Question Paper

Financial Accounting (CFA510): October 2008

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

Total Marks : 100

1. Ex-post income means <Answer>

(a) Gross sales less returns
(b) The profit which is disclosed in profit and loss account
(c) Capital at the end of the period less capital at the beginning of the period
(d) Original expectation of expected future cash flows at the end of the period less original expectation of expected future benefits at the beginning of the period
(e) Revised expectation of expected future cash flows at the end of the period less original expectation of expected future benefits at the beginning of the period. **(1 mark)**

2. Who among the following is considered as an external user of financial statements? <Answer>

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

3. Under cash basis of accounting, revenue is recognized when <Answer>

(a) Goods are sold
(b) Cash is received
(c) Goods are delivered
(d) Services are rendered
(e) Sales are accounted. **(1 mark)**

4. The categorization of assets into 'fixed' and 'current', presupposes which of the following accounting concepts? <Answer>

(a) Business entity concept
(b) Going concern concept
(c) Money measurement concept
(d) Conservatism concept
(e) Duality concept. **(1 mark)**

5. Which of the following will **not** appear under the head 'Miscellaneous Expenditure' in the balance sheet of a company? <Answer>

(a) Preliminary expenses to the extent not written off
(b) Interest paid out of capital during construction
(c) Discount allowed on issue of shares and debentures
(d) Development expenditure not adjusted
(e) Loss on sale of fixed assets. **(1 mark)**

6. Which of the following items **cannot** be shown as reserves and surplus? <Answer>

(a) Gain on revaluation of assets
(b) Premium on issue of shares
(c) Accumulated retained earnings
(d) Capital redemption reserve
(e) Proposed dividends. **(1 mark)**

7. Different valuation bases are used in accounting and in this context, present value means <Answer>

(a) The amount paid or payable to acquire a benefit
(b) The amount that needs to be paid if the asset is to be acquired currently
(c) The present discounted value of future inflows that an item is expected to generate in the normal course of business
(d) The net amount collectible in the event of the asset's disposal
(e) The amount paid or payable to lose a benefit. **(1 mark)**

8. Accounting does **not** record non-financial transactions due to <Answer>

(a) Cost concept
(b) Money measurement concept
(c) Going concern concept
(d) Business entity concept
(e) Accounting period concept. **(1 mark)**

9. Which of the following is **not** a use of fund? <Answer>

(a) Acquiring assets
(b) Incurring expenses
(c) Incurring losses
(d) Incurring liabilities
(e) Paying dividends. **(1 mark)**

10. Which of the following transactions results in an increase in the owners' equity? <Answer>

(a) Sale of fixed assets at book value
(b) Earning revenue income
(c) Borrowing additional loans
(d) Sale of investments at book value
(e) Purchase of fixed assets. **(1 mark)**

11. Which of the following accounting concepts enables comparison of financial statements over a period of time? <Answer>

(a) Cost concept
(b) Consistency concept
(c) Materiality concept
(d) Money measurement concept
(e) Accounting period concept. **(1 mark)**

12. The rule applicable to real accounts is <Answer>

(a) Debit what comes in and credit what goes out
(b) Debit the receiver and credit the giver
(c) Debit all expenses and losses and credit all incomes and gains
(d) Debit the giver and credit the receiver
(e) Debit what goes out and credit what comes in. **(1 mark)**

13. The withdrawal of cash from the bank for office use will figure in both bank and cash columns of a cash book. Such entries that figure in both bank and cash columns of a cash book are called <Answer>

(a) Contra entries
(b) Continuous entries
(c) Credit entries
(d) Contingent entries
(e) Adjusting entries. **(1 mark)**

14. If the dividend proposed exceeds 12.5% but not 15% of the paid-up capital, the prescribed percentage of profits to be transferred to general reserve is <Answer>

(a) 2.5% of the current profits
(b) 5.0% of the current profits
(c) 7.5% of the current profits
(d) 10.0% of the current profits
(e) 12.5% of the current profits. **(1 mark)**

15. In the books of Vadilal Ltd., it was found that Rs.460 paid for freight on machinery purchased on October 01, 2007 was debited to Freight account as Rs.640. The company has a policy of providing depreciation of 10% per annum on straight-line method. If they closed their books pertaining to 2007-08 and prepared the final accounts for the period, the entry required to rectify the mistake is

<Answer>

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

(2 marks)

16. Which of the following subsidiary books serves the purpose of ledger, in addition to the recording of accounting transactions?

<Answer>

(a) Purchases book
(b) Sales book
(c) Bills receivable book
(d) Cash book
(e) Journal proper.

(1 mark)

17. A Journal Proper is **not** used to record

<Answer>

(a) Rectification entries
(b) Closing entries
(c) Receipt of interest on securities
(d) Purchase of fixed assets on credit
(e) Sale of fixed assets on credit.

(1 mark)

18. Mr. Mukherjee started business with Rs.20,000 on April 01, 2007. During the year 2007-08, he borrowed Rs.10,000 from Mr. Dutta. He introduced a further sum of Rs.20,000 in the business. He also gave Rs.5,000 as a loan to his son. Profits earned by him during the year 2007-08 were Rs.25,000. He also withdrew Rs.3,000 from the business. His capital as at March 31, 2008 was

<Answer>

(a) Rs.50,000
(b) Rs.40,000
(c) Rs.62,000
(d) Rs.48,000
(e) Rs.55,000.

(2 marks)

19. If the difference in trial balance is transferred to Suspense a/c, what will be the Suspense a/c balance due to the following errors?

<Answer>

i. Debited Purchases a/c Rs.6,500 for office furniture purchased.
ii Debited Bansal's a/c and Salary a/c Rs.3,000 each for salary paid to him.
iii. Debited D.Gupta & Co.'s a/c Rs.7,350 for goods purchased from them on credit.
iv. Credited M/s Roy & Co., a/c Rs.100 for cash discount allowed by them.

(a) Rs.16,750
(b) Rs.10,250
(c) Rs.17,500
(d) Rs.24,200
(e) Rs.24,100.

(2 marks)

20. Which of the following errors will **not** cause a mismatch of totals of debit and credit columns in the trial balance? <Answer>

(a) An entry of Rs.590 to be posted in A.N. Chopra's account was posted to the correct side in N.C. Chopra's account

(b) A purchase of Rs.2,600 was entered in the purchases book as Rs.2,060 and credit to the supplier's as Rs.2,600

(c) The sales day book was overcast by Rs.2,000

(d) A total of Rs.5,915 in conveyance account was carried to the next page as Rs.5,951

(e) Sale of Rs.6,550 to Mr. Ramesh was posted in purchases account. **(1 mark)**

21. Cash sales of Rs.3,550 was posted in sales a/c as Rs.3,505. The rectification entry to be passed, if the error was discovered after the preparation of trial balance, is <Answer>

			Rs.	Rs.
(a)	Cash account	Dr.	45	
	To Sales account			45
(b)	Suspense account	Dr.	45	
	To Sales account			45
(c)	Cash account	Dr.	45	
	To Suspense account			45
(d)	Suspense account	Dr.	3,550	
	To Sales account			3,550
(e)	Sales account	Dr.	45	
	To Cash account			45.

