) Future value. **(1 mark)**

<Answer>

26. Consider the following data pertaining to Jay Bird Ltd., for the year ended March 31, 2008:

Particulars	Rs.
Sales	8,00,000
Excess of closing stock over opening 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, 2008 was

(a) Rs.2,59,000
(b) Rs.2,57,000
(c) Rs.1,87,000
(d) Rs.2,38,000
(e) Rs.2,69,000. **(2marks)**

<Answer>

27. Which of the following is a liability of a firm?

(a) Debit balance of discount column of cash book
(b) Credit balance of bank pass book
(c) Debit balance of bank column of cash book
(d) Debit balance of cash column of cash book
(e) Credit balance of bank column of cash book. **(1 mark)**

<Answer>

28. The closing balance of Sundry Creditors' of a firm is Rs.11,37,500. The opening balance of Reserve for Discount receivable account of the firm is Rs.15,400 and discount received during the year is Rs.11,200. If the company wants to keep its Reserve for Discount receivable @ 2% of Sundry Creditors, then the amount credited to Profit and Loss account should be

(a) Rs.11,550
(b) Rs.15,000
(c) Rs.26,950
(d) Rs.18,550
(e) Rs.33,950. **(2marks)**

<Answer>

29. A trader who does not keep a complete set of books of accounts furnished the following data as on March 31, 2008:

Particulars	Rs.
Total of assets	7,10,000
Sundry creditors	90,000
Outstanding expenses	15,000

He had started his business on July 01, 2007. During the year, he had introduced further capital of Rs.60,000 and made drawings of Rs.15,000 on the last day of every month. The opening capital was

(a) Rs.6,80,000
(b) Rs.5,30,000
(c) Rs.6,65,000
(d) Rs.5,45,000
(e) Rs.6,05,000. **(1 mark)**

<Answer>

30. The journal entry to record interest on drawings is

(a) Bank account Dr.
    To Interest on drawings account
(b) Interest on drawings account Dr.
    To Capital account
(c) Interest on drawings account Dr.
    To Bank account
(d) Bank account Dr.
    To Capital account
(e) Capital account Dr.
    To Interest on drawings account. **(1 mark)**

<Answer>

31. MX Ltd., follows perpetual inventory system. On March 31 of every year, the company undertakes physical stock verification. On March 31, 2008, the value of stock as per the records differed from the value as per the physical stock. 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 are returned to the suppliers but omitted to be recorded.

If the inventory is valued in the books at Rs.3,00,000, the value of the physical inventory was

(a) Rs.2,22,000
(b) Rs.3,78,000
(c) Rs.3,58,000
(d) Rs.3,18,000
(e) Rs.2,38,000. **(2marks)**

<Answer>

32. The value of inventory far in excess of the normal requirement of a firm is shown under

(a) Current Assets
(b) Fixed Assets
(c) Miscellaneous Assets
(d) Non-current Assets
(e) Other Current Assets. **(1 mark)**

<Answer>

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

(a) The value of ending inventory under simple average price method is realistic
(b) Usually profit or loss will not arise out of pricing the issues on the basis of simple average price method
(c) The value of stock is shown on the assets side of the balance sheet as fixed assets
(d) The closing stock should be valued at cost or market price whichever is higher
(e) Opening stock plus purchases minus cost of goods sold is the value of closing stock. **(1 mark)**

<Answer>

34. If the selling price of inventory is lowered below the original selling price, it is known as

(a) Markup
(b) Markup cancellation
(c) Net markup
(d) Markdown
(e) Net markdown. **(1 mark)**

<Answer>

35. Zilich Motors Ltd., a dealer in second hand luxury cars had the following five vehicles of different models that made up their stock at the end of the financial year 2007-08:

Cars	Maybach	Mercedes Benz	Sonata	BMW	Chevrolet
Cost (Rs.)	5,00,00,000	75,00,000	60,00,000	50,00,000	80,00,000
Net realizable value (Rs.)	3,50,00,000	78,50,000	55,00,000	60,20,500	90,15,000

The value of stock included in the balance sheet of the company as on March 31, 2008 was

(a) Rs.7,65,00,000
(b) Rs.6,10,00,000
(c) Rs.6,33,85,500
(d) Rs.1,78,85,500
(e) Rs.5,86,14,500. **(2marks)**

<Answer>

36. Which of the following statements is **false** with reference to inventories?

(a) The finished goods which have been produced internally for inventory should be priced at production cost
(b) The periodic system computes cost of goods sold as residual amount
(c) The perpetual system is more accurate but more costly
(d) The cost of acquisition of inventory does not include direct expenses
(e) Historical cost of inventory refers to the cost of acquisition of inventory. **(1 mark)**

<Answer>

37. Pioneer Company, a dealer in cosmetics, records its inventory under first-in-first-out method, so as to minimize accumulation of outdated stock. The receipts and issues made during the month are:

Date	Receipts (Qty. in Units)	Rate per unit (Rs.)	Issues (Qty. in Units)
Dec.04 2008	12	6,600	-
Dec.15 2008	18	7,400	-
Dec.22 2008	-	-	9
Dec.29 2008	-	-	16

With effect from December 01, 2008, the company decided to change the method of inventory valuation from the FIFO method to Weighted Average method. The difference in the value of inventory under FIFO and Weighted Average method is

(a) Rs.1,600
(b) Rs.1,500
(c) Rs.3,000
(d) Rs. 500
(e) Rs.2,400. **(2marks)**

<Answer>

38. Trial Balance of Global Ltd., showed a balance of Rs.6,75,000 to the debit of Sundry Debtors. Provision for doubtful debts at 5% is to be made after considering the following:

- An amount of Rs.15,000 included in sundry debtors is due from a debtor, who is bankrupt and whose estate is expected to realize fifty paise in a rupee.
- Debtors include an amount of Rs.30,000 for goods withdrawn by proprietor for his personal use.
- Bills receivable include a dishonored bill for Rs.15,000.
- Goods of Rs.75,000 sent on 'Sale or Return' basis not approved by the customer, were recorded as sales.
- Debtors include an amount of Rs.7,500, whose chances of recovery are remote.

The provision required to be created for doubtful debts is

(a) Rs.28,500
(b) Rs.33,750
(c) Rs.36,000
(d) Rs.35,250
(e) Rs.34,875. **(2marks)**

<Answer>

39. Under the direct write off method of recognizing a bad debt expense, which of the following statements is/are **true**?

I. The bad debt expense is not matched with the related sales.
II. Accounts receivables are overstated in the year of sales.
III. Revenue is overstated in the year of sales.
IV. It violates the matching principle of accounting.

