

INTERMEDIATE EXAMINATION

June, 2015

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.

Question No.1 is compulsory and answer any five from the rest.

1. (a) From the four alternative answers given against each of the following cases, indicate the correct answer (just state A,B,C or D): 1×6=6

(i) Bad debts recovered ₹ 750. It will be

- (A) credited to Bad debts a/c
- (B) credited to debtor's personal a/c
- (C) debited to creditor's personal a/c
- (D) credited to bad debts recovered a/c

(ii) Income Statement of a charitable institution is known as

- (A) Profit and Loss a/c
- (B) Receipts and Payments a/c
- (C) Income and Expenditure a/c
- (D) Statement of Affairs

(iii) A and B are partners in a firm sharing profits in the ratio of 4:3. They agreed to admit C in the firm for 1/6th share in profit. The new profit sharing ratio of A, B and C will be

- (A) 4 : 3 : 1
- (B) 3 : 2 : 1
- (C) 8 : 7 : 3
- (D) 20 : 15 : 7

(iv) AS - 6 is not applicable on

- (A) Livestock
- (B) Goodwill
- (C) Wasting asset
- (D) All of the above

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- (v) Generally gain ratio is concerned with the situation of
(A) admission of a new partner
(B) retirement of a partner
(C) dissolution of firm
(D) piece meal distribution
- (vi) Acid Test Ratio is an example of
(A) Profitability Ratio
(B) Balance Sheet Ratio
(C) Revenue Statement Ratio
(D) Activity Ratio
- (b) State whether the following statements are True (T) or False (F): 1×5=5
- (i) In absence of partnership deed the Profit or Loss should be distributed among partners in their Capital Ratio.
- (ii) Branch account is prepared in the books of Head office under debtors method of accounting.
- (iii) Balance of securities premium account is a source of buy-back of shares.
- (iv) No dividend is payable on calls in advance.
- (v) Costs incurred in salaries/wages in internally generated software are not included in the cost computation.
- (c) Fill in the blanks in the following sentences using appropriate word from the alternatives indicated: 1×5=5
- (i) Subscription is a _____ nature receipt. (capital/revenue)
- (ii) Average exchange rate is applicable for _____ in case of foreign branch. (fixed assets/ revenue items)
- (iii) Pooling of interest method of accounting is concerned with amalgamation in nature of _____. (merger/purchase)
- (iv) Redemption of _____ can be made by annual drawings. (preference shares/debentures)
- (v) Profit on life business is ascertained by preparation of _____. (revenue a/c/valuation balance sheet)
- (d) Match the following in column I with the appropriate item in column II: 1×5=5
- | <i>Column - I</i> | <i>Column - II</i> |
|--------------------------------|---------------------------------|
| (i) Capital Redemption Reserve | (A) Branch account |
| (ii) Earning per share | (B) Insurance company |
| (iii) Realisation account | (C) Dissolution of a firm |
| (iv) Remittance in transit | (D) Issue of bonus shares |
| (v) Reserve for unexpired risk | (E) Profitability Ratio |
| | (F) Banking company |
| | (G) No matching statement found |

(e) In the following cases, one out of four answers given is correct. Indicate the correct answer (= 1 mark) and give brief workings in support of your answer (=1 mark): 2×2=4

- (i) Purchase Cost of machinery ₹ 720000; Carriage inwards ₹ 15000; Transit insurance ₹ 8000; Establishment Charges ₹ 25000; Workshop Rent ₹ 25000; Salvage value ₹ 50000 and estimated working life 8 years. On the basis of Straight line method the amount of depreciation for third year will be
 (A) ₹ 96000
 (B) ₹ 89750
 (C) ₹ 88750
 (D) ₹ 91875
- (ii) Arti Ltd. purchased a machine on hire purchase system for a cash price ₹ 500000 to be paid as ₹ 78700 cash down and the balance by three equal annual instalment of ₹ 200000 each. If interest is charged @ 20% per annum then amount of interest payable in second instalment will be
 (A) ₹ 100000
 (B) ₹ 61112
 (C) ₹ 33328
 (D) ₹ 84260
2. (a) X, Y and Z are in partnership sharing Profits and Losses in the ratio 2 : 2 : 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of ₹ 1000000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.
 On 1/9/2014, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss. Other decisions taken on this date were as follows:
 (i) Firm's fixed capital to be raised to ₹ 1500000 and partners to maintain fixed capital in profit sharing ratio and, interest on capital shall be paid @ 10% per annum from 1/9/2014.
 (ii) No commission to be paid to Z from 1/9/2014.
 (iii) Goodwill is assessed at ₹ 300000.
 (iv) X was paid ₹ 250000 in cash on retirement.
 (v) Balance claim payable to X was to be credited to A's fixed capital account and current account.
 (vi) Profit for the accounting year 2014-15 before interest on capital, Z's commission was ₹ 900000.
 You are required to prepare:
 (i) Profit and Loss Appropriation account of the firm for the year ended 31st March, 2015.
 (ii) Partners Current accounts. 4+5=9
- (b) Chandra Limited has made plans for the next year 2015-16. It is estimated that the company will employ total assets of ₹ 9000000; 30% of assets being financed by debt at an interest cost of 10% p.a. The direct costs for the year are estimated at ₹ 5000000 and all other operating expenses are estimated at ₹ 750000. The sales revenue are estimated at ₹ 8500000. Tax rate is assumed to be 30%. Required to calculate:
 (i) Net profit margin;
 (ii) Return on Assets;
 (iii) Asset turnover; and
 (iv) Return on Equity.