(1 mark)

22. Which of the following statements is **true** in respect of a trial balance? <Answer>

(a) It has statutory importance from the view point of law

(b) It is a statement of assets and liabilities of a company

(c) It reveals the profit or loss of a company during a period

(d) It is a summary of the balances of all real, personal and nominal accounts

(e) It reveals the financial position of a company. **(1 mark)**

23. The following information is furnished by Avanthi Ltd., for the year 2007-08: <Answer>

Opening balance of provision for bad debts	Rs.1,000.
Opening balance of provision for discount on debtors	Rs.500.
Closing balance of Debtors on March 31, 2008	Rs.3,00,000.

Other details are:

i. Debtors included Rs.5,000 in respect of a machinery sold on February 28, 2008.

ii. A credit sale of Rs.3,100 to a customer on March 31, 2008 was posted in the sales book as Rs.1,300.

iii. Cash discount allowed amounting to Rs.300 on sale effected on March 1, 2008 had been omitted.

iv. Provision for discount on debtors @ 1% and provision for doubtful debts @ 2% are to be maintained.

Based on the above information, the amount of gross balance of Sundry debtors as on March 31, 2008 was

(a) Rs.3,00,000

(b) Rs.2,96,500

(c) Rs.3,05,000

(d) Rs.2,94,700

(e) Rs.3,01,800. **(2 marks)**

24. If the repairs incurred on machinery is debited to machinery account, the entry is an example of <Answer>

(a) Compensating error

(b) Error of principle

(c) Error of commission

(d) Error of omission

(e) Error of partial omission. **(1 mark)**

25. Cash discount of Rs.93 allowed to Mohan has been credited to Morin's a/c as Rs.39. The error will be rectified by <Answer>

(a) Debiting Morin's a/c with Rs.39 and crediting Mohan's a/c with Rs.39
(b) Debiting Discount a/c with Rs.93 and crediting Mohan's a/c with Rs.93
(c) Debiting Discount a/c with Rs.54, Morin's a/c with Rs.39 and crediting Mohan's a/c with Rs.93
(d) Debiting Morin's a/c with Rs.39, debiting Suspense a/c with Rs.54 and crediting Mohan's a/c with Rs.93
(e) Debiting Suspense a/c with Rs.93 and crediting Mohan's a/c with Rs.93.

(1 mark)

26. Which of the following errors is **not** disclosed by the trial balance? <Answer>

(a) Wrong totaling in a subsidiary book
(b) Wrong calculation of closing balance in a ledger account
(c) Partial omission of an entry
(d) Posting of an aspect of a transaction on the correct side of a wrong account
(e) Balances of ledger accounts are wrongly transferred to the trial balance.

(1 mark)

27. The following data is extracted from the books of Alex Ltd., for the month of September 2008: <Answer>

Particulars	As on September 01, 2008 (Rs.)	As on September 30, 2008 (Rs.)
Sundry creditors	80,000	1,00,000

The company makes all its purchases on credit. During the month of September 2008, the company paid a sum of Rs.7,20,000 to the suppliers.

The amount of credit purchases for the month of September 2008 was

(a) Rs.8,80,000
(b) Rs.8,20,000
(c) Rs.7,40,000
(d) Rs.2,10,000
(e) Rs.7,20,000.

(1 mark)

28. Consider the following extract of Trial Balance of Versetek Ltd., as on March 31, 2008: <Answer>

Particulars	Rs.
Share Capital	5,76,900
12% Bank loan	1,50,000
Sundry creditors	50,000
Bills payable	10,000
Land & building	4,36,000
Cash at bank	23,500
Office equipment	1,99,700
Furniture	2,00,000
Closing stock	38,000
Bills receivable	9,000
Sundry debtors	55,000
Petty cash	210
Cash on hand	9,400

For the year ending March 31, 2008, the following adjustments were effected:

- Depreciation on – Office equipment: Rs.19,970; Furniture: Rs.30,000.
- Reserve for discount on Sundry creditors is Rs.720. Provision for discount on Sundry debtors is Rs.779.
- Sundry creditors include a debt of Rs.8,000 due to Mr. Madhukar who is also in the list of Sundry debtors for the same amount.
- Accrued commission receivable amounted to Rs.13,000 and Prepaid printing charges aggregated to Rs.1,850; Accrued interest on bank loan was Rs.15,000.
- After effecting the adjustments, the net profit was Rs.1,33,731.

The total of Balance Sheet of the company as at March 31, 2008 was

(a) Rs.9,36,911
(b) Rs.9,27,631
(c) Rs.9,26,911
(d) Rs.9,13,911
(e) Rs.9,26,970.

(2 marks)

29. The following data is extracted from the books of Rupa Ltd., for the year 2007-08: <Answer>

Particulars	Rs.
Cash in hand as on April 1, 2007	75,000
Sundry debtors as on April 1, 2007	1,30,000
Sundry debtors as on March 31, 2008	2,00,000
Bad debts written-off	10,000
Cash sales during the year	8,00,000
List price of goods sold on credit	10,00,000
Payments for various expenses during the year	10,00,000
Prepaid expenses as on April 1, 2007	2,00,000
Trade discount allowed (on list price)	20%
Cash discount allowed (on net credit sales)	2.5%

The balance of cash in hand as on March 31, 2008 was

(a) Rs. 9,75,000
(b) Rs. 7,75,000
(c) Rs. 5,75,000
(d) Rs. 7,70,000
(e) Rs. 5,70,000. **(2 marks)**

30. The balances of prepaid insurance of a company as on March 31, 2007 and March 31, 2008 were Rs.40,320 and Rs.32,720 respectively. If the insurance paid by the company during the year 2007-08 was Rs.1,20,000, then the total insurance expenditure incurred during the year was <Answer>

(a) Rs.1,60,320
(b) Rs.1,52,720
(c) Rs.1,27,600
(d) Rs.1,20,000
(e) Rs.1,13,400. **(2 marks)**

31. The accountant of ASK Ltd., reported a profit of Rs.9,75,000 for the year ended March 31, 2008. On scrutiny, the following errors were noticed: <Answer>

- Building rent of Rs.2,250 per month was paid up to January 2008. Rent debited to Profit and Loss account was Rs.22,500.
- Sales book was overcast by Rs.30,000.
- Rs.30,000 paid for the repair of second hand machinery purchased, to bring it to the working condition, was debited to Repairs and Maintenance as Rs.3,000.
- Ignore depreciation on second hand machinery.