(a) Only (I) above
(b) Both (I) and (II) above
(c) Both (II) and (III) above
(d) (I), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above. **(1 mark)**

<Answer>

40. Under delivery method the revenue is recognized when the

(a) Percentage of the total work performed during the accounting period is determined
(b) Income can be reliably measured at the completion of production itself
(c) Goods are delivered or services are actually provided
(d) Installment payments have recouped out of the total cost of sales
(e) Installment payments are received. **(1 mark)**

<Answer>

41. Which of the following statements is **false** with respect to dividends?

(a) Dividend can be paid out of capital
(b) Interim dividend can be declared by the directors without obtaining approval of the shareholders
(c) Dividend is not payable on the calls paid in advance
(d) Declared dividend is regarded as a current liability
(e) Dividend is payable only on paid-up capital. **(1 mark)**

<Answer>

42. Consider the following information of Tadpole Ltd., for the year 2007-08:

Opening balance of provision for debtors account	Rs. 60,000
Bad debts during the year	Rs. 54,000
Closing balance of Sundry debtors	Rs.7,95,000
Estimated provision for doubtful debts	4%

The amount to be debited to Profit and Loss account to make the estimated provision is

(a) Rs.25,800
(b) Rs.31,200
(c) Rs.31,560
(d) Rs.31,800
(e) Rs.32,040. **(1 mark)**

<Answer>

43. Wendy Ltd., has the practice of creating provision for doubtful debts @ 8% on debtors. The balance of provision for doubtful debts on April 01, 2007 and March 31, 2008 was Rs.32,000 and Rs.44,000, respectively. During the year 2007-08, the amount collected from debtors was Rs.60,50,000. Credit sales during the year were

(a) Rs.60,50,000
(b) Rs.66,00,000
(c) Rs.62,00,000
(d) Rs.64,50,000
(e) Rs.60,62,000. **(2marks)**

<Answer>

44. In case of goods sold on installment, revenue is recognized to the extent of the

(a) Value of goods sold
(b) Cost of sales
(c) Installment receivable during the relevant period
(d) Actual installment received during the period
(e) Installment receivable less proportionate profit. **(1 mark)**

<Answer>

45. The following information pertains to UEFA Ltd., for the year 2007-08:

Particulars	April 1, 2007 (Rs.)	March 31, 2008 (Rs.)
Inventory	1,08,000	1,00,500
Sundry debtors	70,500	1,05,000
Sundry creditors	60,000	57,000

Total credit sales made during the year were Rs.10,12,500. The cost of goods sold of the company was 80% of the sales.

Cash collected from the debtors during the year was

(a) Rs.10,83,000
(b) Rs.10,47,000
(c) Rs.10,12,500
(d) Rs. 9,78,000
(e) Rs. 8,05,000. **(1 mark)**

<Answer>

46. Shrewd Ltd., has provided the following information with respect to its Equipment:

Particulars	
Original cost of Equipment	Rs.5,25,000
Rate of depreciation (straight line method)	5% p.a.
Book value after current year's depreciation	Rs.4,46,250

The company decides to change the method of depreciation to reducing balance method with retrospective effect at a revised rate of 8% p.a.

The additional depreciation to be provided due to change of method is

(a) Rs.37,439
(b) Rs.26,250
(c) Rs.15,750
(d) Rs.70,145
(e) Rs.54,395. **(2marks)**

<Answer>

47. On April 1, 2006, Panna Ltd., bought a machine for Rs.1,20,000. The machine was sold on September 30, 2007 for Rs.60,000. If the company charges depreciation @ 20% p.a., under diminishing balance method, the amount of profit/loss on sale of machinery and the depreciation for the year ended March 31, 2008 were

(a) Rs.12,000 (loss) and Rs.24,000
(b) Rs.16,800 (loss) and Rs.19,200
(c) Rs.26,400 (loss) and Rs.9,600
(d) Rs.36,000 (loss) and nil
(e) Rs.16,800 (profit) and Rs.19,200. **(2marks)**

<Answer>

48. A machine acquired by a company at a price of Rs.13,000 was being depreciated to its scrap value of Rs.1,000, on straight line basis over 8 years. When 3 more years of the useful life of the machine were left, the company re-estimates the life of the machine in a more realistic manner and indicates that its total life span shall be for 10 years and there shall be no scrap value. The amount of accumulated depreciation till date (before revision) was

(a) Rs.6,000
(b) Rs.4,500
(c) Rs.7,500
(d) Rs.7,200
(e) Rs.6,500. **(1 mark)**

<Answer>

49. Profit on revaluation of fixed assets should be transferred to

(a) General Reserve account
(b) Capital Reserve account
(c) Suspense account
(d) Profit and Loss account
(e) Profit and Loss Appropriation account. **(1 mark)**

<Answer>

50. Which of the following is **not** a feature of purchased goodwill?

(a) It arises on a business acquisition
(b) It is demonstrated by a purchase transaction
(c) It is recognized in the financial statements
(d) Its valuation depends on the subjective judgment of the valuer
(e) Price paid for goodwill depends on the purchaser's expectation of future profits. **(1 mark)**

<Answer>

51. Following is the Balance Sheet of Binjusaria Ltd., as on March 31, 2008:

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	32,000
15,000 Equity shares of Rs.10 each	1,50,000	Land & Building	1,20,000
General Reserve	1,70,000	Plant & Machinery	1,30,000
Profit and Loss account		Investment	50,000
Balance on April 1, 2007 Rs.10,000		Stock	50,000
Profit for the year 2007-08 Rs.76,000	86,000	Debtors	45,000
Sundry Creditors	54,000	Cash at Bank	33,000
Provision for taxation	30,000	Discount on issue of shares	30,000
	4,90,000		4,90,000

The company revalued its assets as follows:

- Land and Building increased by 40% of the book value.
- Plant and Machinery increased by 35% of the book value.
- Investment increased by 20% of the book value.
- Current assets are to be recognized at their book value.

The average capital employed as on March 31, 2008, to be considered for computation of goodwill of Binjusaria Ltd., was

(a) Rs.2,73,500
(b) Rs.4,25,500
(c) Rs.3,11,500
(d) Rs.3,49,500
(e) Rs.3,99,500. **(2marks)**

<Answer>

52. The need for separate valuation of goodwill generally **does not** arise when

(a) The business is to be sold
(b) Stock exchange quotation is available
(c) Controlling interest in a company is to be sold
(d) A company wants to write the goodwill previously written off
(e) A company is making super profits. **(1 mark)**

<Answer>

53. The following data is extracted from the books of Dynamo Ltd.:

Year	2004-05	2005-06	2006-07	2007-08
Profit (in Rs.)	80,000	1,00,000	1,20,000	1,80,000

- The firm has average capital investment of Rs.5,00,000.
- Rate of return on investment is15%.
- The landlord has decided to increase rent of building by Rs.5,000 p.a.