3. (a) The following is an extract from the Trial Balance of Roshan Bank Ltd. as at 31st March, 2015.

	₹	₹
Bill discounted	15450000	
Rebate on bills discounted not yet due, April 1, 2014		91503
Discount received		436500

An analysis of the bills discounted as shown above shows the following:

Date of bills	Amount	Term months	Discounting percentage p.a.
January 13, 2015	2250000	4	12
February 17, 2015	1800000	3	10
March 6, 2015	1200000	4	11
March 16, 2015	600000	2	10

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. 8

- (b) The following items were extracted from the Balance Sheet of Poorva Ltd. as on 1st April, 2014:

	₹
9% Preference Share capital	4000000
Equity Share Capital fully paid up	10000000
Securities Premium	7000000
12% Debentures	10000000

Profit before interest on debentures and before payment of tax @ 30% is ₹ 11500000 for the year ended 31st March, 2015. The Board of Directors of the Company proposed a dividend of 15% on equity capital. The company also decided to transfer creation of general reserve @ 5% of net profit (i. e. ₹ 7210000). Corporate dividend tax is payable @ 16.995%. Pass the necessary journal entries to incorporate the Board's recommendations and show how the items concerned would be shown on the liabilities side of the Balance Sheet of Poorva Ltd. as on 31st March, 2015. It may be assumed that debenture interest has been paid. 7

4. (a) Following is the Balance Sheet of the Rashtriya Club as on 1st April, 2014:

Liabilities	₹	Assets	₹
Capital Fund	542500	Investment in 4% bonds	150000
Creditors	100000	Stock	60000
Subscription received in advance for 2014-15	30000	Outstanding subscriptions: For 2012-13	190000
Outstanding salaries	70000	For 2013-14	300000
		Balance at Bank	42500
	742500		742500

Following balances on 31st March, 2015:

Creditors ₹ 50000; Subscriptions for 2015-16 ₹ 40000; Cash at Bank ₹ 177000; Arrears of Subscriptions for 2013-14 ₹ 100000; Arrears of Subscriptions for 2014-15 ₹ 270000; Members arrears for provisions sold ₹ 40000.

Details of Transaction during 2014-15:

Subscription received out of arrears of 2012-13 ₹ 180000; Arrears of 2013-14 ₹ 170000; Cash sales of provisions ₹ 120000; Salaries paid ₹ 400000; Interest received ₹ 4500; 4% Bonds purchased ₹ 100000 on 1.4.2014; Cash purchases of provision ₹ 90000; Credit sale of provision to members ₹ 900000.

Other information:

Subscription during 2014-15 was ₹ 700000; Total purchase of provision ₹ 1090000; Profit on provisions ₹ 120000; the salaries for the year 2014-15 were ₹ 450000 and Rent ₹ 20000.

