

## INTERMEDIATE EXAMINATION

December 2011

*I-P5(FAC)*  
*Syllabus 2008*

### Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Answer Question No. 1 which is compulsory and any five questions from the rest.*

1. (a) From the four alternative answers given against each indicate the correct answer: 1×10=10
- (i) Which of the following inventory system is based on actual physical verification?
    - (A) Periodic inventory system
    - (B) Perpetual inventory system
    - (C) Both of (A) and (B)
    - (D) None of (A) and (B)
  - (ii) The cost of a Fixed Assets of a business has to be written off over its
    - (A) Natural Life
    - (B) Accounting Life
    - (C) Physical Life
    - (D) Estimated Economic Life
  - (iii) Shortworkings can be recouped out of
    - (A) Minimum rent
    - (B) Excess of actual Royalty over minimum rent
    - (C) Excess of minimum rent over actual Royalty
    - (D) Profit and Loss Account
  - (iv) In Hire Purchase system cash price plus interest is known as
    - (A) Capital value of asset
    - (B) Book value of asset
    - (C) Hire purchase price of asset
    - (D) Hire purchase charges
  - (v) In partnership when a new Partner brings his share of Goodwill in cash, then the amount of such Goodwill will be credited to Partners' capitals as per the following ratio:
    - (A) Old Profit sharing ratio
    - (B) Sacrifice ratio
    - (C) Gain ratio
    - (D) None of the above
  - (vi) The Receipts and Payments Account generally begins with
    - (A) Credit Balance
    - (B) Debit Balance
    - (C) Both Debit and Credit Balance
    - (D) None of the above

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- (vii) Which of the following is a category of Share Capital of a company?
- (A) Authorised Capital
  - (B) Issued Capital
  - (C) Called up Capital
  - (D) All of the above
- (viii) In case of a Banking Company, entries in the Personal Ledger are made from
- (A) Day Book
  - (B) Vouchers
  - (C) Rough Register
  - (D) None of the above
- (ix) When Sales = Rs. 1,80,000, Purchase = Rs. 1,60,000, Opening Stock = Rs. 34,000 and rate of Gross Profit is 20% on cost, the Closing Stock would be
- (A) Rs. 50,000  
(B) Rs. 44,000  
(C) Rs. 46,000  
(D) None of the above
- $$\begin{array}{r} 150000 \times 20\% \\ \hline 30000 \\ 150000 \\ \hline 180000 \end{array} \quad \begin{array}{r} 160000 \\ 34000 \\ \hline 194000 \\ 44000 \\ \hline 150000 \end{array}$$
- (x) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is Rs. 18,000, then the amount of stock reserve on closing stock will be
- (A) Rs. 6,000
  - (B) Rs. 4,500
  - (C) Rs. 9,000
  - (D) None of the above
- (b) State whether the following statements are TRUE (T) or FALSE (F): 1×5=5
- (i) Original cost minus scrap value is the depreciable value of an asset.
  - (ii) Royalty is a Revenue Expenditure to Lessor.
  - (iii) According to AS-2 Inventories are held for sale in normal course of business.
  - (iv) Income and Expenditure Account is prepared by adopting accrual principle of accounting.
  - (v) Advance payment of Tax is shown in the Liabilities side of Balance Sheet.
- (c) Fill in the blanks in the following sentences using the appropriate word from the alternatives indicated:
- (i) Depreciation is an item of \_\_\_\_\_. (gross profit/expenditure) 1×5=5
  - (ii) Compensation paid to employees who are retrenched is \_\_\_\_\_ expenditure (Capital/Revenue)
  - (iii) Receipts and Payment Account is a \_\_\_\_\_ Account in nature. (Real/Nominal)
  - (iv) Unclaimed Dividend appears under the head of \_\_\_\_\_ in the Balance Sheet of a Company. (Deferred Expenditure/Liabilities)
  - (v) According to Insurance Act, the provision required to be made against unexpired risk in fire insurance business is \_\_\_\_\_ per cent. (30/50)

(d) Match the following:

1×5=5

- |             |                                        |
|-------------|----------------------------------------|
| (i) AS-6    | (I) Borrowing costs                    |
| (ii) AS-13  | (II) Consolidated Financial Statements |
| (iii) AS-16 | (III) Depreciation Accounting          |
| (iv) AS-19  | (IV) Accounting for Investments        |
| (v) AS-21   | (V) Leases                             |
|             | (VI) No matching statements found      |

2. (a) For the year ending 31st December, 2011, the Sales, Purchases, Opening Stock and Closing Stock of a Trader was Rs. 5,00,000, Rs. 3,80,000, Rs. 65,000 and Rs. 52,000 respectively. Some goods were destroyed by fire (without realization of any value) during the year. If the Trader earned Gross Profit @ 25% on Sales for the year, calculate the value of goods destroyed by fire. 3

(b) On 1st April, 2009, Nath Ltd. purchased a second-hand Machine for Rs. 1,20,000 and spent Rs. 30,000 on its renewal. On 1st October, 2010, Rs. 3,000 was spent on repairs. On 30th September, 2011 the Machine was sold for Rs. 75,000. Depreciation is to be provided @ 20 per cent per annum according to written down value method.