Value of goodwill under 'Capitalization of super profit method' is

(a) Rs.2,66,667
(b) Rs.2,16,665
(c) Rs.1,60,000
(d) Rs.2,10,000
(e) Rs.2,83,335. **(2marks)**

<Answer>

54. Goodwill is customarily referred to as the 'excess of acquisition cost over net identifiable assets acquired', by the acquiring company. Which of the following construes 'net identifiable assets'?

(a) Net fixed assets
(b) Gross fixed assets less depreciation
(c) Net tangible assets
(d) Net tangible assets plus net identifiable intangible assets
(e) Net tangible and intangible identifiable assets less any liabilities assumed by the purchasing company. **(1 mark)**

<Answer>

55. Consider the following data pertaining to Zillion Ltd.:

- Sundry assets of the company are Rs.11,25,400 and current liabilities are Rs.46,815.
- Average capital employed in the business is Rs.9,00,000.
- Rate of interest expected from capital having regard to the risk involved is 10%.
- Net trading profits of the company for the past three years were Rs.1,61,400, Rs.1,36,050 and Rs.1,68,750.
- Fair remuneration to the directors for their services is Rs.18,000 per annum.

The value of goodwill on the basis of 3 years' purchase of super profits calculated on the average of past three years profits is

(a) Rs.1,96,200
(b) Rs. 65,400
(c) Rs.1,42,200
(d) Rs. 83,400
(e) Rs. 88,624. **(2marks)**

<Answer>

56. The following data is extracted from the books of Piranha Ltd.:

Year	Profit (Rs.)
2005-06	6,61,500
2006-07	9,67,500
2007-08	7,20,000

Additional information:
i. An office expense of Rs.24,750 was omitted to be provided in the year 2005-06.
ii. 10% profits of 2006-07 are of non-recurring nature.
iii. Provision of Rs.47,250 on sundry debtors in 2007-08 is no longer required.

The simple average maintainable profit of the company is

(a) Rs.7,58,250
(b) Rs.7,83,000
(c) Rs.7,54,500
(d) Rs.7,04,700
(e) Rs.7,38,750. **(2marks)**

<Answer>

57. The amount of owners' equity in a business is increased by

(a) Increasing the percentage of total assets held in cash
(b) Decreasing the percentage of total assets held in cash
(c) Selling old furniture at a price higher than its book value
(d) Increasing the percentage cash sales in the total sales
(e) Increasing the percentage of credit sales in the total sales. **(1 mark)**

<Answer>

58. According to Schedule VI of the Companies Act, 1956 which of the following will be shown under the head "Current Assets" in the Balance Sheet of a company?

(a) Live stock
(b) Loose tools
(c) Development of property
(d) Railway sidings
(e) Leaseholds. **(1 mark)**

<Answer>

59. Variety Ltd., has issued 50,000, 10% Preference Shares of Rs.100 each, fully paid and 6,50,000 Equity Shares of Rs.10 each, fully paid, at a premium of Rs.20. The net profit for the year 2007-08 was Rs.54,20,000.

- The company had to provide Rs.21,90,000 for taxation of the previous year 2006-07.
- The company declared an equity dividend of 10%.

The total amount debited to Profit and Loss Appropriation account on account of the above decisions was

(a) Rs.26,90,000
(b) Rs.28,40,000
(c) Rs.13,50,000
(d) Rs.33,40,000
(e) Rs.11,50,000. **(2marks)**

<Answer>

60. Following is the data pertaining to Pluto Ltd., as on March 31, 2008:

Particulars	Rs.
Authorised share capital of 20,000 shares of Rs.100 each	10,00,000
Called-up capital	6,02,000
Calls in arrear	2,000
Interim dividend declared	42,000
Current year profit	94,800

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

(a) Rs. 9,480
(b) Rs. 6,000
(c) Rs.10,200
(d) Rs. 7,650
(e) Rs. 7,110. **(2marks)**

<Answer>

61. The reserves and surplus of a company at the beginning of the accounting year were Rs.10,00,000. During the year the company made profit and appropriated the same as follows:

Particulars	Rs.
Profit during the year	2,50,000
Less:Dividend distributed	50,000
Transfer to General Reserves	1,00,000
Balance in the Profit & Loss account	1,00,000

The reserves and surplus at the end of the year, would be

(a) Rs.11,00,000
(b) Rs.12,00,000
(c) Rs.12,50,000
(d) Rs.10,50,000
(e) Rs.12,25,000. **(2marks)**

<Answer>

62. Which of the following shall **not** be deducted for computation of net profit for calculating managerial remuneration?

(a) Interest on debentures issued by company
(b) Loss on sale of undertaking
(c) Debts considered bad and written off
(d) Liability arising from a breach of contract
(e) Director's remuneration. **(1 mark)**

<Answer>

63. The method of depreciation that is generally considered to be most appropriate for petroleum and mining companies for charging depreciation on oil wells and mines is

(a) Straight line method
(b) Diminishing balance method
(c) Units-of-production method
(d) Sum-of-the-years' digits method
(e) Annuity method. **(1 mark)**

<Answer>

64. Which of the following persons can be appointed as an auditor of a company?

(a) A body corporate
(b) A person indebted to the company for Rs.1,500
(c) A person holding the shares of the company as a trustee
(d) A person appointed as a director of the company
(e) An officer of the company. **(1 mark)**

<Answer>

65. The dividend finally decided as payable, by the shareholders in the Annual General Meeting is termed as

(a) Unclaimed dividend
(b) Proposed dividend
(c) Interim dividend
(d) Declared dividend
(e) Unpaid dividend. **(1 mark)**

<Answer>

66. Which of the following statements is **false** in respect of duties of an auditor?

(a) He should scrutinize the loans and advances to see that they have been properly secured
(b) He should check that the transactions merely represented by book entries are not prejudicial to the company
(c) He should check to see that the company is not an investment company under the Companies Act
(d) He need not check when loans and advances made by the company have been shown as deposits
(e) He should check whether personal expenses have charged to the revenue accounts of the company. **(1 mark)**

<Answer>

67. Which of the following is optional while submitting the annual reports in the Annual General Meeting?

(a) Balance sheet
(b) Profit and loss account
(c) Funds flow statement
(d) Directors' report
(e) Auditors' report. **(1 mark)**

