

INTERMEDIATE EXAMINATION

June 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) State whether the following statements are 'TRUE' (T) or 'FALSE' (F): 1×5=5
- (i) The issue of shares at a discount must be authorized by a special resolution of the company ✓
 - (ii) At the end of the accounting period the balance of "Goods sent to Branch account" is transferred to trading account +
 - (iii) Operating or Finance lease comes under provision of AS-13 +
 - (iv) For life business premium income is to be recognized on receipt basis ✓
 - (v) A Banking company cannot grant any loans on securities of its own shares ✓
- (b) From the four alternative answers given against each statement indicate the correct alternative: 1×5=5
- (i) Transfer to Capital Redemption Reserve is not allowed from
 - (A) General Reserve
 - (B) Profit prior to incorporation
 - (C) Reserve Fund
 - (D) None of the above
 - (ii) Goodwill in case of joint stock company is shown under asset side under the heading
 - (A) Fixed Assets
 - (B) Investments
 - (C) Current Assets
 - (D) None of the above
 - (iii) Survey expenses for marine insurance claims must be
 - (A) added to claim
 - (B) added to Legal charges
 - (C) added to Administrative expenses
 - (D) None of the above
 - (iv) A non-performing asset is
 - (A) Money at call and short notices
 - (B) An asset that ceases to generate income
 - (C) Cash balance in till
 - (D) None of the above
 - (v) An amount spent for inauguration of new factory building is
 - (A) Revenue Expenditure
 - (B) Capital Expenditure
 - (C) Prepaid Expenditure
 - (D) None of the above

Please Turn Over

(c) Match the following:

1×5=5

- | | |
|-------------|--|
| (i) AS-4 | A. Accounting for construction contract ✓ |
| (ii) AS-7 | B. Accounting for Fixed Assets ✓ |
| (iii) AS-10 | C. Contingency and events occurring after Balance Sheet date ✓ |
| (iv) AS-31 | D. Interim Financial Reporting ✓ |
| (v) AS-14 | E. Accounting for Amalgamation ✓ |
| | F. No matching statements found ✓ |

(d) Choose the appropriate answer in each case from the given alternative answers (= 1 mark) and also give reason for your choice (= 1 mark):

2×3=6

- (i) If the current ratio is 2.4 : 1 and net working capital is ₹ 3,50,000, the amount of current assets will be
(A) ₹ 4,90,000 (B) ₹ 8,40,000 (C) ₹ 6,00,000 (D) None of these
- (ii) Purchase price of a machine is ₹ 44,500; Installation charges ₹ 10,000; Freight and Cartage ₹ 4,000; Insurance charges ₹ 10,000; Residual Value ₹ 14,000; Estimated useful life 5 years. The annual amount of depreciation under Straight line method would be
(A) ₹ 90,000 (B) ₹ 88,000 (C) ₹ 87,000 (D) None of these
- (iii) The net tangible assets of a business is worth ₹ 1,50,000. The average expected profit to be earned in future is ₹ 30,000 p.a. If the market rate of return is 15%, the value of goodwill is
(A) ₹ 2,00,000 (B) ₹ 2,25,000 (C) ₹ 50,000 (D) None of these

(e) State the conditions to be satisfied for payment of dividend out of capital profits.

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(f) Name four errors which are not detected by Trial Balance.

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2. (a) The following is the Income and Expenditure Account of Rising Sun Club for the year ended 31.12.2010:

(Fig. in ₹)

Expenditure		Income	
To Printing and Stationery	3,200	By Entrance fees	3,000
Interest and Bank charges	1,100	Subscription	80,200
Annual Dinner expenses	18,400	Annual Dinner receipt	15,000
General expenses	6,400	Profit on annual sports	18,300
Salaries	52,500		
Audit fees	3,200		
Honorarium to Secretary	15,000		
Depreciation on Sports Equip.	4,000		
Surplus (being the excess of income over expenditure)	12,700		
	<u>1,16,500</u>		<u>1,16,500</u>

The following adjustments were made to prepare the accounts:

Subscription outstanding on 1.1.10	₹ 4,000
Subscription outstanding on 31.12.10	₹ 6,300
Subscription received in advance on 31.12.09	₹ 5,600
Subscription received during the year	₹ 3,400
Salaries outstanding on 31.12.09	₹ 5,200
Salaries outstanding on 31.12.10	₹ 6,800

General expenses include insurance prepaid to the extent of ₹ 800; Audit fees due for the year 2010. Audit fees paid in 2010 ₹ 2,800 for 2009.