You are required to prepare the Receipts and Payments Account, and the Income and Expenditure account for the year ending 31st March, 2015. 10

- (b) Udhhami Furniture House sells goods on hire purchase basis by adding 20% on hire sales. Following information extracted from its books, prepare Hire Purchase Trading Account:

2014		₹	
April 1	Stock with hire purchase customers at hire purchase price	250000	
April 1	Stock at shop	56250	
April 1	Instalments overdue	15000	(c)
2015			
March 31	Cash received from HP customers during the year	737500	
March 31	Purchases for the year	625000	
March 31	Instalments overdue	27500	
March 31	Stock at shop	31250	
March 31	Stock with hire purchase customers at hire purchase price	312500	5

5. (a) Classify the following under personal, real and nominal accounts:

(i) Patent Rights	(ii) Outstanding Rent	(iii) Drawings	(iv) Live Stock
(v) Bank Overdraft	(vi) Advertisement	(vii) Export duty	(viii) Securities and Shares
(ix) Suspense	(x) Work-in-progress		5

- (b) On 1st January 2009, Licha Limited issued 10000, 15 year Debentures of ₹ 100 each bearing interest at 12% per annum. One of the conditions of issue was that the debentures could be redeemed by giving six months notice at any time after 5 years, at a premium of 10% either by payment in cash or by allotment of preference shares and/or other debentures according to the option of debentureholders. On 1st April, 2014 the company informed the debentureholders its intention to redeem the debentures on 1st October, 2014 either by payment in cash or by allotment of 8% Preference Shares of ₹ 100 each at ₹ 125 per share or by allotment of 13% Second Debentures of ₹ 100 each at ₹ 96 per debenture. Holders of 4000 debentures accepted the offer of the Preference Share and Holders of 4800 debentures accepted the offer of the 13% Second Debentures and the rest demanded cash. Redemption of debentures was completed on 1st October, 2014. Give Journal entries to record the transactions, relating to redemption. 10

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6. (a) The proprietors of Dhoora Departmental store wish to ascertain approximately separate net profits of their two particular departments A and B for the year ended 31st March, 2015. It is not possible to take stock on that date. However, normal rates of Gross Profit (before charging direct expenses) for the department concerned were 40% and 30% on sales respectively. There are six departments in all in the store. The following figures were extracted from the books for the year ending 31st March, 2015:

	Deptt. A	Deptt. B
	₹	₹
Stock (April 1, 2014)	300000	280000
Sales	1400000	1200000
Purchases	900000	720000
Direct Expenses	183000	284000

The total indirect expenses of all the six departments for the period were ₹ 360000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹ 1400000. The Manager of each department is also entitled to a commission of 2 per cent on the turnover of his department. Prepare Departmental Trading and Profit & Loss account in columnar form for the year ending 31st March, 2015 making a stock reserve of 5% for each department on the estimated value of stock on 31st March, 2015.

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- (b) The Trial balance of Karma Ltd as at 31.3.2014 shows the following items :

	Debit ₹	Credit ₹
Advance payment of Income Tax	1,50,000	
Provision for Taxation for year ended 31.3.2013		1,00,000

Following further information are given :

- Advance payment of Income Tax includes ₹ 1,30,000 for 2012-13
 - Actual tax liability for 2012-13 amounts to ₹ 1,35,000. No effect for the same has been so far given in the accounts.
 - Provision for Income Tax to be made for year 2013-14 amounted to ₹ 2,00,000
- you are required to pass the necessary Journal entries for above.

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7. (a) On 1st April, 2009 Mahi Limited obtained a mine on lease from Kachari Limited. The terms were as follows:
- Royalty at ₹ 25 per tonne raised.
 - Minimum Rent ₹ 150000 per annum.
 - Shortworkings can be recouped in the next two years only but subject to a maximum of ₹ 37500 per year. In the event of strike, the minimum rent would be taken pro-rata on the basis of actual working days but in the event of lockout, the lease would enjoy concession in respect of minimum rent for

50% of the period of lockout. In addition to the above, Mahi Ltd. has been granted a right to receive cash subsidy equal to 50% of the Unrecoupable shortworkings by the State Government up to the first 5 years of the lease.

The production during the first six years was as follows :-

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Production (Tonnes)	2000	3000	8000	9000	4000	6000
					(Period of strike for 73 days)	(Lockout for two months)

Show the necessary Ledger Accounts in the books of Mahi Limited.

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(b) Give the title names of the following Accounting Standards (AS) :

S.No.	As	Title Name
(i)	AS-3	_____
(ii)	AS-9	_____
(iii)	AS-12	_____
(iv)	AS-18	_____
(v)	AS-27	_____

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8. Write short notes on (any three):

5×3=15

- Distinguish between Capital Expenditure and Revenue Expenditure.
- Disclosure requirement under AS-13.
- Importance of Ratio Analysis
- Restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies.
- Advantages of Rights issue.