The correct net profit earned by the company for the year ended March 31, 2008 was

(a) Rs.9,43,500
(b) Rs.9,73,500
(c) Rs.9,48,000
(d) Rs.9,37,500
(e) Rs.9,70,500. **(2 marks)**

32. Which account should be debited for the costs incurred prior to the incorporation of a company? <Answer>

(a) Share capital
(b) General administrative expenses
(c) Preliminary expenses
(d) Profit and loss appropriation account
(e) Legal expenses. **(1 mark)**

33. The expenditure which contributes income or benefit in future years is classified as <Answer>

(a) Revenue expenditure
(b) Operating expenditure
(c) Administrative expenditure
(d) Deferred expenditure
(e) Selling and distribution expenditure. **(1 mark)**

34. Which of the following is **false** with reference to treatment of adjustments for expenses and incomes in the balance sheet? <Answer>

(a) Outstanding liabilities for expenses are shown on liabilities side
(b) Prepaid expenses are shown on assets side
(c) Income received in advance is shown on liabilities side
(d) Income accrued but not due is shown on liabilities side
(e) Income earned but not received is shown on assets side.

(1 mark)

35. Which of the following is the correct response to indicate the impact on assets, owner's equity and total liabilities of a firm on account of personal drawings by proprietor? <Answer>

	Assets	Owner's equity	Total Liabilities
(a)	No effect	No effect	Decreases
(b)	Decreases	No effect	Increases
(c)	Decreases	Decreases	Decreases
(d)	No effect	Decreases	Increases
(e)	Increases	Decreases	Increases.

(1 mark)

36. Goods sent to customers on 'sale or return basis' can be treated as sales <Answer>

(a) After 7 days from the date of dispatch of goods
(b) After 3 days from the date of dispatch of goods
(c) If the goods are not returned within 15 days
(d) After getting a confirmation from the customer
(e) After getting a part payment.

(1 mark)

37. Which of the following statements is **false** with respect to cash book? <Answer>

(a) Credit side of cash book records cash paid to the creditors in cash column and discount received in the discount column
(b) Cheques received and sent to bank for collection on the same day will be entered in bank column of the cash book
(c) A separate cash account is compulsorily required to be opened in the ledger, even when a cash book is maintained
(d) Cash received from debtors is recorded in cash column and discount allowed in the discount column on the debit side of the cash book
(e) The discount columns in a three column cash book are simply totaled and not balanced.

(1 mark)

38. On April 01, 2007, the books of Alex Ltd., showed that one month's office rent was outstanding. From October 01, 2007, the rent was raised from Rs.14,000 per month to Rs.15,000 per month. On March 31, 2008, rent for two months was outstanding. During the year 2007-08, the cash payments made by the company, on account of office rent, amounted to <Answer>

(a) Rs.2,18,000
(b) Rs.1,88,000
(c) Rs.1,74,000
(d) Rs.1,58,000
(e) Rs.1,60,000.

(2 marks)

39. Which of the following is **false** in respect of a Balance-Sheet? <Answer>

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

(1 mark)

40. Consider the following data pertaining to a VCD dealer: <Answer>

Date	Receipts (Qty.)	Rate per unit (Rs.)	Issues (Qty.)
October 01, 2008	10	4,500	–
October 03, 2008	10	4,800	–
October 04, 2008	–	–	15
October 05, 2008	5	5,000	–
October 06, 2008	5	5,500	–

The value of closing inventory as on October 06, 2008, under First-in First-out (FIFO) method is

(a) Rs.52,500
(b) Rs.49,000
(c) Rs.76,500
(d) Rs.27,500
(e) Rs.73,000. **(2 marks)**

41. The total cost of goods available for sale with a company during the current year is Rs.12,00,000 and the total sales during the period are Rs.13,00,000. If the gross profit is 33⅓% on cost, the closing inventory during the current year is <Answer>

(a) Rs.4,00,000
(b) Rs.3,40,000
(c) Rs.2,25,000
(d) Rs.1,60,000
(e) Rs.1,00,000. **(1 mark)**

42. In a manufacturing company, which of the following is also called product costing system? <Answer>

(a) Perpetual inventory system
(b) Periodic inventory system
(c) Accrual system
(d) Weighted average method
(e) Specific identification method. **(1 mark)**

43. In relation to price, the phrase *markon* means <Answer>

(a) The first selling price at which goods are offered
(b) The selling price raised above the original selling price
(c) Difference between the cost and the original selling price, plus any net markups
(d) Difference between the cost and the first selling price
(e) The selling price raised above the cost. **(1 mark)**

44. During the month of September 2008, Western India Sales Corporation, a truck dealer purchased three trucks at Rs.4,00,000, Rs.4,20,000 and Rs.4,25,000 respectively. They sold two trucks at Rs.4,40,000 and Rs.4,50,000. If they follow the FIFO method for the valuation of inventory, their profit on sale of trucks for the month of September 2008 was <Answer>

(a) Rs.45,000
(b) Rs.70,000
(c) Rs.60,000
(d) Rs.75,000
(e) Rs.85,000. **(2 marks)**

45. J.R. Brothers' accounting records indicated the following information: <Answer>

Particulars	Rs.
Opening inventory	15,00,000
Purchases for the period ended September 30, 2008	45,00,000
Sales for the period ended September 30, 2008	50,00,000

A physical inventory taken on September 30, 2008 resulted in an ending inventory of Rs.20,90,000. Company's gross profit on sales has remained constant at 25%. The estimated cost of missing inventory and the cost of goods sold during the period ended September 30, 2008 respectively were

(a) Rs.2,65,000 and Rs.37,50,000
(b) Rs.2,10,000 and Rs.39,10,000
(c) Rs.1,75,000 and Rs.40,00,000
(d) Rs.1,60,000 and Rs.37,50,000
(e) Rs. 55,000 and Rs.38,55,000. **(2 marks)**

46. Under which of the following methods, the revenue is recognized in the period in which goods are delivered or services are actually provided? <Answer>

(a) Installment method
(b) Production method
(c) Delivery method
(d) Realization method
(e) Percentage-of-completion method. **(1 mark)**

47. The recognition of revenue for dividends from investments in shares is done on <Answer>

(a) Time proportion basis
(b) Accrual basis
(c) Actual receipt basis
(d) Establishment of the right to receive payment
(e) Mercantile basis. **(1 mark)**

48. Accounts receivable are reported in the financial statements at <Answer>

(a) Net realizable value
(b) Book value
(c) Cost value
(d) Historical value
(e) Present value. **(1 mark)**

49. Where the Central Government orders to conduct a special audit of a company under section 233-A, the expenses incurred for the audit will be <Answer>

(a) Determined by the auditor and paid by the company
(b) Determined by the Central Government and paid by the company
(c) Determined by the Control and Auditor General of India and paid by the Central Government
(d) Determined by the Control and Auditor General of India and paid by the company
(e) Determined by the Registrar of Companies and paid by the Central Government. **(1 mark)**

50. Consider the following data pertaining to Universe Ltd., as on September 30, 2008: <Answer>

- Total sundry debtors as per Trial Balance Rs.40,600.
- Bad debts identified after the preparation of Trial Balance Rs.600.
- Provision for bad debts to be created @ 5% on sundry debtors.
- Provision for discount on sundry debtors to be created @ 2%.