The Club has the following assets:

Football Ground	₹ 1,80,000
Sports equipments on 1.1.2010	₹ 35,000
Sports equipments on 31.12.2010, such sports equipments after depreciation amounted to	₹ 37,000

The Club had taken a loan of ₹ 30,000 from a bank a few years back which remain outstanding on 31.12.10. On 31.12.10 the cash in hand amounted to ₹ 20,000.

Prepare the Receipts and Payments Account for the year ended 31.12.10 and a Balance Sheet as on that date.

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(b) What is a geographical segment as per AS-17?

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- 3 (a) Ritu acquired a mine on lease from Richa for a period of 8 years at a royalty of ₹ 60 per tonne of coal produced subject to minimum rent of ₹ 1,00,000 for the first year, increasing by ₹ 30,000 every year till ₹ 2,80,000 per annum is reached. Shortworkings of any one year may be recouped out of excess workings of the following two years only. The output during the first five years was as follows:

Year ending 31st March	2006-07	2007-08	2008-09	2009-10	2010-11
Output in tonnes	600	900	2,500	3,800	5,000

While preparing the accounts of first year, Ritu decided not to carry forward as an asset any shortworkings. In the second year ₹ 95,000 were carried forward and in the third year ₹ 55,000.

Prepare necessary accounts in the books of Ritu.

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- (b) NR and Sons sells goods on hire purchases at cost plus $33\frac{1}{3}$ percent. Prepare hire purchase Trading Account from the following information:

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		₹
April 1, 2010	Stock with customers on hire purchase price	97,200
,,	Stock in hand at shop	1,94,400
,,	Instalments overdue	81,000
March 31, 2011	Purchase during the year	6,48,000
,,	Goods repossessed (Instalment not due ₹ 21,600)	5,400
,,	Stock at shop (excluding repossessed)	2,16,000
,,	Cash received during the year	6,21,000
,,	Instalment overdue	97,200

- (c) State with reasons whether the following items are Capital expenditure or Revenue expenditure:

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- A factory building was constructed at a cost ₹ 15,00,000. A sum of ₹ 64,000 were incurred for the construction of the temporary huts for storing building materials.
- ₹ 5,000 paid for removal of stock to a new site.
- Expenses incurred in connection with obtaining a licence to start the business were ₹ 15,000.

4. (a) X and Y are partners sharing profit/loss in the ratio of 5 : 4. They admit Z into partnership for $\frac{1}{5}$ th the share in the profits which is given $\frac{2}{15}$ th by X and $\frac{1}{15}$ th by Y. Z brings ₹ 1,50,000 as his capital and ₹ 60,000 as premium. Goodwill account appears in the books at ₹ 1,65,000. Give necessary journal entries in the books of the firm at the time of Z's admission and find out the new profit sharing ratio. 4
- (b) P and Q are partners sharing profits and losses in the ratio of 5 : 4. On 1st April, 2010 they admitted their Manager R into partnership for $\frac{1}{5}$ th the share of the profits. As Manager, R was receiving a salary of ₹ 60,000 per year and a commission of 5 percent on the net profit after charging such salary and commission. It is, however, agreed that any excess over his former remuneration to which R becomes entitled as a partner is to be borne by Q.
- The profits of the firm for the year ended 31st March, 2011 amounted to ₹ 4,27,500. You are required to show the division of profits among the partners. 5
- (c) A motor car is sold on instalment payment system, the payment for which is made thus: ₹ 50,000 as immediate deposit and the balance to be paid on five equal annual instalments of ₹ 40,000 each. The interest is charged at 12% on unpaid cash price. If the present value of annuity of ₹ 1 for five years at 12% is ₹ 3.605, calculate the cash price of motor car. 2
- (d) State the main characteristics of the Book Keeping system of Banks. 4
5. (a) Deepa Ltd. had 3 departments D1, D2, D3. Informations relating to the departments are as follows:

	D1 (₹)	D2 (₹)	D3 (₹)
Opening Stock	30,000	40,000	60,000
Direct Materials consumed	80,000	1,20,000	—
Wages	50,000	1,00,000	—
Closing Stock	40,000	1,40,000	80,000
Sales	—	—	3,40,000

Stocks of each department are valued at cost of the department concerned. Stocks of D1 are transferred to D2 at a margin of 50% above departmental cost. Stocks of D2 are transferred to D3 department at a margin of 10% above departmental cost.