<Answer>

68. Auditors are said to issue an unqualified opinion when they

(a) Are not independent of the company being audited
(b) Are not familiar with the company or industry within which the company operates
(c) Find the financial statements to be inconsistent with standards
(d) Consider the financial statements "a fair presentation"
(e) Are not qualified for being appointed as the auditor of the company. **(1 mark)**

<Answer>

69. During the year 2007-08, Arun Ltd., paid Rs.8,10,000 towards dividend. On April 01, 2007, dividends in arrears were Rs.2,70,000. The company's capital structure consisted of 33,750 9%, cumulative preference shares of Rs.100 each, fully paid-up and 67,500 equity shares of Rs.30 each fully paid-up. The dividend paid by Arun Ltd., to its equity shareholders, for the year 2007-08 amounted to

(a) Rs.4,38,750
(b) Rs.5,06,250
(c) Rs.3,03,750
(d) Rs.2,36,250
(e) Rs.5,40,000. **(2marks)**

<Answer>

70. The difference between profit after tax and dividend is known as

(a) Non-operating profit
(b) Retained earnings
(c) Preference dividends
(d) Operating profit
(e) Depreciation. **(1 mark)**

<Answer>

71. Sugandhini Industries depreciates its machinery at 10% p.a. on straight-line basis. On April 01, 2007 the balance in the machinery account of the firm was Rs.8,50,000 (original cost Rs.12,00,000). On July 01, 2007 a new machine was purchased for Rs.25,000. On December 31, 2007 an old machine having a written down value of Rs.40,000 as on April 01, 2007 (original cost Rs.60,000) was sold for Rs.30,000. The balance showed in the machinery account of the business as on March 31, 2008 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. **(2marks)**

<Answer>

72. Saran Ltd., purchased a machinery on April 01, 2005 for Rs.1,50,000 with an estimated useful life of 5 years, after which it will have no salvage value. If the company follows sum-of-the-years' digits method of depreciation, the amount of depreciation charged during the year 2007-08 was

(a) Rs.50,000
(b) Rs.40,000
(c) Rs.30,000
(d) Rs.20,000
(e) Rs.10,000. **(1 mark)**

<Answer>

73. The post-tax profits of Autocast Ltd., for the last four years were:

Year	Rs.
2004-05	1,50,000
2005-06	1,65,000
2006-07	2,20,000
2007-08	2,50,000

Additional Information:

- The profits for the year 2006-07 were calculated by taking an excess depreciation of Rs.10,000.
- During the year 2005-06, there was a loss of Rs.20,000 due to a fire accident.
- In view of the diversification of business and resultant workload, it is expected to appoint two additional employees for a salary of Rs.10,000 each per annum.
- The applicable tax rate was 50%.

The value of goodwill based on three years' purchase of simple maintainable profits was

(a) Rs.5,70,000
(b) Rs.1,90,000
(c) Rs.6,30,000
(d) Rs.5,25,000
(e) Rs.5,85,000. **(2marks)**

<Answer>

74. Consider the following Balance Sheet of Net Services as on March 31, 2008:

Liabilities	Rs.	Assets	Rs.
Share capital	1,00,000	Cash at bank	42,000
Profit and Loss account	19,000	Sundry debtors	90,000
Sundry creditors	25,000	Closing stock	10,000
		Prepaid Rent	2,000
Total	1,44,000	Total	1,44,000

Following is the summary of transactions that occurred for the period up to December 31, 2008:

Particulars	Rs.
Collections from debtors	88,000
Payments to creditors	24,000
Purchases	80,000
Sales	85,000
Recognition of rent expenses	1,000
Salaries paid by cheque	8,000

Considering the above Balance Sheet and the additional information, the total of Trial Balance of the company as on December 31, 2008 was

(a) Rs.2,05,000
(b) Rs.2,65,000
(c) Rs.2,85,000
(d) Rs.2,95,000
(e) Rs.2,96,000. **(2marks)**

75. Which of the following is considered as a capital expenditure? <Answer>

(a) Cost of advertisement
(b) Purchase of delivery van
(c) Purchase of raw-materials
(d) Purchase of consumables
(e) Purchase of loose tools. **(1 mark)**

END OF QUESTION PAPER

Suggested Answers
Financial Accounting (CFA510): January 2009

	Answer	Reason

1. B Under Hybrid system of accounting for revenue and expenses, accrual basis for expenses and cash basis for revenues is used. < TOP >

2. C Board of Directors, Partners, Managers and Officers are internal users. An investor is an external user of financial statements. < TOP >

3. C Intangible assets are amortized like tangible fixed assets. If they benefit more than one accounting period, they should be systematically and rationally allocated to all accounting periods. Matching concept involves recognizing costs as expenses on the basis of direct association with assets. Thus amortization of intangible assets is in recognition of matching concept. The other concepts do not recognize allocation of costs of fixed assets. < TOP >

4. A The concept of conservatism involves understating gains and values and overstating losses and liabilities. Hence when applied to Balance sheet, the convention of conservatism results in understatement of assets. Hence, option (a) is correct answer. < TOP >

5. C Debit balance in commission account represents commission paid or accrued commission yet to be received. Commission received in advance is a liability that should be indicated by a credit balance of commission received. Hence, option (c) is correct answer. < TOP >

6. A < TOP >

Purchases Day Book

Date	Particulars	Details (Rs.)	Total (Rs.)
December 01	50 LCD (21") T.V. @ Rs.20,000 each	10,00,000	
	20 Colour T.V. @ Rs.12,000 each	2,40,000	
		12,40,000	
	Less: Trade discount @ 10%	1,24,000	11,16,000
December 09	20 pieces of Six-in-one Music System @ Rs.8,000 each	1,60,000	
December 09	20 pieces of Two-in-one Music System @ Rs.3,000 each	60,000	
		2,20,000	
	Less: Trade discount @ 10%	22,000	1,98,000
December 19	200 pieces of DVD packs @ Rs.60 each	12,000	
	Less: Trade discount @ 5%	600	11,400
	Total		13,25,400

The purchase of stationery is not a part of purchase of goods and it is to be debited to stationery account.