The amount of provision for discount on sundry debtors created for the period ended September 30, 2008 was

(a) Rs. 760
(b) Rs.2,000
(c) Rs. 771
(d) Rs. 800
(e) Rs. 812. **(2 marks)**

51. Which of the following costs need **not** to be capitalized in valuation of self-constructed assets? <Answer>

(a) Interest related to borrowings made to finance the self-constructed assets
(b) Material cost incurred in construction of self-constructed assets
(c) Labor cost incurred in construction of self-constructed assets
(d) Indirect cost incurred in construction of self-constructed assets
(e) Stoppage of work due to strike in production of self-constructed assets. **(1 mark)**

52. If the asset is acquired in exchange for shares or securities, then the value of the asset is to be taken at the <Answer>

(a) Historical value of such shares or securities
(b) Cost value of such shares or securities
(c) Fair market value of such shares or securities
(d) Present value of such shares or securities
(e) Book value of such shares or securities. **(1 mark)**

53. The present book value of an asset of a company is Rs.2,04,120. The company has charged depreciation at the rate of 10% under straight line method for the last 3 years. The original cost of the asset was <Answer>

(a) Rs.2,91,600
(b) Rs.2,80,000
(c) Rs.2,55,150
(d) Rs.2,52,000
(e) Rs.2,26,800. **(2 marks)**

54. The balance in machinery account of Avon Ltd., as on April 1, 2007 was Rs.1,27,500. The following transactions took place during the year 2007-08: <Answer>

Date	Particulars	Rs.
April 1, 2007	Machinery sold (book value as on April 1, 2007 was Rs.60,000)	75,000
July 1, 2007	Machinery purchased	1,35,000

If the company charges depreciation @10% per annum on book value, the balance in machinery account as on March 31, 2008 was

(a) Rs.2,76,750
(b) Rs.2,90,250
(c) Rs.3,07,500
(d) Rs.2,98,500
(e) Rs.1,85,625. **(2 marks)**

55. Ralli Industries depreciates its machinery at 10% per annum 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 profit/loss on sale of machinery was <Answer>

(a) Rs.6,000 (profit)
(b) Rs.5,500 (profit)
(c) Rs.5,500 (loss)
(d) Rs.4,000 (profit)
(e) Rs.4,000 (loss). **(2 marks)**

56. Consider the following information pertaining to the office equipment purchased by Libra Ltd.: <Answer>

Office equipment purchased on April 01, 2007	:	Rs.50,000
Accumulated depreciation up to March 31, 2008	:	Rs. 8,000
Salvage Value	:	Rs. 2,500

The cost of the equipment that is yet to be charged against profits in subsequent years is

(a) Rs.10,500
(b) Rs.47,500
(c) Rs.42,000
(d) Rs. 8,000
(e) Rs.39,500. **(2 marks)**

57. The following data was extracted from the books of Arora Ltd., for the year 2007-08: <Answer>

Particulars	Rs.
Capital at the end of the year	22,00,000
Profit after tax during the year	3,50,000
Average Profit (based on the profits for the past three years)	2,65,700
Nominal value of each equity share	50
Market value of each equity share	60
Rate of dividend declared	12%

Assuming that the profits for the year are earned at a uniform rate, the value of goodwill on the basis of 5 years' purchase of super profits of the company will be

(a) Rs. 8,500
(b) Rs.3,16,000
(c) Rs.1,13,500
(d) Rs.2,18,500
(e) Nil. **(2 marks)**

58. Under which of the following methods goodwill is computed at a discounted value of the total amount calculated as per purchase method? <Answer>

(a) Simple profit method
(b) Super profit method
(c) Capitalization of super profit method
(d) Annuity method of super profit
(e) Average method. **(1 mark)**

59. Which of the following items is normally represented by the capacity of a business to earn excess profits? <Answer>

(a) Goodwill
(b) Capital reserve
(c) General reserve
(d) Profit on sale of asset
(e) Income from investment. **(1 mark)**

60. The profit after tax of Hima Ltd., for the last three years were: <Answer>

Year	Rs.
2005-06	2,15,000
2006-07	1,70,000
2007-08	2,00,000

Additional Information:

- In the year 2005-06, a loss of Rs.20,000 due to a fire accident was charged against profits for that year.
- Excess depreciation of Rs.10,000 was provided in the year 2006-07.

Assuming the tax rate of 50%, the future maintainable profit after tax, based on simple average of last three years' profits was

(a) Rs.2,00,000
(b) Rs.1,95,000
(c) Rs.4,00,000
(d) Rs.3,90,000
(e) Rs.1,96,667. **(2 marks)**

61. Consider the following Balance Sheet of Red Ltd., as on March 31, 2008: <Answer>

Liabilities	Rs.	Assets	Rs.
Share capital	3,50,000	Plant and machinery	3,90,000
Capital reserve	85,000	Non-trading investments	1,40,000
General reserve	1,50,000	Current assets	90,000
Sundry creditors	40,000	Preliminary expenses	5,000
Total	6,25,000	Total	6,25,000

The market values of assets were as under:

Plant and machinery – Rs.4,75,000
Non-trading investments – Rs.1,25,000

Current assets include Rs.5,000 due from Sarita who has become insolvent and nothing can be recovered from her estate.

Net profit after tax earned during the year was Rs.90,000.

The average capital employed for calculation of goodwill was

(a) Rs.5,20,000
(b) Rs.4,75,000
(c) Rs.5,80,000
(d) Rs.5,25,000
(e) Rs.5,85,000. **(2 marks)**

62. The profits of Suhas Ltd., for the past 3 years were as under: <Answer>

Year	Profit (Rs.)
2005-06	42,364
2006-07	43,456
2007-08	53,126

The weighted average profit of the past 3 years' of the company was

(a) Rs.48,109
(b) Rs.53,126
(c) Rs.48,065
(d) Rs.43,456
(e) Rs.42,364. **(2 marks)**

63. In certain circumstances with the previous sanction of the Central Government, interest may be paid to the shareholders out of capital. The interest shall be paid only for such period as may be determined by <Answer>

(a) Shareholders
(b) Board of Directors
(c) Central Government
(d) National Company Law Tribunal
(e) Securities Exchange Board of India. **(1 mark)**

64. Tax deducted at source on the payments made by a company appears in the Balance Sheet of the company on the <Answer>

(a) Liabilities side under current liabilities
(b) Liabilities side under provisions
(c) Assets side under current assets
(d) Assets side under loans and advances
(e) Assets side under miscellaneous expenditure. **(1 mark)**

65. Avon Ltd., earned a net profit of Rs.6,34,000 for the year ended March 31, 2008, after taking into consideration the following: <Answer>

Particulars	Rs.
Depreciation charged on fixed assets as per financial records	95,600
Depreciation allowable on fixed assets as per section 350	65,600
Provision for income tax	2,45,000

The part-time directors are entitled to a remuneration of 1% of net profits after charging their remuneration. If the whole-time directors are entitled to get 10% commission on net profits after payment of remuneration to part-time directors, the amount of commission payable to whole-time directors is

(a) Rs.97,460
(b) Rs.90,900
(c) Rs.84,900
(d) Rs.90,000
(e) Rs.99,000.