Prepare Machinery Account reflecting all these transactions assuming Books are closed on 31st March each year. 5

(c) A and B are currently partners in a firm sharing Profit/Loss in the ratio of 4 : 3. A new partner C is admitted and after his admission new profit sharing ratio between A, B and C becomes 5 : 3 : 2. What will be the sacrifice ratio of A and B after admission of C? 2

(d) What do you understand by gradual realisation assets and piecemeal distribution? State the priority that should be followed in piece meal distribution. 5

3. (a) From the following information relating to Evergreen Sports Club, prepare Balance Sheet of the Club as on 1-1-2010 and on 31-12-2010: 10

|                           |        |
|---------------------------|--------|
| (i) Assets as on 1-1-2010 | Rs.    |
| Club Ground               | 80,000 |
| Sports Equipment          | 50,000 |
| Furniture                 | 10,000 |

(ii) Accrued Subscription as on 1-1-2010 was Rs. 2,000.

(iii) Creditor for stationery as on 1-1-2010 was Rs. 1,800.

(iv) Receipts and Payments Account for the year ended 31-12-2010

| Dr.                          | Receipts      | Cr.                     | Payments      |
|------------------------------|---------------|-------------------------|---------------|
|                              | Rs.           |                         | Rs.           |
| To Balance brought down      | 8,000         | By Salaries             | 14,000        |
| Subscription received (2009) | 1,800         | Printing and Stationery | 3,500         |
| -do- (2010)                  | 22,000        | Fire Insurance          | 2,200         |
| -do- (2011)                  | 600           | Advertisement           | 3,000         |
| Sales of old Newspaper       | 500           | Furniture               | 4,000         |
| Rent Received                | 5,800         | Investments             | 21,000        |
| Entrance Fees                | 18,000        | Balance c/d             | 9,000         |
|                              | <u>56,700</u> |                         | <u>56,700</u> |

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Income and Expenditure Account for the year ended 31-12-2010.

| Dr.                                  | Expenditure<br>Rs. | Cr.                    | Income<br>Rs. |
|--------------------------------------|--------------------|------------------------|---------------|
| To Salaries                          | 16,000             | By Subscription        | 24,000        |
| Printing & Stationery                | 2,000              | Entrance Fees          | 9,000         |
| Advertisement                        | 3,000              | Rent                   | 6,000         |
| Audit Fees                           | 800                | Sale of old Newspapers | 500           |
| Fire Insurance                       | 2,000              |                        |               |
| Depreciation:                        |                    |                        |               |
| Equipment                            | 7,000              |                        |               |
| Furniture                            | 1,000              |                        |               |
| Excess of Income over<br>Expenditure | 7,700              |                        |               |
|                                      | <u>39,500</u>      |                        | <u>39,500</u> |

(b) A and B are Partners sharing profits in the ratio of 5 : 3. Following is the Balance Sheet of the Firm on 31-3-2011:

| Balance Sheet as at 31-3-2011 |                 |              |                 |
|-------------------------------|-----------------|--------------|-----------------|
|                               | Rs.             |              | Rs.             |
| Capital:                      |                 | Drawings     |                 |
| A                             | 80,000          | A            | 5,000           |
| B                             | 20,000          | B            | 3,000           |
|                               |                 | Other Assets | 92,000          |
|                               | <u>1,00,000</u> |              | <u>1,00,000</u> |

Profit for the year 2010-11 was Rs. 16,000 and was divided between the Partners as per agreed ratio, but interest on capital @ 5% p.a. and on drawings @ 6% was inadvertently omitted. Interest on drawing may be calculated on an average basis for 6 months.

You are required to pass Journal Entry(ies) to make the adjustments in the Capital accounts of A and B.

4. (a) Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2010. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office. 10

The following are the particulars relating to the transactions of the Kanpur Branch:

|                                              | Rs.           | Rs.      |
|----------------------------------------------|---------------|----------|
| Goods sent to Branch (at cost to H.O.)       |               | 4,50,000 |
| Sales—Cash                                   |               | 2,10,000 |
| —Credit                                      |               | 3,20,000 |
| Cash collected from Debtors                  |               | 2,85,000 |
| Return from Debtors                          |               | 10,000   |
| Discount Allowed                             |               | 8,500    |
| Cash sent to Branch for Freight              | 30,000        |          |
| for Salaries                                 | 8,000         |          |
| for other expenses                           | <u>12,000</u> | 50,000   |
| Spoiled clothes written off at invoice price |               | 10,000   |
| Normal loss estimated at                     |               | 15,000   |

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch.

