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FINANCIAL ACCOUNTING
TEST PAPER - I / 5 / FAC / 2008 / T-4

1.

- A. Livestock in the case of mixed farming is a fixed asset.
- B. Crops are valued at Economic Value.
- C. Final Accounts of a farmer can be prepared under Single Entry Method.
- D. The cash book usually maintained by the farmer is Analytical Cash Book.
- E. Livestock purchased will figure in the balance sheet.
- F. Cash: It comprises Cash on hand and demand deposits with banks.
Cash Equivalents: They are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
- G. The main objective of Accounting Standard is to standardize the diverse accounting policies with a view to eliminate to the extent possible the incomparability of information provided in financial statements and add reliability to such financial statements.
- H. (i) Going concern means that business has entered into a process of liquidation. False.
(ii) The principle of Consistency requires that all business enterprises should follow the same method of accounting. False.

- I. If at any time during the reporting period one party has the ability
- to control the other party;
 - to exercise significant influence over the other party in making financial and/or operating decisions, then by virtue of AS-18, both parties would be considered as "Related".

3. Income & Expenditure A/c of Literary Society as at 31/03/2009

EXPENDITURE	AMOUNT (Rs.)	INCOME	AMOUNT (Rs.)
To Electric Charges	720	By Entrance Fees (25%)	750
" Postage & Stationery	500	" Subscriptions - 20,000	
" Telephone Charges	500	Less: Advance - 1,000	19,000
" Depreciation @ 10%:		" Interest on Securities:	
(a) Books - 4,600		2007-2008 - 15,000 x 5% - 750	
(b) Elec. fittings - 1,500		2008-2009 - 4,000 x 5% - 100	850
(c) Furniture - 500	6,600	for 6 months	
" Rent - 8,800		" Sale proceeds of old papers	150
Add: o/s - 400	9,200	" Hire of Lecture Hall	2,000
" Salaries - 6,600		" Deficit (Income over Expenditure)	1,670
Add: o/s - 300	6,900		
	24,420		24,420

Working Notes:

Purchases	Books A/c	Purchases	
	Rs.		Rs.
To balance b/d	40,000	By Depreciation @ 10%	4,600
" Purchases	6,000	" Balance c/d	41,400
	46,000		46,000

Balance Sheet As at 31/03/2007

LIABILITIES	Amount (Rs.)	ASSETS	Amount (Rs.)
Capital Fund - 79,300		Books	41,400
Less: Deficit - 1,670		Electrical fittings - 15,000	
Add: 75/9 - 2,250	79,880	Less: Depreciation @ 10% - 1,500	13,500
Entrance Fees		Furniture - 5,000	
Subscription Advance	1,000	Less: Dep. @ 10% - 500	4,500
Rent o/s	400	Investment in Securities (15,000 + 4,000)	19,000
Salaries o/s	300	Interest on Securities:	
		Outstanding - 850	
		Less: Received - 800	50
		Cash in hand	1,130
		Cash at Bank	2,000
	81,580		81,580

6.

Journals

Particulars	LF	(Rs.) Dr	Cr. (Rs.)
Bank A/c Dr.		90,000	
To Share Application A/c			90,000
(Being the application money received on 30,000 shares)			
Share Application A/c Dr.		90,000	
To Share Capital A/c			40,000
" Share Allotment A/c			10,200
" Securities Premium A/c			20,000
" Bank A/c			10,800
(Being the application money adjusted & surplus refunded)			

Particulars	LF	Dr. (Rs.)	(4) Cr. (Rs.)
Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being the allotment money due)		80,000	60,000 20,000
Bank A/c Dr. To Share Allotment A/c (Being the remaining allotment money received on 19,600 shares)		66,640	66,640
Share First Call A/c Dr. To Share Capital A/c (Being the first call money due)		60,000	60,000
Bank A/c Dr. To Share First Call A/c (Being the first call money received on 19,000 shares @ Rs. 3/- per share)		57,000	57,000
Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share First Call A/c To Forfeited Shares A/c (Being 400 shares forfeited for non payment of full allotment money and the first call money)		3,200 400	1,360 1,200 1,040
Share Second and Final Call A/c Dr. To Share Capital A/c (Being the second and final call received on 19,600 shares)		39,200	39,200

