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 of the following cases, indicate the correct answer: 1×10=10

(i) The situation when the number of shares applied for is less than the number of shares offered is termed as

(A) Minimum subscription
(B) Under subscription
(C) Over subscription
(D) None of the above

(ii) Realisation account is opened at the time of

(A) Admission of a new partner
(B) Retirement of a partner
(C) Dissolution of the Firm
(D) In all the above situations

(iii) In the hire purchase system interest charged by vendor is calculated on the basis of

(A) Outstanding Cash Price
(B) Hire Purchase Price
(C) Instalment amount
(D) None of the above

(iv) Bad debts are apportioned among departments in the proportion of

(A) Sales of each department
(B) Number of units sold by each department
(C) Cost of sales of each department
(D) None of the above

(v) The following account has a credit balance

(A) Plant and Equipment A/c
(B) Purchase Returns A/c
(C) Purchase A/c
(D) None of the above

(vi) Actuarial valuation relates to

(A) Banking Company
(B) Electric Supply Company
(C) Insurance Company
(D) None of the above

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(vii) The amortisation of amount of software commences from the date when it is
- (A) Available for use
- (B) Put to use
- (C) Developed upto 75%
- (D) None of the above

(viii) A non-performing asset is
- (A) Money at call and short notices
- (B) An asset that ceases to generate income
- (C) Cash balance with Bank
- (D) None of the above

(ix) When prior period expenditure is paid subsequently and for which no provision was made earlier, the accounting entry would be
- (A) Debit expenditure
- (B) Debit prior period expenditure
- (C) Debit deferred reveneu expenditure
- (D) None of the above

(x) In the case of non-profit organisation donations received by the organisation are reflected in
- (A) Income and Expenditure Account
- (B) Capital Account
- (C) Receipts and Payments Account
- (D) None of the above

(b) State whether the following statements are TRUE (T) or FALSE (F): 1×5=5

(i) When the shareholder cannot pay call moneys for the shares allotted he can return the shares which is called as surrender of shares.

(ii) Reserve for unexpired risk is applicable for Banking companies.

(iii) Rebate on bills discounted is disclosed in the balance sheet of a Banking company in the assets side as representing the rebate not yet matured.

(iv) Double account system is applicable for electricity companies.

(v) Liquid assets plus stock in trade is called current assets.

(c) Fill up the blanks in the following sentences using appropriate word from the alternatives indicated: 1×5=5

(i) Net worth ratio means share holders funds divided by total assets excluding ____________ (fictitious assets/prepaid expenses).

(ii) When the cost of byproduct cannot be ascertained separately it should be valued at ____________ (sale price/net realisable value).

(iii) Errors in principle ____________ affect tallying Balance Sheet (does/does not).

(iv) In case of instalment sale ownership passes at the time of ____________ (sale/payment of last instalment).

(v) Solvency ratio means total liabilities divided by ____________ (total assets/shareholders funds).

(d) Match the following: 1×5=5

(i) AS–3	(A) Depreciation Accounting
(ii) AS–6	(B) Cash flow statement
(iii) AS–9	(C) Borrowing cost
(iv) AS–16	(D) Revenue recognition
(v) AS–22	(E) Accounting for tax on income
	(F) No matching statement found

2. (a) Priya Sales Corporation of Jaipur has a Branch at Kota to which goods are sent @ $33\frac{1}{3}$% above cost. The Branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the Branch has to remit all cash received into the Head Office Bank Account at Kota.

Following further details are given for the year ended 31st March, 2012:

		(₹)
Goods sent to Branch at invoice price		18,00,000
Goods returned by Branch at invoice price		20,000
Stock at Branch on 1.4.2011 (at invoice price)		2,40,000
Branch Debtors on 1.4.2011		2,15,000
Sales during the year:	Cash	5,80,000
	Credit	11,40,000
Cash received from Branch debtors		10,45,000
Discount allowed to by Branch to debtors		14,800
Bad debts		9,200
Sales return at Kota Branch		25,000
Salaries and wages at Branch		1,80,000
Rent, Rates and Taxes at Branch		42,000
Sundry expenses at Branch		15,000
Stock at Branch on 31.3.2012 at invoice price		3,60,000

You are required to show Branch Stock Account, Branch Adjustment Account, Branch Expenses Account, Branch Debtors Account, Branch Goods sent to Branch Account and Branch Profit & Loss Account in the books of the Head Office. 8

(b) State the criteria which should be fulfilled by a depreciable asset as per AS–6. 3

(c) Toly Enterprise ordered 10000 units of material X at ₹ 135 per unit. The purchase price includes excise duty @ ₹ 8 per unit, in respect of which full CENVAT Credit is admissible. Freight incurred amounted to ₹ 88,500. Normal transit loss is 5%. The enterprise actually received 9400 units and consumed 8500 units.