Handwritten calculation:  
 $4,50,000 \times 25\%$   
 $= 1,12,500$   
 $4,50,000 + 1,12,500 = 5,62,500$

- (b) The following information for the year ended 31st March, 2011 is available for Seva Bank Ltd.:

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|                              | Rs.       | Rs.         |
|------------------------------|-----------|-------------|
| Standard Assets              |           | 5,50,00,000 |
| Sub-standard Assets          |           | 31,50,000   |
| Doubtful Assets but secured— |           |             |
| Up to one year               | 29,00,000 |             |
| One to three years           | 17,00,000 |             |
| More than three years        | 7,00,000  | 53,00,000   |
| Loss Assets                  |           | 21,00,000   |

You are required to ascertain the amount of provision required to be made by the Bank.

5. (a) The following balances are appearing in the Books of All Xerox Ltd. on 1-4-2011:

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|                                                             | Rs.      |
|-------------------------------------------------------------|----------|
| Redeemable Preference Share Capital (Shares of Rs. 10 each) | 2,00,000 |
| Calls-in-Arrear                                             | 2,000    |
| General Reserve                                             | 1,00,000 |
| Share Premium                                               | 5,000    |

The preference shares are fully called up and due for redemption at a premium of 10%. Calls-in-Arrear are in respect of final call at the rate of Rs. 4 per share and these shares are held by Mr. Rahul whose whereabouts are not known.

The Board of Directors decided that 50% of the General Reserve is to be utilized for the purpose of redemption of redeemable preference share capital and to meet the further requirement of funds, further 14,500 numbers of equity shares of Rs. 10 each were issued at a premium of 20%.

The redemption of preference shares were duly carried out and subsequently the company utilized the balance of Capital Redemption Reserve Account to issue equity shares at Rs. 10 each as bonus to shareholders.

You are required to show necessary journal entries in the Books of All Xerox Ltd.

- (b) Discuss some important provisions of the Banking Regulation Act, 1949 regarding disposal of Non-Banking Assets u/s 9 of the Act.

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6. (a) On April 1, 2008 Chandra Transport Company purchased a mini truck from S. K. Motors on hire purchase system. The terms were that they would pay Rs. 1,00,000 down on same date and the balance was payable in three annual instalments. First instalment amounted to Rs. 74,000 was payable on 31-3-2009, second Rs. 93,000 on 31-3-2010 and third Rs. 84,000 on 31-3-2011. Interest is charged @ 12% per annum. Rate of depreciation is 20% on written down value.

You are required to calculate the total cash price and prepare, (i) S. K. Motors Account; and (ii) Mini-Truck Account in the Books of Chandra Transport Company.

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- (b) Distinguish between Hire Purchase System and Instalment Payment System. 4
- (c) Give the journal entries to rectify or adjust the following in the books of the Head Office: 5
- Goods purchased by branch Rs. 7,500 but payment made by Head Office. The Head Office has wrongly debited this amount to its own purchases account.
  - Branch paid Rs. 6,500 as salary to a visiting Head Office official. The Branch has debited the amount to salaries account.
  - Depreciation Rs. 11,250 in respect of Branch Shop whose account is kept in Head Office Books.
  - Expenses Rs. 5,600 to be charged to the Branch for work done on its behalf by the Head Office.
  - Goods sent by the Head Office to Branch Rs. 25,000 not yet received by the Branch.
7. (a) State the various limitations of Ratio Analysis (mention at least 5 points). 5
- (b) Using the following information, complete the Balance Sheet of Shekhar Ltd. as on 31st March, 2011: 7
- Sales Rs. 36,00,000
  - Gross Profit Ratio 25%;
  - Total Assets Turnover: 3 times
  - Fixed Assets Turnover: 5 times
  - Current Assets Turnover: 7.5 times
  - Inventory Turnover: 20 times
  - Debtors' Turnover: 18 times
  - Current Ratio 1.8 : 1
  - Total Assets/Net worth—2.25 : 1
  - Debt (long term)—Equity 0.75:1

Turnover ratios are based on cost of goods sold except Debtors' turnover

Balance Sheet as on 31st March, 2011

| Liabilities         | Amount<br>Rs. | Assets              | Amount<br>Rs. |
|---------------------|---------------|---------------------|---------------|
| Equity (net worth)  |               | Fixed Assets        |               |
| Long term Debt      |               | Current Assets      |               |
| Current liabilities |               | Inventories         |               |
|                     |               | Debtors             |               |
|                     |               | Cash in hand & bank |               |

- (c) Classify the following expenditures into Capital Expenditure and Revenue Expenditure: 3
- Expenses on a foreign tour to purchase a machinery
  - Annual maintenance fee of a machine
  - Money spent to reduce working cost
  - Compensation paid to workers under voluntary retirement scheme
  - Legal expenses to recover dues from customers
  - Salaries paid to Engineering staff in erecting a machine

8. Write short notes on *any three*:

3×5=15

- (a) Earning per share (AS 20);
  - (b) Sources for payment of Dividend;
  - (c) Conditions for buy back of shares;
  - (d) Managerial Remuneration;
  - (e) Money measurement concept.
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