Particulars	LF	Dr (Rs.)	Cr (Rs.)
Bank A/c Dr. To Share Second & Final Call A/c (Being the Second and Final Call received on 19,000 shares)		38,000	38,000
Share Capital A/c Dr. To Share Final Call A/c To Share Second & Final Call A/c To Forfeited Shares A/c (Being 600 shares forfeited for non-payment of the first call & final call)		6,000	1,800 1,200 3,000
Bank A/c Dr. Forfeited Shares A/c Dr. To Share Capital A/c (Being the re-issue of 800 shares @ Rs. 9/- as fully paid-up)		7,200 800	8,000
Forfeited Shares A/c Dr. To Capital Reserve A/c (Being the transfer of profit on re-issue)		2,240	2,240

Working Notes:

(1) Calculation of the amount due but not paid on allotment in case of Arunaro:

Total No. of shares applied $(400 \times 24,000 / 20,000)$	—	480
Total Money sent on application $(480 \times Rs. 3)$	—	1,440
Excess Application Money $[Rs. 1,440 - (Rs. 400 \times Rs. 3)]$	—	240
Total Money due on allotment $[Rs. 1,600 - Rs. 240]$	—	<u>Rs. 1,360</u>

(ii) Calculation of allotment money received later on:

Total allotment due ($20,000 \times \text{Rs. } 4$)	—	80,000
Less: (a) Already received ($4,000 \times 3$)	—	12,000
(b) Not received	—	<u>1,360</u>
		<u>66,640</u>

(iii) Since the question is silent as to the utilization of Rs. 240/- received from Arunaro between share capital and securities premium, it has been assumed that the entire excess of Rs. 240/- is exclusively for share capital and hence credited to Forfeited Shares Account in full.

7 (i) Sales:

$$\text{Gross Profit Margin} = 25\%$$

$$\text{Gross Profit / Turnover} = 25/100$$

$$1,15,000 / \text{Turnover} = 25/100$$

$$\text{Turnover} = \frac{1,15,000 \times 100}{25}$$

$$\text{Turnover or Sales} = \text{Rs. } 4,60,000$$

(ii) Purchase:

$$\begin{aligned} \text{Purchase} &= \text{Cost of goods sold} + \text{Closing stock} - \text{opening stock} \\ &= (\text{Sales} - \text{Gross Profit}) + (\text{opening stock} + 15,000) - \text{opening stock} \end{aligned}$$

$$= (4,60,000 - 1,15,000) + 15,000$$

$$= 3,45,000 + 15,000$$

$$\text{Purchase} = \text{Rs. } 3,60,000$$

(iii) Sundry Creditors:

$$\text{Creditors' Velocity} = \text{Average Payables} \times 12 / \text{Sundry Creditors}$$

$$\frac{\text{Average Payables} \times 12}{3,60,000} = 3$$

$$\text{Average Payables} = \frac{3 \times 3,60,000}{12}$$

$$= \text{Rs. } 90,000/-$$

It is assumed that all purchases are on credit basis and average payables are equal to closing payables.

$$\begin{aligned} \text{Closing Payables} &= \text{Closing Sundry Creditors} + \text{Closing Bills Payable} \\ \therefore \text{Closing Sundry Creditors} &= \text{Closing Payables} - \text{Closing Bills Payable} \\ &= 90,000 - 8,000 \\ &= \text{Rs. } 82,000/- \end{aligned}$$

(IV) Sundry Debtors:

$$\text{Debtors' Velocity} = \text{Average Receivables} \times 12 / \text{Credit Sales}$$

$$3 = \text{Average Receivables} \times 12 / 4,60,000$$

$$\text{Average Receivables} = \frac{3 \times 4,60,000}{12}$$

$$= \text{Rs. } 1,15,000/-$$

It is assumed that all sales are on credit basis and average receivables are equal to closing receivables.

$$\begin{aligned} \text{Closing Receivables} &= \text{Closing Sundry Debtors} + \text{Closing Bills Receivables} \\ \therefore \text{Closing Sundry Debtors} &= \text{Closing Receivables} - \text{Closing Bills Receivables} \\ &= 1,15,000 - 10,000 \\ &= \text{Rs. } 1,05,000/- \end{aligned}$$