You are required to ascertain the value of inventory as per AS–2. 4

3. (a) Income and Expenditure Account and the Balance Sheet of Nav Bharat Club are as under:

Income and Expenditure Account for the year ending 31st March, 2012

Expenditures		Amount (₹)	Incomes	Amount (₹)
To Upkeep of Ground		21,000	By Subscription	56,640
To Printing & Stationery		2,800	By Sale of old newspapers	530
To Salaries		28,000	By Lectures	8,000
To Depreciation:			By Entrance Fee	2,900
Ground & Building	9,000		By Misc. Incomes	1,200
Furniture	1,000	10,000		
To Repairs		3,500		
To Surplus		3,970		
		69,270		69,270

Balance Sheet as at 31st March, 2012

Liabilities		Amount (₹)	Assets		Amount (₹)
	(₹)			(₹)	
Capital Fund:			Ground & Building		1,43,200
Opening Balance	1,56,430		Furniture		9,000
Add: Entrance Fee	2,900		Sports Prize Fund:		
Add: Surplus	3,970	1,63,300	Investment	43,000	
Sports Prize Fund:			Subscription	2,600	
Opening Balance	51,000		Cash and Bank	19,400	65,000
Add: Interest	4,500				
	55,500				
Less: Prizes	6,500	49,000			
Outstanding Salary		4,200			
Subscription in Advance		700			
		2,17,200			2,17,200

The following adjustments have been made in the above accounts:

(i) Upkeep of ground ₹ 1,500 and printing and stationery ₹ 510 relating to 2010-2011 were paid in 2011-12.

(ii) One-half of entrance fee has been capitalised.

(iii) Subscription outstanding in 2010-11 was ₹ 3,100 and for 2011-12 ₹ 2,600.

(iv) Subscription received in advance in 2010-11 was ₹ 1,100 and in 2011-12 for 2012-13 ₹ 700.

(v) Outstanding salary on 31.3.2011 was ₹ 3,600.

Prepare Receipts and Payments Account for the year ended on 31st March, 2012. 8

(b) Chinu and Co. sells goods on hire purchase at cost plus 60 percent. Prepare Hire Purchase Trading Account from the following information for the year ending 31st March, 2012: 4

		₹
1.4.2011	Stock with customers at hire purchase price	96,000
31.3.2012	Sale of hire purchase goods during the year at hire purchase price	5,68,000
31.3.2012	Cash received from hire purchase customers	2,65,000
31.3.2012	Stock with customers' at hire purchase price	3,64,000

(c) Cochin Coals Ltd. holds a lease of coal mine for 20 years. It sub-leased a part of the coal mine to Dhanbad Coals Ltd. The details of output in tons are given below: 3

Year	Cochin Coals (Tons)	Dhanbad Coals (Tons)
2009-10	10,000	4,000
2010-11	12,000	7,000
2011-12	14,000	8,000

As per lease, Cochin Coals has to pay ₹ 100 per ton and a minimum rent being ₹ 15,00,000. Dhanbad Coals had to pay ₹ 120 per ton to Cochin Coals by way of royalty.

Show Royalty Account in the books of Cochin Coals Ltd. for the said 3 years reflecting both Royalty receivable from Dhanbad Coals and Royalty payable to the Landlord.

4. (a) Ashok & Bala who where in partnership sharing 7/12 and 5/12 respectively admitted Chand as a partner giving him 1/5th share from 01.04.2011. The new profit sharing ratio is 7 : 5 : 3. Chand brought ₹ 96,000 towards goodwill to be shared by Ashok & Bala in their sacrificing ratio. The amount so brought was however credited to Chand's capital account by mistake.

The Trial Balance of the firm as on 31st March, 2012 is given below:

	Dr. (₹)	Cr. (₹)
Ashok's capital		3,36,000
Bala's capital		2,40,000
Chand's capital		2,24,000
Sundry Creditors		48,000
Current year profit		2,20,000
Other Assets	7,70,000	
Ashok's drawing	1,45,600	
Bala's drawing	1,04,000	
Chand's drawing	20,400	
Cash in hand	28,000	
Total:	10,68,000	10,68,000

Interest on drawings is to be ignored but interest on capital is to be charged at 5% per annum which was not made so far. Prepare new Balance Sheet as at 31.03.2012 giving effect to above adjustments/omissions. 8

(b) Sachin & Ganguly are partners of a firm SG & Co. From the following information calculate the value of goodwill by super profit method and capitalization method: 5

(i) Average capital employed in the business ₹ 5,00,000.
(ii) Net trading profit of the firm for the last three years ₹ 1,50,000; ₹ 1,70,000 and ₹ 1,90,000.
(iii) Rate of return expected from capital having regard to risk involved @ 15% per annum.
(iv) Goodwill to be valued at 2 years' purchase.

(c) Mr. X is owner of a Cinema Hall. He spent a heavy amount for complete renovation of the hall, for installation of air-condition machines and for sitting arrangement with cushion seats. As a result the revenue has been doubled. He also spent for few more doors for emergency exit.