(2 marks)

66. If the opening balance of a company's retained earnings was Rs.25,000, net profit for the year was Rs.50,000 and the closing balance of the retained earnings was Rs.55,000, the amount paid by the company in the form of dividends during the year was <Answer>

(a) Rs.80,000
(b) Rs.30,000
(c) Rs.20,000
(d) Rs.50,000
(e) Rs. 5,000.

(1 mark)

67. Consider the following data pertaining to Rising Sun Ltd., as on March 31, 2008: <Answer>

Particulars	Rs.
Paid-up share capital	20,00,000
Profit and Loss account (Cr.) as on April 01, 2007	67,000
Profit for the year	1,90,610

The company transfers Rs.50,000 out of profits to Debenture Redemption Reserve every year. The company also declared 10% dividends.

The balance of Profit and Loss Appropriation account transferred to Balance Sheet after effecting the above transactions is

(a) Rs.1,88,549
(b) Rs. 58,610
(c) Rs. 8,610
(d) Rs. 7,610
(e) Rs.1,81,849.

(2 marks)

68. Rosy Ltd.'s paid-up capital consisted of 10,000 equity shares of Rs.30 each, fully paid. At the beginning of the year 2007-08, Rs.40,000 of dividends were in arrears. During the year 2007-08, Rosy Ltd., made a payment of Rs.1,20,000 towards dividends. The amount of dividend paid by Rosy Ltd., to its equity share holders for the year 2007-08 amounted to <Answer>

(a) Rs.65,000
(b) Rs.75,000
(c) Rs.45,000
(d) Rs.35,000
(e) Rs.80,000.

(2 marks)

69. Ace Widgets Inc., has both cumulative preference shares and equity shares outstanding. Each preference share has Rs.100 par value and Rs.5 per share as stated dividend. Each equity share has Rs.10 as par value. From April 1, 2007 until March 31, 2008, the preference share capital was Rs.2,00,000 and the equity share capital was Rs.5,00,000. If dividend paid on preference shares in 2006-07 was Rs.8,000 and total dividends paid in 2007-08 were Rs.15,000, what were the dividends allocated to the equity share holders in 2007-08? <Answer>

(a) Rs. 3,000
(b) Rs. 5,000
(c) Rs.10,000
(d) Rs.12,000
(e) Rs.15,000.

(2 marks)

70. The issued and paid-up share capital of Alpha Ltd., is as follows: <Answer>

1,00,000 equity shares of Rs.10 each, fully paid	Rs.10,00,000
8% Preference shares of Rs.50 each, fully paid	Rs. 5,00,000

For the year ended March 31, 2008, the company has paid the preference dividend for the year and an interim dividend of Rs.2 per share on the equity shares during the year. A final equity dividend of Rs.3 per share is proposed (excluding interim dividend).

What is the total amount of dividends for the year ended March 31, 2008?

(a) Rs.5,80,000
(b) Rs.2,40,000
(c) Rs.3,40,000
(d) Rs.5,40,000
(e) Rs.5,00,000.

(2 marks)

71. The closing capital employed of Jagan Ltd., as on March 31, 2008 amounted to Rs.7,88,000. The profit before tax for the year 2007-08 was Rs.1,42,000. Income tax rate is 50%. If the normal rate of return is 10% on average capital employed, the normal profit of the company for goodwill calculation is <Answer>

(a) Rs.85,900
(b) Rs.71,700
(c) Rs.93,000
(d) Rs.78,800
(e) Rs.75,250.

(2 marks)

72. The primary motive of auditing of companies is to protect the interest of the <Answer>

(a) Shareholders against the misuse of powers by the directors
(b) Managers against the misuse of power by the directors
(c) Employees against the misuse of power by the directors
(d) Bankers against the misuse of power by the directors
(e) Managing director against the misuse of power by the directors.

(1 mark)

73. Postponement of the recognition of revenue and income to later periods is possible under which of the following methods of revenue recognition? <Answer>

(a) Installment method
(b) Delivery method
(c) Percentage-of-completion method
(d) Production method
(e) Weighted average method.

(1 mark)

END OF QUESTION PAPER

Suggested Answers
Financial Accounting (CFA510): October 2008

	Answe	**Reason**	
1.	E	Ex-post income means revised expectation of expected future cash flows at the end of the period less original expectation of expected future benefits at the beginning of the period.	≤
2.	C	Board of Directors, Partners, Managers and Officers are internal users. An investor is considered as an external user of financial statements.	≤
3.	B	Under the cash basis of accounting, revenue is recognized when cash is collected for sale of goods and services. Hence (b) is correct answer.	≤
4.	B	Classification of assets into 'fixed' and 'current' presupposes the going concern concept. Going concern concept implies that the business entity is assumed to carry its operations forever. It is because, that the assets like land, buildings, machinery etc., would continue to be with the concern for a long time for producing and selling the end-products, these assets are termed as fixed assets. If this assumption is invalid and the assets were to be sold off, such assets will be termed as current assets.	≤
5.	E	The following will appear under the head 'Miscellaneous Expenditure' in the balance sheet of a company: • Preliminary expenses to the extent not written off • Interest paid out of capital during construction • Discount allowed on issue of shares and debentures • Development expenditure not adjusted Loss on sale of fixed asset is a loss transferred to Profit and Loss A/c. Hence alternative (e) is the correct answer.	≤
6.	E	The following items can be shown as reserves and surplus: • Gain on revaluation of assets. • Premium on issue of shares. • Accumulated retained earnings. • Capital redemption reserve. Proposed dividends cannot be shown as reserves and surplus. It will be debited to profit and loss appropriation account and shown as current liability.	≤
7.	C	• Present value is the present discounted value of the future inflows that an item is expected to generate in the normal course of business. • Current cost is the amount that needs to be paid if the asset is to be acquired currently. • Historical cost is the amount paid or payable to acquire a benefit. • Realizable value is the net amount collectible in the event of the asset's disposal. • Future value is the future value of cash inflows that an item is expected to generate in the normal course of business.	≤
8.	B	Accounting records only those transactions which are expressed in monetary terms. Accounting does not record non-financial transactions. It is the concept of money measurement.	≤

	Answer	Reason

9. D — Incurring liability is a source of fund but not a use of fund. Acquiring assets, incurring expenses, incurring losses and paying dividends are all uses of funds.

