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

1.

A. Livestock in the case of mixed farming is a fixed asset.

B. Crops are valued at Economic Value.

C. Final Accounts of a farmer can be prepared under Single Entry Method.

D. The cash book usually maintained by the farmer is Analytical Cash Book.

E. Livestock purchased will figure in the balance sheet.

F. Cash: It comprises Cash on hand and demand deposits with banks.
Cash Equivalents: They are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

G. The main objective of Accounting Standard is to standardize the diverse accounting policies with a view to eliminate to the extent possible the incomparability of information provided in financial statements and add reliability to such financial statements.

H. (i) Going concern means that business has entered into a process of liquidation. False.

(ii) The principle of consistency requires that all business enterprises should follow the same method of accounting. False.

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

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

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

Working Notes:

Books A/c

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

Balance Sheet As at 31/03/2009

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

6.

Journals

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

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

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

Working Notes:

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

	Rs.
Total No. of shares applied (400 x 24,000/20,000) –	480
Total Money sent on application (480 x Rs. 3) –	1,440
Excess Application Money [Rs. 1,440 – (Rs. 400 x Rs. 3)] –	240
Total Money due on allotment [Rs. 1,600 – Rs. 240] –	Rs. 1,360

(ii) Calculation of allotment money received later on:-

		Rs.
Total allotment due (20,000 × Rs. 4)	—	80,000
Less: (a) Already received (4,000 × 3) – 12,000		
(b) Not received — 1,360	—	13,360
		66,640

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

7. (i) Sales:

Gross Profit Margin = 25%

Gross Profit / Turnover = 25/100

1,15,000 / Turnover = 25/100

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

Turnover or Sales = Rs. 4,60,000

(ii) Purchase:

Purchase = Cost of Goods sold + Closing Stock – opening Stock
= (Sales – Gross Profit) + (opening Stock + 15,000) – opening Stock
= (4,60,000 – 1,15,000) + 15,000
= 3,45,000 + 15,000

Purchase = Rs. 3,60,000

(iii) Sundry Creditors:

Creditors' velocity = Average Payables × 12 / Sundry Creditors

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

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

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

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

Closing Payables = Closing Sundry Creditors + Closing Bills Payable

∴ Closing Sundry Creditors = Closing Payables − Closing Bills Payable

= 90,000 − 8,000

= Rs. 82,000/-

(IV) Sundry Debtors:

Debtors' Velocity = Average Receivables X12 / Credit Sales

3 = Average Receivables X12 / 4,60,000

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

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

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

Closing Receivables = Closing Sundry Debtors + Closing Bills Receivables

∴ Closing Sundry Debtors = Closing Receivables − Closing Bills Receivables

= 1,15,000 − 10,000

= Rs. 1,05,000/-

(V) Closing Stock:

Stock Velocity = (Average Stock X12) / Cost of Goods sold

2 = (Average Stock X12) / (Sales − Gross Profit)

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

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

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

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

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

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

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

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

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

$\therefore \text{Closing Stock} = \text{Rs. } 50,000 + \text{Rs. } 15,000$

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

(vi) Fixed Assets:

$\text{Fixed Assets Turnover} = \dfrac{\text{Cost of Goods sold}}{\text{Net Fixed Assets}}$

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

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

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

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

(vii) Proprietary Fund:

$\text{Capital Turnover Ratio} = \dfrac{\text{Cost of Goods sold}}{\text{Capital Employed}}$

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

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

∴ Share Capital = Proprietary Fund − Reserves & Surplus
= Rs. 2,30,000 − Rs. 40,000
Share Capital = Rs. 1,90,000

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

(viii) Bank Balance:

(Share Capital + Reserves & Surplus + Sundry Creditors + Bills Payable) − (Fixed Assets + Stock + Debtors + Bills Receivable)

= Rs. (1,90,000 + 40,000 + 82,000 + 8,000) − Rs (1,38,000 + 65,000 + 1,05,000 + 10,000)

= Rs. 3,20,000 − Rs. 3,18,000
= Rs. 2,000/-

4. Profit & Loss Appropriation A/c

Dr. Cr.

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

PARTNERS' CURRENT A/cs

Dr. Cr.

in Rs.

Particulars	Weak	Able	Lazy	Particulars	Weak	Able	Lazy
To balance b/d	–	–	5,000	By balance c/d	10,000	5,000	–
" Drawings	15,000	10,000	10,000	" Interest on Capital	3,750	2,000	1,500
" Interest on Drawings	500	190	350				
				" P&L Appropriation	24,895	12,448	12,447
" Misc. Exps	1,000	–	–	" Balance c/d	–	–	1,403
" Travellings Exps	–	3,000	–				
" Balance c/d	22,145	6,258	–				
	38,645	19,448	15,350		38,645	19,448	15,350

Working Notes:

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