State your opinion about the treatment of the entire expenditure. 2

5. (a) Khelaram commenced a contract on 01.07.2011. The price agreed for the contract was ₹ 8,00,000. At the end of the year on 30.06.2012, the contract was in advance stage of completion and it was decided to arrive at the notional profit on the basis of the total contract. The contract is expected to be completed by the end of December, 2012. Actual expenditure for the years 2011-12 and 2012-13 till December, 12 are as under:

Expenditure	Actual till 30.06.2012 (₹)	Estimated for 2012-13 (upto Dec., 2012) (₹)
Materials	2,00,000	70,000
Labour	90,000	25,000
Plant purchased (at original cost)	60,000	—
Miscellaneous expenses	30,000	6,000
Plant returned to store on 30.06.2012 (original cost)	12,000	—
Plant returned to store on 31.12.2012 (original cost)	—	24,000
Materials at site	8,000	Nil
Work certified	6,00,000	8,00,000
Work uncertified	20,000	Nil
Cash received	5,80,000	8,00,000

Charge depreciation at 20% p.a. on plant on straight line basis.

You are asked to prepare the Contract Account for the year ended 30.06.2012. 10

(b) The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31.03.2012 at ₹ 75,00,000 before taking into account the following items:

A.	Claims covered Under Re-insurance	₹ 3,15,000
B.	Income Tax on the above	₹ 35,000
C.	Bonus in reduction of Premium	₹ 4,25,000
D.	Dividend from Investment	₹ 3,20,000
E.	Claims intimated but not yet admitted	₹ 8,15,000
F.	Outstanding Premium	₹ 25,000

Compute the Life Insurance Fund on 31.03.2012 after taking into account the above omission. 5

6. (a) The following was the Balance Sheet of Wonder World Ltd. as at 31.03.2012:

(₹ in lakhs)

Liabilities		Assets	
1 lakh Equity Shares of ₹ 10 each fully paid	10.00	Plant & Machinery	13.50
Securities Premium	3.50	Furniture	2.40
General Reserves	3.10	Investments	1.80
Profit & Loss Account	1.10	Stock	7.20
14% Debentures	7.50	Sundry debtors	2.30
Sundry creditors	5.00	Bank	3.00
	30.20		30.20

On 01.04.2012, the company decided to buy-back 20% of its equity shares at a premium of ₹ 10 per share. For this purpose, the company sold its entire investments for ₹ 2.30 lakhs and issued 15000, 12% Preference shares of ₹ 100 each at par. The amount payable was ₹ 60 on application and ₹ 40 on allotment. The issue was fully subscribed. Thereafter the company issued bonus shares of ₹ 10 at the rate of one bonus share for every five equity shares held by the equity shareholders.

Show Journal entries and Balance Sheet after the above transactions were completed. 10

(b) The total of debit side of the Trial Balance of Lotus Stores as at 31.03.2012 is ₹ 3,65,000 and that of the credit side is ₹ 2,26,000.

After checking, the following mistakes were discovered:

Items of account	Correct figures (as it should be) (₹)	Figures as it appears in the Trial Balance (₹)
Opening stock Dr.	15,000	10,000
Rent and rates Cr.	36,000	63,000
Sundry creditors Cr.	81,000	18,000
Sundry debtors Dr.	1,04,000	1,58,000

Ascertain the correct total of the Trial Balance. 5

7\. (a) You are provided with the following information for a company for the year ending on a certain date:

Annual Sales (all credit)	₹ 36,00,000
Sales to Net worth	2.5 times
Total Debts to Net worth	80%
Current liabilities to Net worth	25%
Current Ratio	3 : 1
Inventory Turnover Ratio (based on sales)	6 times
Average collection period	40 days in a year of 360 days
Fixed Assets to Net worth	1.05 : 1
Share Capital to Reserves and Surplus	1 : 0.8

Prepare the Balance Sheet as on that date based on above information. 10

(b) Dut to inadequacy of profit during the year 2011-12, Jatin Limited proposes to declare dividend out of general reserve. Following particulars are given to you:

	(₹ in lakhs)
9 percent Preference Shares of ₹ 100 each fully paid	1,100
Equity Shares of ₹ 10 each fully paid	5,000
General Reserve	1,605
Capital Reserve on revaluation of assets	185
Securities Premium	210
Profit and Loss Account (out of which current year net profit is ₹ 255 lakhs)	280

Average rate of dividend during the last five years is 16%.

You are required to ascertain the amount that can be drawn for dividend applying the Companies (Declaration of Dividend out of Reserves) Rules, 1975. 5

8\. Write short notes on (*any three*): 5×3=15

(a) Sources for payment of Dividend;

(b) Shortworkings and recoupment of shortworkings;

(c) Accounting convention of consistency;

(d) Contingent liability;

(e) Classification of Branches for Branch accounting purpose.