7. D The receipt of dividend by proprietor on personal investments cannot be entered in the books of account of the business in recognition of entity concept. The other items i.e. withdrawal of cash by the proprietor for domestic expenditure, withdrawal of cash from the bank for repaying house building loan of the proprietor, purchase of new asset in exchange of old asset making part payment by cheque and loss of stock by fire receiving claim by cheque, all are recorded in the Triple column cash book. < TOP >

8. D The credit entries in Return outward account will increase the credit balance as it is an income account. Hence, option (d) is correct answer. < TOP >

Answer **Reason**

9. C Discount recorded on debit side of cash book represents the discount allowed to the customers. < TOP >

Date	Particulars	Rs.
Dec.5	Cheque received and allowed discount	3,750
Dec.19	Add: Cheque received from Ram discount allowed 10% of 24,750	2,475
Dec.20	*Cheque received from Arjun; cash discount allowed at 2% on Rs.19,000	380
Dec.29	Discount allowed to Ramana & Bros. (Rs.58,350 – Rs.54,300)	4,050
		10,655

*Sale of goods = Rs.20,000
Less: Trade discount at 5% = Rs. 1,000
Invoice amount = Rs.19,000
Therefore the cash discount at 2% = Rs. 380
(Rs.19,000 × 2%)

Trade discount is not recorded in the triple column cash book whereas, cash discount has been recorded since the payment was made in less than 7 days.

10. C At the time of finalization of accounts entries passed for outstanding expenses, depreciation and interest on capital are known as adjustment entries. Hence, (c) is the correct answer < TOP >

11. E Nominal accounts representing expenses, revenues and incomes are not balanced. They are transferred to the trading and profit and loss account at the end of the accounting period. < TOP >

12. C < TOP >

Creditors Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Cash	18,500	By Balance b/d	34,000
To Purchases Returns	800	By Purchases	24,700
To Discount received	480	By Bills Payable	800
To Balance c/d	39,720		
	59,500		59,500
		By Balance b/d	39,720

13. B < TOP >

Particulars	Rs.
Total of debit side of trial balance	4,90,000
Add: Advertisement expenses	30,000
Less: Opening stock (excess taken)	(200)
Total of trial balance (Debit column)	5,19,800

Particulars	Rs.
Total of credit side of trial balance	5,45,800
Add: Interest on investments (less taken)	12,000
Less: Sundry creditors (excess taken)	(8,000)
Less: Advertisement expenses (wrongly taken)	(30,000)
Total of trial balance (credit side)	5,19,800

14. C The rectification entry should be: < TOP >

Particulars		Rs.	Rs.
Purchases account	Dr.	5,283	
Sales account	Dr.	3,528	
To Supplier's account (Rs.5,283 – Rs.5,013)			270
To Suspense account			8,541

Answer **Reason**

15. C Mistake in transferring the balance of an account to the trial balance will not affect the agreement of the trial balance is incorrect because such mistake affects the agreement of the trial balance. Hence, option (c) is correct answer. < TOP >

16. C Gross profit = Sales – Purchases – Carriage inward < TOP >

= Rs.65,000 – Rs.50,000 – Rs.1,000 = Rs.14,000

17. D Last year's salary advance not carried forward to this year- when correcting entry is passed the total amount of salary for the current year will increase and reduce the net profit. < TOP >

A credit sale was wrongly passed through purchase book- when the error is rectified, sales will increase and purchase will decrease whereby net profit will improve.

Cartage for the newly purchased furniture wrongly posted to cartage a/c – the rectification of this will result in reduction in revenue expense and improvement in net profit.

Goods sold for Rs.500 was entered in the sales book as Rs.5,000 – On account of the error the sales figure got inflated by Rs.4,500 and when rectified, sales as well as net profit will be reduced by Rs.4,500.

Return outward wrongly entered in return inward book – Due to the error purchase was overvalued and sales undervalued. Rectification of this mistake will reduce the total amount of purchase and increase the total sales which will have a favorable effect on net profit.

18. D Obsolete asset sold on credit will be entered in the Journal Proper, not the sales book. Hence, option (d) is correct answer. < TOP >

19. 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. < TOP >

WDV of all fixed assets at the beginning of 2007-08 = Rs.40 crores × 100/25 = Rs.160 crores.

WDV of all fixed assets at the beginning of 2008-09 = Rs.160 – Rs.40 crores = Rs.120 crores.

Depreciation for 2008-09 @ 25% on WDV of all fixed assets = Rs.120 crores × 25% = Rs.30 crores

Other expenses increase by 20 % = Rs.640 crores × 120% = Rs.768 crores

Projected Net profit in crores for the year 2008-09

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

20. C Under accrual system of accounting cash on hand is a real account and it reflects physical cash held by the business. It does not reflect either profit or loss. Alternative (c) is the false statement and is the correct answer. < TOP >

Answer **Reason**

21. B

Books of Surya Enterprises

Dr. Trading Account for the period ending March 31, 2008 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening stock	13,500		By Sales:	80,000	
(+) under valuation	2,500				
of opening stock		16,000			
To Purchases	45,000		(–) Returns inward	1,500	78,500
(–) Inventory lost	1,000		By Closing stock	20,000	
(–) Returns outward	1,000		Less: over valuation		
		43,000	of closing inventory	5,000	15,000
To Wages	2,500				
(+) Outstanding as on	350				
March 31, 2008					
	2,850				
(–) Outstanding as on	250				
April 01, 2007		2,600			
To Carriage inward		500			
To Gas, water, fuel		1,000			
To Gross Profit		30,400			
		93,500			93,500

< TOP >

22. C Deduct Rs.6,000 from the value of closing stock; Debit Rs.2,000 to P&L A/c and show Rs.4,000 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.6,000 claim admitted is only Rs.4,000.The difference of Rs.2,000 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 Balance Sheet.

< TOP >

23. E

Particulars	Rs.
Wages paid during the year	2,40,000
Add: Outstanding wages on March 31, 2008	65,440
	3,05,440
Less: Outstanding wages on March 31, 2007	80,640
Total wages to be shown in the trading account for the year ended March 31, 2008	2,24,800

< TOP >

24. A A contingent liability is the loss which will be known or determined only on the occurrence of one or more future uncertain events. Debts of debtors is not an uncertain event but only the realization of a part of the debt is doubtful for which provision must be provided and hence it is not a contingent liability.

Contingent Liabilities include:

- Uncalled liability on partly paid shares may be called up in the event of necessity.
- Claims against the company not acknowledged as debt may or may not turn out to be debts in future.
- Arrears of fixed cumulative dividend are contingent liabilities.
- Liability for bills receivable discounted previously is a contingent liability which is dependent on the solvency of the drawee.

< TOP >

25. B

- Historical cost refers to the amount paid or payable to acquire the asset or a benefit.
- The amount that needs to be paid if the asset is to be acquired currently is the current cost.
- The present discounted value of the future inflows that an item is expected to generate in the normal course of business is the present value.
- Realizable value is the net amount collectible in the event of the asset's disposal.