10. B — Earning revenue income will increase the owners' equity.
The following transactions will not result in an increase in the owners' equity

- Borrowing additional loans
  - Sale of fixed assets at book value
  - Sale of investments at book value
  - Purchase of fixed assets.

11. B — According to the consistency concept, the financial statements should be prepared on the basis of accounting principles which are followed consistently. Hence, this concept enables comparison of financial statements over a period of time. According to cost concept, all transactions are recorded at cost. All material items should be separately disclosed under materiality concept. Money measurement concept envisages that a record is made only of information that can be expressed in monetary terms. According to accounting period concept, the income or loss of a business is measured periodically for a specific interval of time, called accounting period.

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

13. A — The withdrawal of cash from the bank for office use will figure in both bank and cash columns of a cash book and such entries are called contra entries. Hence, (a) is the correct answer.

14. B — As per the Companies (Transfer of Profits to Reserves) Rules, 1975 and section 205 (2A), a company has to transfer a prescribed percentage of its profits to its reserves (free reserves) based on the extent of dividends it wishes to pay from its profits.
The least amount that has to be transferred based on the amount of dividend that is proposed to be distributed is given in the table below.

Proposed dividend (% of the paid-up capital).	Minimum amount to be transferred to reserves (%of current profits)
Exceeds 10 but does not exceed 12.5	2.5
Exceeds 12.5 but does not exceed 15	5.0
Exceeds 15 but does not exceed 20	7.5
Exceeds 20	10.0

Hence, the correct answer is (b).

15. B

	Rs.	Rs.
Machinery account Dr.	437	
Suspense Account Dr.	180	
To Profit and loss adjustment account		617

Since freight spent on machinery is to be capitalized, Rs.460 should have been capitalized. However, it was debited as freight in the Profit and loss account wrongly. Another mistake is not Rs.460, but Rs.640 was debited to the profit and loss account.
When machinery is understated by Rs.460, it results in understating of depreciation by Rs.23. The net effects are:
Machinery understated by (Rs.460 – Rs.23) = Rs.437.
Profit and loss account understated by (Rs.640 – Rs.23) = Rs.617.
To rectify the above mistake, machinery should be debited with Rs.437, profit and loss adjustment account to be credited with Rs.617, and the balance of Rs.180 debited to suspense account as above.

Answe **Reason**

16. D Cash book is a special journal in which all cash transactions are recorded directly. The cash book resembles a ledger with the debit and credit sides and the balance represents the cash on hand and at bank at the end of the accounting period. Hence, it serves the purpose of ledger. Cash account and bank account are not opened when a cash book is maintained. Purchases book, sales book, bills receivables book and journal proper are the books of original entry and they do not serve the purpose of ledger. <

17. C Receipt of interest on securities is entered in the Cash Book. All other transactions are entered in the Journal Proper. <

18. C The balance of capital as at March 31, 2008 was Rs.62,000. <

Capital account of Mr.Mukherjee

Particulars	Rs.	Particulars	Rs.
To Drawings - cash	3,000	By Cash	20,000
To Balance c/f	62,000	By Cash	20,000
		By Profit	25,000
Total	65,000	Total	65,000

19. C Purchase A/c debited for furniture purchased is an error of principle and does not affect trial balance. <

For salary paid Bansal's A/c is also debited.This is an excess debit of Rs.3,000. For goods purchased D.Gupta's A/c should have been credited by Rs.7,350 instead of debiting their A/c. The difference in trial balance due to the above error is double the amount ie,7350 × 2 = 14,700. For cash discount allowed by Roy & Co., their A/c should have been debited instead of crediting giving rise to a difference of Rs.200 in the trial balance. So the Suspense A/c balance will be Excess debit Rs.3,000 + Rs.14,700 = Rs.17,700 – Excess credit Rs.200. The net difference is Rs.17,700 less 200 = Rs.17,500.

20. A Posting of an entry to the correct side of a wrong account will not affect the agreement of a trial balance. Thus an entry of Rs.590 to be posted in A.N. Chopra's account, posted to the correct side of N.C. Chopra's account will not cause a mismatch in the totals of debit and credit columns of trial balance. Hence, (a) is the correct answer <

21. B The wrong posting of cash sales of Rs.3,550 as Rs.3,505 is to be rectified as debiting Suspense account with Rs.45 and crediting Sales account with Rs.45. Hence, (b) is the correct answer. <

22. D A trial balance is a summary of the ledger balances of all real, personal and nominal accounts on a particular date. <

23. B <

Particulars	Rs.	Rs.
Closing balance of Debtors on March 31, 2008		3,00,000
Less: Debtors on sold asset	5,000	
Discount allowed omitted	300	5,300
		2,94,700
Add wrong entry (Rs.3,100–Rs.1,300)		1,800
Gross balance of Sundry debtors as on March 31, 2008		2,96,500

24. B Error of principle denotes wrong classification of expenditure or revenue. If a company pays for repairs on a machine, it should be debited to repairs account. If it is charged to machinery account, it is an error of principle. <

Answe		Reason	
25.	D		<

Particulars		Debit (Rs.)	Credit (Rs.)
Morin account	Dr.	39	
Suspense account	Dr.	54	
To Mohan's account			93

26. D Posting of an aspect of a transaction on the correct side of a wrong account will not disclosed by trial balance. For example if the amount of Rs.400 received from Mr. Ramireddy a debtor, is posted to the credit of Mr. Nagireddy account, also a debtor, the trial balance totals will still agree, because both are debit accounts and the trial balance effect is the same. <

27. C <

Dr. Sundry creditors Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
30.09.08	To Cash (paid)	7,20,000	01.09.08	By Balance b/d	80,000
30.09.08	To Balance c/d	1,00,000	30.09.08	By Purchases (balancing figure)	7,40,000
		8,20,000			8,20,000

28. C <

Balance Sheet of Versetek Ltd. as on March 31, 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital		5,76,900	Land & building		4,36,000
Profit and loss account		1,33,731	Office equipment	1,99,700	
12% Bank Loan	1,50,000		Less: Depreciation	19,970	1,79,730
Add: Outstanding interest	15,000	1,65,000	Furniture	2,00,000	
Sundry creditors	50,000		Less: Depreciation	30,000	1,70,000
Less: Debtors set off	8,000		Closing stock		38,000
Provision for discount on creditors	720	41,280	Sundry debtors	55,000	
Bills payable		10,000	Less: Provision for discount on debtors	779	
			Creditors setoff	8,000	46,221
			Bills receivable		9,000
			Cash at bank		23,500
			Petty cash		210
			Accrued commission		13,000
			Prepaid printing		1,850
			Cash on hand		9,400
		9,26,911			9,26,911