Other relevant expenses were:

	₹
Salaries	20,000
Printing and Stationery	10,000
Rent	60,000
Interest paid	40,000
Depreciation	30,000

Allocate expenses in the ratio of departmental gross profits. Opening figures of reserves for unrealised profits on departmental stock were:

D2 —	₹ 10,000
D3 —	₹ 20,000

Prepare Departmental Trading and Profit & Loss A/c.

- (b) Give journal entries in the books of Head Office to record the following transactions on the closing date 31st March, 2011:
- Depreciation amounting to ₹ 11,000 on Kolkata Branch fixed assets when such accounts are opened in books of Head Office.
 - Goods amounting to ₹ 7,500 transfer from Kolkata Branch to Delhi Branch under the instruction from Head Office.
 - The Delhi Branch paid ₹ 2,10,000 for machinery purchased by Head Office in Delhi.
 - The Kolkata Branch collected ₹ 8,000 from a Kolkata customer of the Head Office.
 - Goods of ₹ 20,000 sent by the Head Office to Delhi Branch on 28th March and received by the later on 10th April, 2011.

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6. (a) Following is the Balance Sheet of Madox Ltd. as at 31.3.2011:

<i>Liabilities</i>		<i>Assets</i>		(Fig. in ₹)
1 lakh Equity shares of ₹ 10 each fully paid	10,00,000	Fixed Assets		12,80,000
5,000, 12% Redeemable Preference Shares		Current Assets		10,20,000
of ₹ 100 each	5,00,000	Bank		3,30,000
Securities Premium	1,00,000			
Profit & Loss A/c	5,50,000			
Current Liabilities	4,80,000			
	<u>26,30,000</u>			<u>26,30,000</u>

On 1.4.2011, the company issued further 30,000 equity shares @ ₹ 10 per share at a premium of ₹ 5 per share. The amount payable was ₹ 6 on application, ₹ 7 on allotment including premium and the balance on First and Final Call. Application were received for 45,000 shares. Application money of 5,000 shares were refunded. Pro-rata allotment was made. The excess application money were adjusted towards allotment. Mr. X holding 3,000 shares failed to pay the allotment money and his shares were forfeited after final call and thereafter, out of these shares 2,000 shares were re-issued at a discount of ₹ 3 per share.

Preference shares were redeemed at a premium of 10%.

Considering the above transactions, show journal entries and the Balance Sheet in the books of Madox Ltd.

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- (b) Lakshmi Bank has followed the policies for retirement benefits as under:
- Contribution to pension fund is made based on actuarial valuation at the year end. In respect of employees who have opted for pension scheme.
 - Contribution to the gratuity fund is made based on actuarial valuation at the year end.
 - Leave encashment is accounted for on "PAY-AS-YOU-GO" method.

Comment whether the policy followed by Bank in the above cases are in accordance with AS-15.

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7. (a) From the following information, you are required to calculate the amount of net worth, current liabilities, long-term debt, fixed assets, current assets, inventory and debtors:

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Current ratio – 2.5 : 1

Sales/Net worth – 4 times

Sales to Inventory – 20 times

Annual sales – ₹ 40,00,000

Reserves and surplus – ₹ 3,50,000

Net worth/current liabilities – 5 times

Fixed assets to net worth – 75%

Total debts to Proprietors' ratio – 50%

Debtors velocity – 12 times

Fictitious assets – ₹ 50,000

75% of sales were on credit.

- (b) The Revenue Account of Sunlife Insurance Company shows the Life Insurance Fund on 31.3.2011 at ₹ 75,20,400 before taking into account the following items:

(i) Claim covered under re-insurance – ₹ 17,000

(ii) Bonus utilized in reduction of life insurance premium – ₹ 6,300

(iii) Interest accrued on securities – ₹ 13,240

(iv) Outstanding premium – ₹ 10,180

(v) Claim intimated but not admitted – ₹ 32,400

Calculate the assurance fund considering the above omissions.

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- (c) State the purpose and use of financial leverage ratio.

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8. Write short notes on (any three):

5×3=15

(a) 'Capital Base' of Electric Supply companies;

(b) Treatment of past losses of limited companies;

(c) Source of Buy-back of shares;

(d) Rebate on Bills discounted.