Hence, option (b) is correct answer.

< TOP >

Answer **Reason**

26. C

Net Profit of Jay Bird Ltd., for the year ending March 31, 2008

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
			By Excess of closing stock over opening stock		80,000
To Gross Profit		1,78,,000			
		7,78,000			7,78,000
To Sales Commission	24,000		By Gross Profit		1,78,000
+ 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		1,87,000			
		2,83,000			2,83,000

The net profit is Rs.1,87,000.

< TOP >

27. E Debit balance of discount column of cash book is an expenditure. Debit balance of cash column of cash book and debit balance of bank column of cash book are assets of a firm. Credit balance of bank pass book is also an asset of a business. Credit balance of bank column of cash book is a liability of a firm.

< TOP >

28. D

Dr. **Discount receivable account** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	15,400	By Discount received	11,200
To Profit and Loss a/c (bal.fig)	18,550	By Balance c/d (2% of Rs.11,37,500)	22,750
	33,950		33,950

< TOP >

29. A

Provisional Balance Sheet as on March 31, 2008

Liabilities	Rs.	Assets	Rs.
Capital (Bal.fig)	6,05,000	Total of assets	7,10,000
Creditors	90,000		
Outstanding expenses	15,000		
	7,10,000		7,10,000

Opening Capital

= Closing capital plus drawings during the year minus additional capital introduced during the year

= Rs.6,05,000 + (Rs.15,000 × 9 months) – Rs.60,000 = Rs.6,80,000.

Note: As he had started his business on June 1, 2007, he must have made drawings for 9 months upto March 31, 2008.

< TOP >

30. E The interest on drawings is an income to the business. Hence the interest on drawings account is to be credited. As charging the interest on drawings will reduce the capital, capital account is to be debited. The entry to record interest on drawings is

Capital account Dr.

To Interest on drawings account.

< TOP >

Answer		Reason

31. C Computation of inventory :

< TOP >

Particulars	Rs.	Rs.
Inventory value as per books		3,00,000
Add: Purchases received but not accounted	20,000	
Sales yet to be delivered	60,000	80,000
		3,80,000
Less: Returns outward	10,000	
Amount overcast in stock sheet	12,000	22,000
Inventory as per physical stock		3,58,000

32. D The value of inventory far in excess of the normal requirement of a firm is shown under non-current assets.

< TOP >

33. E Closing stock = Opening stock plus purchases minus cost of goods sold.

< TOP >

The value of ending inventory under simple average price method is absurd. Usually profit or loss will arise out of pricing the issues on the basis of simple average price method as the quantity of stock purchased at various prices will be different. The value of stock is shown on the assets side of the balance sheet as current asset. The closing stock should be valued at cost or market price whichever is lower.

34. D Markdown means selling price being lowered below the original selling price. Selling price below the original selling price cannot be mark-up, markup cancellation, net mark-up or net markdown. Hence, option (d) is correct answer.

< TOP >

35. B The value of the stock at 'the lower of cost and net realizable value' is as follows:

< TOP >

Cars	Maybach	Mercedes Benz	Sonata	BMW	Chevrolet	Total (Rs.)
Value (Rs.)	3,50,00,000	75,00,000	55,00,000	50,00,000	80,00,000	6,10,00,000

The appropriate stock figure is Rs. 6,10,00,000 as calculated above.

36. D The cost of acquisition includes direct expenses.

< TOP >

- The finished goods which have been produced internally for inventory should be priced at production cost.
- The periodic system computes cost of goods sold as residual amount.
- The perpetual system is more accurate but more costly.
- The cost of acquisition of inventory includes direct expenses.
- Historical cost of inventory refers to the cost of acquisition of inventory.

Hence, (d) is correct answer.

Answer **Reason**

37. A

< TOP >

Stores Ledger in the books of Pioneer Company (FIFO Method)									
	Receipts			Issues			Balance		
Date	Qty. (Units)	Rate (Rs.)	Value (Rs.)	Qty. (Units)	Rate (Rs.)	Value (Rs.)	Qty. (Units)	Rate (Rs.)	Value (Rs.)
04-12-2008	12	6,600	79,200	-	-	-	12	6,600	79,200
15-12-2008	18	7,400	1,33,200	-	-	-	12 18	6,600 7,400	2,12,400
22-12-2008	-	-	-	9	6,600	59,400	3 18	6,600 7,400	1,53,000
29-12-2008	- -	- -	- -	3 13	6,600 7,400	19,800 96,200	5	7,400	37,000

Stores Ledger in the books of Pioneer Company (Weighted Average Method)									
	Receipts			Issues			Balance		
Date	Qty. (Units)	Rate (Rs.)	Value (Rs.)	Qty. (Units)	Rate (Rs.)	Value (Rs.)	Qty. (Units)	Rate (Rs.)	Value (Rs.)
04-12-2008	12	6,600	79,200				12	6,600	79,200
15-12-2008	18	7,400	1,33,200				30	7,080	2,12,400
22-12-2008	-	-	-	9	7,080	63,720	21	7,080	1,48,680
29-12-2008	-	-	-	16	7,080	1,13,280	5	7,080	35,400

Therefore the difference between the FIFO and Weighted Average method of valuing the inventory is Rs.37,000 – Rs.35,400 = Rs.1,600

38. C

< TOP >

Particulars	Rs.	Rs.
Sundry Debtors		6,75,000
Less:		
Bad debt on account of bankruptcy (Rs.15,000 × 0.5)	7,500	
Value of goods to proprietor for his personal use	30,000	
Goods sent on 'Sale or Return Basis' not approved	75,000	
Debtor whose chances of recovery are remote	7,500	1,20,000
		5,55,000
Add. Amount of dishonored bill		15,000
		5,70,000

Provision @5% on sundry debtors $= \frac{\text{Rs.}5,70,000 \times 5}{100} = \text{Rs.}28,500.$

Provision for debt whose chances are remote = 100% of Rs.7,500 = Rs.7,500.

The provision required to be created for doubtful debts = Rs.28,500 + Rs.7,500 = Rs.36,000.

39. E Under the direct write off method of recognizing a bad debt expense, the alternative (e) is the correct answer with the combination of the following statements (I) The bad debt expense is not matched with the related sales because the expense is written off in the year of occurrence and it is not matching with the related sale; (II) Accounts receivables are overstated in the year of sales as the accounts receivables are not reported at net realizable value; (III) Revenue is overstated in the year of sales as a result of not making any provision for possible loss on account of non-recoverable accounts (IV) It violates the matching principle of accounting as the expenses of bad debts is not matched for the same period of income..