	Answe	Reason	
29.	C	Sundry Debtors account	≤

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

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

30. C ≤

Particulars	Rs.
Insurance paid by the company	1,20,000
Add : Prepaid insurance as on March 31, 2007	40,320
	1,60,320
Less : Prepaid insurance as on March 31, 2008	32,720
Total insurance expenditure incurred for the year 2007-08	1,27,600

31. A ≤

Particulars	Rs.
Profit as per Profit & Loss a/c	9,75,000
(–) Outstanding building rent (Rs.2,250 x 2)	4,500
	9,70,500
(–) Overcast of sales book	30,000
	9,40,500
(+) Repairs for machinery (wrongly debited)	3,000
Correct net profit	9,43,500

32. C The costs incurred prior to the incorporation of a company should be debited to preliminary expenses account. Subsequently, they will be written off over a period of time. ≤

33. D The deferred expenditure contributes income or benefit in future years. Hence, the same is deferred using matching concept. Revenue expenditure is the expenditure, which contributes benefit during the same year. Operating expenditure is incurred for the operations of the business. Administrative expenditure is incurred for administration. Selling and distribution expenditure is incurred for promoting sales and distribution. Hence, operating expenditure, administrative expenditure and sales and distribution expenditure contribute benefit only in the particular year in which they are incurred. Hence, (d) is the correct answer. ≤

34. D The treatment of adjustments for expenses and incomes in the balance sheet: ≤

- Outstanding liabilities for expenses are shown on liabilities side.
  - Prepaid expenses are shown on assets side.
  - Income received in advance is shown on liabilities side.
  - Income earned but not received is shown on assets side.

Income accrued but not due is shown on assets side but not on liability side. Hence, (d) is correct answer.

	Answe	Reason	
35.	C	When the proprietor withdraw money for personal use, his capital in the business as well as total liabilities decreases. Since cash is going, the asset will also be reduced to the extent.	≤
36.	D	Goods sent on 'sale or return' basis can be treated as sold when a confirmation is received from the customer. Hence, (d) is correct answer.	≤
37.	C	A separate cash account is compulsorily required to be opened in the ledger, even when a cash book is maintained is false. A separate cash account is not required to be opened in the ledger, when a cash book is maintained. All the other statements are true.	≤
38.	D		≤

Particulars	Rs.
Rent for the first 6 months of 2007-08 (Rs.14,000 × 6)	84,000
Rent for the other 6 months of 2007-08 (Rs.15,000 × 6)	90,000
Rent for the year 2007-08	1,74,000
Add: Rent outstanding on 1-4-07 which was paid in the year 2007-08	14,000
	1,88,000
Less: Two months rent which was outstanding (Rs.15,000 × 2)	30,000
Total payments for rent in 2007–08	1,58,000

39.	E	Balance sheet is not a valuation statement. Statement in alternative (e) is a false statement. Under 'T' form Balance-Sheet, all liabilities are shown on the left side and assets on the right side and under Vertical form Balance-Sheet, liabilities and assets are shown as Sources of Fund and Uses of fund. Under Liquidity basis, assets and liabilities are arranged according to realizability and payment order and under Fixity basis fixed assets and liabilities are arranged on the assumption of being sold or paid on the liquidation of the business.	≤
40.	C	Under FIFO method, the closing inventory consists of the latest stock thus,	≤

Particulars	Rs.
5 × Rs.4,800	24,000
5 × Rs.5,000	25,000
5 × Rs.5,500	27,500
Value of closing inventory	76,500

41.	C		≤

Particulars	Rs.
Cost of goods available for sale	12,00,000
Cost of goods sold (Rs.13,00,000 × 0.75)	9,75,000
Closing stock	2,25,000

Gross profit is 33⅓% on cost which is equal to 25% on selling price.
If gross profit is 25% on selling price, cost of goods sold is 75% on selling price.

42.	A	In a manufacturing company, the perpetual inventory system is also called product costing system. In such system, the cost of each product is accumulated as it flows through the production process.	≤
43.	C	The phrase *markon* means difference between the cost and the original selling price, plus any net markups.	≤

	Answe	Reason	

44. B

Particulars	Rs.	Rs.
Sale value of two trucks (Rs.4,40,000 + Rs.4,50,000)		8,90,000
Cost of the first truck	4,00,000	
Cost of the second truck	4,20,000	8,20,000
Profit on sale of first two trucks (as per FIFO)		70,000

<

45. D

Particulars	Rs.	Rs.
Opening inventory	15,00,000	
Purchases during the year 2007-08	45,00,000	60,00,000
*Less: Cost of goods sold		37,50,000
Closing inventory		22,50,000
Physical inventory		20,90,000
Cost of missing inventory		1,60,000

*Cost of goods sold during the year 2007-08 = Rs.50,00,000 × 0.75 = Rs.37,50,000

<

46. C Enterprises which earn revenue by the sale of goods and services follows delivery method. Under the delivery method, the revenue recognized in the period in which goods are delivered or services are actually provided. <

47. D Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends should be recognized when no significant uncertainty as to measurability or collectability exists. Hence, recognition of revenue for dividends from investments in shares is done when the owner's right to receive payment is established. <

48. A Accounts receivable are reported in the financial statements at net realizable value. <

49. B Where the Central Government orders to conduct a special audit of a company under section 233-A, the expenses incurred for the audit will be determined by the Central Government and paid by the company. <

50. A

Particulars	Rs.
Total sundry debtors as per trial balance	40,600
Less: Bad debts written-off	600
	40,000
Less: Provision for bad debts @ 5% of Rs.40,000	2,000
Debtors for calculation of provision for discount	38,000

Provision for discount on sundry debtors will be $\frac{2}{100} \times \text{Rs.}38,000 = \text{Rs.}760$.

<

51. E Stoppage of work due to strike in production of self-constructed assets need not be capitalized in valuation of self-constructed assets. <

52. C If the asset is acquired in exchange for shares or securities, then the value of the asset is to be taken at the fair market value of such shares or securities. <

Answe		Reason

53. A

The depreciated value of the asset Rs.2,04,120
Depreciation rate – 10%
Depreciation charged under straight line method for 3 years

Cost of asset before depreciation = $\frac{\text{Rs.}2,04,120}{[1-(3\times 10\%)]} = \frac{\text{Rs.}2,04,120}{0.7}$ = Rs.2,91,600.
The original cost of the asset was = Rs.2,91,600.