(V) Closing Stock:

$$\begin{aligned} \text{Stock Velocity} &= (\text{Average Stock} \times 12) / \text{Cost of Goods Sold} \\ 2 &= (\text{Average Stock} \times 12) / (\text{Sales} - \text{Gross Profit}) \end{aligned}$$

$$2 = (\text{Average Stock} \times 12) / (4,60,000 - 1,15,000)$$

$$2 = (\text{Average Stock} \times 12) / 3,45,000$$

$$\text{Average stock} = \frac{2 \times 3,45,000}{12}$$

$$= \text{Rs. } 57,500$$

$$\text{Average Stock} = (\text{opening stock} + \text{closing stock}) / 2$$

$$57,500 = (\text{opening stock} + \text{opening stock} + 15,000) / 2$$

$$1,15,000 = 2 \text{ opening stock} + 15,000$$

$$2 \text{ opening stock} = 1,15,000 - 15,000 = 1,00,000$$

$$\therefore \text{opening stock} = 1,00,000 / 2 = \text{Rs. } 50,000/-$$

$$\therefore \text{closing stock} = \text{Rs. } 50,000 + \text{Rs. } 15,000$$

$$= \text{Rs. } 65,000/-$$

(vi) Fixed Assets:

$$\text{Fixed Assets Turnover} = \frac{\text{Cost of goods sold}}{\text{Net Fixed Assets}}$$

$$2.5 = \frac{\text{Sales} - \text{Gross Profit}}{\text{Net Fixed Assets}}$$

$$2.5 = \frac{4,60,000 - 1,15,000}{\text{Net Fixed Assets}}$$

$$\text{Net Fixed Assets} = 3,45,000 / 2.5$$

$$= \text{Rs. } 1,38,000/-$$

(vii) Proprietary Fund:

$$\text{Capital Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Capital Employed}}$$

$$1.5 = \frac{3,45,000}{\text{Capital Employed}}$$

$$\therefore \text{Capital Employed} = 3,45,000 / 1.5 = \text{Rs. } 2,30,000/-$$

(9)

$$\therefore \text{Share Capital} = \text{Proprietary Fund} - \text{Reserves \& Surplus}$$

$$= \text{Rs. } 2,30,000 - \text{Rs. } 40,000$$

$$\text{Share Capital} = \text{Rs. } 1,90,000$$

Proprietary fund is also Rs. 2,30,000/- as there is no outside loan.

(viii) Bank Balance:

$$(\text{Share Capital} + \text{Reserves \& Surplus} + \text{Sundry Creditors} + \text{Bills Payable})$$

$$- (\text{Fixed Assets} + \text{Stock} + \text{Debtors} + \text{Bills Receivable})$$

$$= \text{Rs. } (1,90,000 + 40,000 + 82,000 + 8,000) - \text{Rs. } (1,38,000 + 65,000 + 1,05,000 + 10,000)$$

$$= \text{Rs. } 3,20,000 - \text{Rs. } 3,18,000$$

$$= \text{Rs. } 2,000/-$$

4.

Profit & Loss Appropriation A/c

Dr.			Cr.
Particulars	Amount Rs.	Particulars	Amount Rs.
To Interest on Capital: @ 5% p.a.		By P & L Corrected Profit	56,000
Weak - 3,750		" Interest on Drawings:	
Able - 2,000		Weak - 500	
Lazy - 1,500	7,250	Able - 190	
		Lazy - 350	1,040
" Share of Profit:			
Weak (2/4) - 24,895			
Able (1/4) - 12,448			
Lazy (1/4) - 12,447	49,790		
	57,040		57,040

Dr. <u>PARTNERS' CURRENT A/Cs</u>								Cr. in Rs.
Particulars	Weak	Able	Lazy	Particulars	Weak	Able	Lazy	
To balance b/d	—	—	5,000	By balance c/d	10,000	5,000	—	
" Drawings	15,000	10,000	10,000	" Interest on Capital	3,750	2,000	1,500	
" Interest on Drawings	500	190	350	" P&L Appropriation	24,895	12,448	12,447	
" Misc. Exps	1,000	—	—	" Balance c/d	—	—	1,403	
" Travellings Exps	—	3,000	—					
" Balance c/d	22,145	6,258	—					
	38,645	19,448	15,350		38,645	19,448	15,350	

Working Notes:

	Rs.
Net Profit	— 60,000
(a) LIC Premium of Weak charged to Misc. Expenditure A/c	— (+) 1,000
(b) Repairs of Machinery debited to Plant A/c	— (-) 10,000
(c) Depreciation @ 20% charged on Machinery	— (+) 2,000
(d) Travelling Expenses of Able debited to Travelling Exps. A/c	— (+) 3,000
Corrected Profit	— <u>56,000</u>