< TOP >

40. C Under delivery method the revenue is recognized when the goods are delivered or services are actually provided.

< TOP >

Answer		Reason

41. A Dividend cannot be paid out of capital.

Dividend is payable only on paid-up capital. It is not payable on calls-in-advance amount. Dividend declared should be regarded as current liability. Interim dividend can be declared by the directors without any approval of shareholders.

Hence, option (a) is correct answer.

< TOP >

42. A

< TOP >

Bad debts	Rs.54,000
Add: Closing provision (4% on Rs.7,95,000)	Rs.31,800
	Rs.85,800
Less: Opening provision	Rs.60,000
Amount to be debited to profit & loss account	Rs. 25,800

43. C

< TOP >

Dr. **Sundry Debtors Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
April 01, 2007	To Opening balance (32,000/8%)	4,00,000	2007-08	By Cash	60,50,000
2007-08	To Credit sales (Balance figure)	62,00,000	March 31, 2008	By Closing balance (44,000/8%)	5,50,000
		66,00,000			66,00,000

44. D In case of sale on installment basis, revenue is recognized to the extent of actual amount of installment received.

< TOP >

45. D

< TOP >

Particulars	Rs.
Opening balance of sundry debtors	70,500
Add: Credit sales	10,12,500
	10,83,000
Less: Closing balance of Sundry debtors	1,05,000
Cash collected from debtors	9,78,000

46. A Straight line depreciation per annum = Rs. 5,25,000 × 5% = Rs.26,250

< TOP >

The number of years for which depreciation has been charged on this basis

$$= \frac{\text{Rs.5,25,000} - \text{Rs.4,46,250}}{\text{Rs.26,250}} = 3 \text{ years}$$

If depreciation at the rate of 8% was charged by the reducing balance method, the values (WDVs) would be

Particulars	Rs
WDV at the end of the 1st year (Rs.5,25,000 × 92%)	4,83,000
WDV at the end of the 2nd year (Rs.4,83,000 × 92%)	4,44,360
WDV at the end of the 3rd year (Rs.4,44,360 × 92%)	4,08,811

Thus, additional depreciation to be provided = Rs.4,46,250 – Rs. 4,08,811= Rs.37,439.

Answer **Reason**

47. C

Dr. Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
April 1, 2006	To Balance b/d	1,20,000	March 31, 2007	By Depreciation	24,000
			March 31, 2007	By Balance c/d	96,000
		1,20,000			1,20,000
April 1, 2007	To Balance b/d	96,000	Sept.30, 2007	By Depreciation*	9,600
			Sept.30, 2007	By Bank	60,000
			March 31, 2008	By P&L a/c (loss)	26,400
		96,000			96,000

* Depreciation = Rs.96,000 × 20% × 6 months ÷ 12 months = Rs.9,600.

48. C Machine acquired by the company five years ago. Company charged depreciation for last 5 years (8 years – 3years) on straight line method.

Amount of depreciation per year $= \dfrac{\text{Rs.}13{,}000 - \text{Rs.}1{,}000}{8} = \text{Rs.}1{,}500.$

Amount of accumulated depreciation till date (before revision) = Rs.1,500 × 5years = Rs.7,500.

49. B When a company revalues its fixed assets and if there is a profit on revaluation, it should be transferred to Capital Reserve a/c.

50. D Options (a), (b), (c) and (e) are features of purchased goodwill, which arises when one business buys another and the purchase consideration is more than the value of net tangible assets received. Hence there is no subjective judgment involved.

51. D Computation of Average capital employed :

Particulars	Rs.	Rs.
Assets		
Land and building (1,20,000 × 1.4)		1,68,000
Plant and Machinery (1,30,000 × 1.35)		1,75,500
Stock		50,000
Debtors		45,000
Cash at Bank		33,000
		4,71,500
Less : Current Liabilities		
Sundry creditors	54,000	
Provision for taxation	30,000	84,000
Closing capital employed		3,87,500
Less: 50% of profit for 2007-08		38,000
Average capital employed		3,49,500

52. B When stock exchange quotation is available it forms the basis of for ascertaining the value of a business and hence, goodwill need not be valued separately. Hence option (b) is correct answer.

53. A

Particulars	Calculations	Rs.
Average profit	Rs.(80,000 + 1,00,000 + 1,20,000 + 1,80,000) ÷ 4	1,20,000
Maintainable profit	Average profit – increase in rent Rs.1,20,000 – Rs.5,000 = Rs.1,15,000	1,15,000
Normal profit	Capital employed x Normal rate Rs.5,00,000 × 15%	75,000
Super profit	Maintainable profit – Normal profit	40,000
Under capitalization of super profit method Goodwill will be	Super profit /Normal rate of return = Rs.40,000/15%	2,66,667

< TOP >
< TOP >
< TOP >
< TOP >
< TOP >
< TOP >
< TOP >

Answer		Reason

54. E The excess of the fair value of net identifiable assets, tangible as well as intangible over any liabilities assumed by the purchaser is recorded as an asset i.e. goodwill by the acquiring company. Hence, option (e) is correct answer. < TOP >

55. C Trading profits for the last three years : < TOP >

Particulars	Rs.
Year 1	1,61,400
Year 2	1,36,050
Year 3	1,68,750
Total	4,66,200
Average Profit (Rs.4,66,200 ÷ 3)	1,55,400
Less : Remuneration of the directors	18,000
Average Maintainable Profits	1,37,400
Less : Normal Profit expected @ 10% on average capital employed $\left(\text{Rs.}9,00,000\times\frac{10}{100}\right)$	90,000
Super Profit	47,400
Goodwill at 3 years' purchase (Rs.47,400 × 3)	1,42,200

56. A The average maintainable profits of the company are < TOP >

Year		Rs.	Rs.
2005-06	Profit	6,61,500	
	Less: Omission of office expenses	24,750	6,36,750
2006-07	Profit	9,67,500	
	Less: 10% non-recurring	96,750	8,70,750
2007-08	Profit	7,20,000	
	Add: Provision for bad debts	47,250	7,67,250
	Total profits		22,74,750

The simple average maintainable profits of the company

= Rs.22,74,750 ÷ 3 = Rs.7,58,250.