[≤](#)

54. E

Dr. Machinery account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.07	To Balance b/d	1,27,500	01.04.07	By Bank (sale)	75,000
01.04.07	To Profit & loss a/c (Rs.75,000 – Rs.60,000)	15,000	31.03.08	By Depreciation	16,875
01.07.07	To Bank	1,35,000	31.03.08	By Closing balance	1,85,625
		2,77,500			2,77,500

Calculation of depreciation:

Particulars	Rs.
On machinery purchased on 1.7.07 (Rs.1,35,000 x 10% × 9/12)	10,125
Depreciation on balance machinery (Rs.1,27,500 – 60,000) × 10%	6,750
Total depreciation	16,875

[≤](#)

55. C

Calculation of loss on sale of machinery	Rs.
Written down value on April 01, 2007	40,000
Less : Depreciation @ 10% p.a. on Rs.60,000 × 9/12 months)	4,500
Written down value on December 31, 2007 (Date of sale)	35,500
Less : Sales value	30,000
Loss	5,500

[≤](#)

56. E

Particulars	Rs.
Cost of office equipment	50,000
Less: Accumulated depreciation	8,000
Net written down value	42,000
Less: Salvage value	2,500
The cost of the equipment that is yet to be charged against profits in subsequent years	39,500

[≤](#)

57. B

Goodwill Rs.3,16,000.
Average capital employed
= Capital employed at the close of the year - half of current year profit
= Rs.22,00,000 - Rs.1,75,000 = Rs.20,25,000.
Rate of return on capital based on dividend per share
= Dividend per share = 12% of Rs.50 = Rs.6
Rate of return = Dividend per share/Market price per share x 100
= Rs.6/Rs.60 × 100 = 10%

Average profit	Rs.2,65,700
Less: Normal profit @10% on average capital employed	
= Rs.20,25,000 × 10% =	Rs.2,02,500
Super profit	Rs. 63,200

Goodwill = 5 years purchase of super profit = 5 × Rs.63,200 =Rs.3,16,000.

[≤](#)

58. D

Under Annuity Method of Super Profit, goodwill is computed at a discounted value of the total amount calculated as per purchase method, considering the heavy loss due to interest. Hence, what should be paid now is only the present value of super profits paid annually at the proper rate of interest. Thus, alternative (d) is the correct answer.

[≤](#)

	Answe	Reason	
59.	A	Goodwill is normally represented by the capacity of a business to earn excess profits.	≤

60\. A ≤

Particulars	2005-06 (Rs.)	2006-07 (Rs.)	2007-08 (Rs.)
Post-tax profits	2,15,000	1,70,000	2,00,000
Pre-tax profits	4,30,000	3,40,000	4,00,000
Add: Excess depreciation	–	10,000	–
Abnormal loss	20,000	–	–
	4,50,000	3,50,000	4,00,000

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

Average pre-tax profits = Rs.4,00,000

Less: Tax @50% Rs.2,00,000

Future maintainable profits Rs.2,00,000.

61\. B Capital employed of Red Ltd., as on March 31, 2008: ≤

Assets	Rs.
Plant and machinery	4,75,000
Current assets (Rs.90,000 – Rs.5,000)	85,000
	5,60,000
Less: Sundry creditors	40,000
Capital employed	5,20,000
Less: ½ of current year profits (Rs.90,000 x ½)	45,000
Average capital employed	4,75,000

62\. A ≤

Year	Profit (Rs.)	Weight	Product
2005-06	42,364	1	42,364
2006-07	43,456	2	86,912
2007-08	53,126	3	1,59,378
		6	2,88,654

The weighted average profit = Rs.2,88,654 / 6 = Rs.48,109.

63\. C In certain circumstances with the previous sanction of the Central Government, interest may be paid to the shareholders out of capital. The interest shall be paid only for such period as may be determined by Central Government. ≤

64\. A Tax deducted at source is the liability of the company towards the tax authority. It is also payable to the tax authority within a short period. Therefore, it is to be shown on liabilities side of the balance sheet under current liabilities. Hence, (a) is correct answer. ≤

Answe | **Reason**

65. D

Calculation of managerial remuneration <

Particulars	Rs.
Profit as per profit and loss account	6,34,000
Add: Depreciation charged on fixed assets as per financial records	95,600
Provision for income tax	2,45,000
	9,74,600
Less: Depreciation allowable on fixed assets as per section 350	65,600
Profit available for calculation of remuneration to part-time director	9,09,000
Remuneration to part-time directors (Rs.9,09,000 × 1/101)	9,000
Profit available for calculation of commission to whole-time directors	9,00,000
The amount of commission payable to whole-time directors (Rs.9,00,000 × .10)	90,000

66. C The opening balance of retained earnings i.e. profit and loss appropriation account is Rs.25,000 and the profit earned during the year is Rs.50,000 thus total retained earnings is Rs.75,000 and the closing balance is Rs.55,000. Thus, the amount of dividends paid is Rs.20,000. <

67. D <

Dr. Profit and Loss appropriation account Cr.

Particulars	Rs.	Particulars	Rs.
To Transfer to Debenture Redemption Reserve	50,000	By Balance b/d	67,000
To Proposed Dividend (10% of Rs.20,00,000)	2,00,000	By Profit for the year b/d	1,90,610
To Surplus carried to Balance Sheet	7,610		
	2,57,610		2,57,610

68. E Of the Rs.1,20,000 paid, Rs.40,000 was paid toward dividends in arrears and Rs.80,000 was paid toward dividends for the year 2007-08. <

69. A <

Particulars	Rs.
Preference Dividend payable for the year 2006-07 $\left[\frac{Rs.2,00,000}{100}\times 5 = Rs.10,000\right]$	10,000
(–) Dividends paid in the year 2006-07	8,000
Preference Dividend due for the year 2006-07	2,000
(+) Preference Dividend for the year 2007-08	10,000
Total Preference Dividend due	12,000
(–) Total dividend paid during the year 2007-08	15,000
Dividends allocated to the common class shares in 2007-08	3,000

70. D <

Particulars	Rs.
Interim dividend (1,00,000 × Rs.2)	2,00,000
Final dividend (1,00,000 × Rs.3)	3,00,000
Preference dividend (Rs.5,00,000 × 8%)	40,000
Total dividend relating to the year ended March 31, 2008	5,40,000

71. E <

Particulars	Rs.
Profit before tax	1,42,000
Less : Income tax (50%)	71,000
Current year's profit	71,000
Closing Capital employed	7,88,000
Less : ½ of current year's profit after tax	35,500
Average capital employed	7,52,500

Normal profit = 10% of average capital employed = 10% of Rs.7,52,500 = Rs.75,250.

	Answe	Reason	
72.	A	The primary motive of auditing of companies is to protect the interest of the shareholders.	≤
73.	A	Postponement of the recognition of revenue and income to later periods is possible under installment method.	≤

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