57. C Selling old furniture at a price higher than its book value will give rise to profit on sale of assets that will increase the net profit and hence the owners' equity. The other options do not affect the owners' equity. Hence option (c) is correct answer. < TOP >

58. B According to Schedule VI of the Companies Act 1956, loose tools should be indicated in current assets. Livestock, development of property, railway sidings and leaseholds are to be indicated under fixed assets. < TOP >

59. D < TOP >

Particulars	Rs.
Provision for taxation of the previous year	21,90,000
Dividend on 10%, 50,000 Preference Shares of Rs.100 each	5,00,000
10% Dividend on 6,50,000 equity shares of Rs.10 each	6,50,000
The total amount debited to Profit and Loss appropriation account	33,40,000

Answer **Reason**

60. E Calculation of Transfer to General Reserve:

Final dividend declared [Rs.6,02,000 – Rs.2,000] × 10% = Rs.60,000

Total of dividend declared and proposed during the year

= Rs.(42,000 + 60,000) = Rs.1,02,000

Dividends as a percent of paid-up capital

= (Rs.1,02,000 ÷ 6,00,000) × 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.
Transfer to reserves = Rs.94,800 × 7.5% = Rs.7,110.

< TOP >

61. B

Particulars	Rs.
Reserves & Surplus (opening balance)	10,00,000
Add: Transfer to General Reserve	1,00,000
Balance in Profit & Loss A/c	1,00,000
Reserves & Surplus (at year end)	12,00,000

< TOP >

62. B Loss on sale of undertaking is not deductible for computation of net profit for calculating managerial remuneration.

< TOP >

63. C In case of companies extracting natural resources, after estimating the total production potential, the unit cost can be computed by using units of production method. Therefore, the method of depreciation that is considered to be most appropriate for petroleum and mining companies for charging depreciation on oil wells and mines is units of production method. Straight-line method Diminishing Balance method and Sum-of-The-Years'-Digits methods are not appropriate. Hence, option (c) is correct answer.

< TOP >

64. 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).

< TOP >

65. D The dividend finally decided as payable, by the shareholders in the Annual General Meeting is termed as declared dividend.

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66. D An auditor is required to check to see whether or not loans and advances made by the company have been shown as deposits. The other options are true in respect of the duties of an auditor. Hence, option (d) is correct answer.

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67. C In an Annual General Meeting, submission of funds flow statement is not mandatory. But submission of Balance Sheet, Profit & Loss account, Directors' report and Auditors' report are mandatory. Hence, (c) is correct answer.

< TOP >

68. D Auditors are said to issue an unqualified opinion when they consider the financial statements 'a fair presentation'.

< TOP >

69. D Of the Rs.8,10,000 paid, Rs.2,70,000 was paid toward dividends in arrears and Rs 5,40,000 was paid toward dividends for 2007-08. Of the Rs.5,40,000, Rs.3,03,750 was paid to preferred shareholders (33,750 shares × Rs 100 per share × 0.09), leaving Rs.2,36,250 to be paid to equity shareholders.

< TOP >

70. B Retained earnings is the difference between profit after tax and dividend. Hence, option (b) is correct answer.

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Answer **Reason**

71. A

Dr. Machinery Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2007 April 01	To Balance b/d	8,50,000	2007 Dec. 31	By Bank a/c (sale of old machine)	30,000
July 01	To Bank a/c (new machine)	25,000	Dec. 31	By Depreciation a/c (WN – 2)	4,500
			2008 March 31	By Profit & loss a/c (WN – 2)	5,500
			March 31	By Deprecation a/c (WN – 1)	1,15,875
			March 31	By Balance c/d	7,19,125
		8,75,000			8,75,000

Working Notes:

(1) Calculation of depreciation for year 2007-08	Rs.	(2) Calculation of loss on sale of machinery	Rs.
Opening balance (original)	12,00,000	Written down value on April 01, 2007	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, 2007 (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	5,500
	1,15,875		

72. C Depreciation under the sum-of-the years-digits method for the year 2007-08, being the third year

$$= \frac{3}{1+2+3+4+5} \times \text{Rs.}1,50,000 = \text{Rs.}30,000.$$

73. A

Particulars	2004-05 (Rs.)	2005-06 (Rs.)	2006-07 (Rs.)	2007-08 (Rs.)
Post-tax profits	1,50,000	1,65,000	2,20,000	2,50,000
Add: Tax (50%)	1,50,000	1,65,000	2,20,000	2,50,000
Pre-tax profits	3,00,000	3,30,000	4,40,000	5,00,000
Add: Excessive depreciation	–	–	10,000	–
Abnormal loss	–	20,000	–	–
	3,00,000	3,50,000	4,50,000	5,00,000

Average pre-tax profits $= \frac{\text{Rs.}(3,00,000 + 3,50,000 + 4,50,000 + 5,00,000)}{4}$

= Rs. 4,00,000

Less: Additional salaries Rs. 20,000

Rs. 3,80,000

Less: Tax @50% = Rs. 1,90,000

Future maintainable profits Rs. 1,90,000

Goodwill = Rs.1,90,000 × 3 = Rs.5,70,000.

Answer		Reason

74. C

Trial Balance of Net Services as on December 31, 2008

< TOP >

	Heads of Accounts	Debit (Rs.)	Credit (Rs.)
1.	Cash at bank	98,000	
2.	Sundry Debtors Account	87,000	
3.	Purchases Account	80,000	
4.	Prepaid Rent Account	1,000	
5.	Rent Expenses Account	1,000	
6.	Salaries Account	8,000	
7.	Inventory Account	10,000	
8.	Sundry Creditors Account		81,000
9.	Sales Account		85,000
10.	Share Capital Account		1,00,000
11.	Profit and Loss account		19,000
	Total	2,85,000	2,85,000

Working Notes:

1.	Cash account	Rs.
	Opening Cash	42,000
	Add: Collections from debtors	88,000
		1,30,000
	Less: Paid to creditors	24,000
	Salaries paid	8,000
	Closing cash balance	98,000
2.	Sundry debtors	
	Opening balance	90,000
	Add: Credit sales	85,000
		1,75,000
	Less: Cash received	88,000
	Closing balance	87,000
3.	Sundry creditors	
	Opening balance	25,000
	Add: Credit purchases	80,000
		1,05,000
	Less: Cash paid	24,000
	Closing balance	81,000
4.	Prepaid rent	
	Opening balance	2,000
	Less: Rent recognized	1,000
	Closing balance	1,000
5.	Rent account	1,000
6.	Sales	85,000
7.	Purchases	80,000
8.	Salaries	8,000
9.	There is no change in closing stock, capital and profit and loss accounts	

75. B Purchase of delivery van is capital expenditure. Raw-materials and loose tools form part of inventory and purchase of consumables is revenue expenditure. Cost of advertisement is generally a revenue expenditure and in case benefit is available for more than one accounting period, it is considered as a deferred revenue expenditure.

< TOP >

< TOP OF THE DOCUMENT >