

# **SCANNER**

## **SECTION-II**

**Compiles Question asked in the Intermediate  
Examination of ICWAI under Syllabus 2008 in  
December '08 and June '09.**

**[GROUP - I]**

# FINANCIAL ACCOUNTING

## ACCOUNTING CONVENTIONS AND PRACTICES

### Objective -Type Questions :

- Q1. Distinguish between liability and provisions. [Ref: Q1. (a), June '09 / Paper-5] 3
- Q2. State whether following statements are true or false :
- (i) Goodwill is a fictitious assets.
  - (ii) Land is a depreciable asset. [Ref: Q1. (d), June '09 / Paper-5] 4

### Descriptive & Practical Questions :

- Q1. Materiality concept. [Ref: Q8. (e), Dec '08 / Paper-5] 3
- Q2. What are the objects of charging depreciation and problems of measurement of depreciation? Explain. [Ref: Q2. (b), June '09 / Paper-5] 5
- Q3. State the advantages and disadvantages of Weighted Average method of valuation of inventory. [Ref: Q5. (b), June '09 / Paper-5] 5

## ROYALTY

### Descriptive & Practical Questions :

- Q1. Define the Concept of Minimum/Dead Rent. [Ref: Q3. (b), June '09 / Paper-5] 5

## HIRE PURCHASE

### Objective -Type Questions :

- Q1. Choose the correct answer :  
Under the hire-purchase system the buyer becomes the owner of goods :
- (i) Immediately after the delivery of goods.
  - (ii) Immediately after the down payments.
  - (iii) Immediately after the first instalment is paid.
  - (iv) Immediately after the payment of last instalment. [Ref: Q1. (h), Dec. '08 / Paper-5] 3

### Descriptive & Practical Questions :

- Q1. Sunshine Company sells goods for cash and on hire purchase and latter being the cash retail price plus 12.5% thereon. Following are the particulars for the year ended 31st December, 2007 :

	Rs.
Stock with hire purchase (at hire purchase price) with customers on 1.1.2007	29,700
Purchase during the year	1,58,400
Stcok at shop :	
On 1.1.2007	22,000
On 31.12.2007	<u>26,400</u>
Cash Sales during the year	79,200
Cash received during the year (Hire purchase instalments)	1,01,750
Instalments due but not received :	
On 1.1.2007	4,400
On 31.12.2007	6,600
Hire purchase sales during the year	1,18,800

Prepare the following :

- (a) General Trading Account.
- (b) Hire Purchase Trading Account.
- (c) Hire Purchase Sales Account, for the year ended 31st December, 2007. [Ref: Q4. (a), June '09 / Paper-5] 10

- Q2. Distinguish between Hire Purchase System and Instalment System. [Ref: Q4. (b), June '09 / Paper-5] 5

## RECEIPTS & PAYMENTS/INCOME & EXPENDITURE ACCOUNTS

### Objective -Type Questions :

- Q1. A non-profit organisation has furnished the following data in connection with finalisation of accounts for the year ended 31st March 2008 :

	Rs.
Membership subscriptions received as per books	57,000
Subscription in arrear for 2007-08	1,400
Contribution to indoor games section included in item no. one above	2,000
Advance receipt of subscriptions (for 2008-09)	480
Subscription outstanding for 2006-07 now received	3,000

The amount of subscription to be taken as income for 2007-08 is

A : Rs. 57,000, B : Rs. 51,520, C : Rs. 55,000, D : Rs. 52,920, Select the correct one.

[Ref : Q1. (f), Dec. '08 / Paper-5] 3

### Descriptive & Practical Questions :

- Q1. The income and expenditure account of an association for the year ended 31st March 2008 is as under :

	Rs.		Rs.
To Salaries	1,20,000	By Subscription	1,70,000
Printing and Stationery	6,000	Entrance fee	4,000
Telephone	1,500	Contribution for dinner	36,000
Postage	500		
General expenses	12,000		
Interest and bank charges	5,500		
Audit fees	2,500		
Annual dinner expenses	25,000		
Depreciation	7,000		
Surplus	30,000		
Total	2,10,000		2,10,000

The aforesaid income and expenditure account has been prepared after the following adjustments :

Subscription outstanding as on 31st March 2007	16,000
Subscription outstanding on 31st March 2008	18,000
Subscription received in advance as on 31st March 2007	13,000
Subscription received in advance as on 31st March 2008	8,400

Salaries outstanding as on 31st March 2007	6,000
Salaries outstanding as on 31st March 2008	8,000
Audit fees for 2006-2007 paid during 2007-2008	2,000
Audit fee for 2007-2008 not paid	2,500
The building owned by the association since 1990 costs	1,90,000
Equipment as on 31st March 2007 valued at	52,000
At the end of the year after depreciation of Rs. 7,000, equipment amounted to	63,000
In 2006-2007, the association raised a bank loan of which is still not paid	30,000
Cash in hand as on 31st March 2008	28,500

You are required to prepare Receipts and Payments Account of the association for the year ended 31st March 2008 and the Balance Sheet as at that date.

[Ref: Q6. (a), Dec. '08 / Paper-5] 10

Q2. Distinguish between 'Receipts and Payments Account' and 'Income and Expenditure Account'.

[Ref: Q6. (b), Dec. '08 / Paper-5] 5

Q3. The following is the Receipts and Payment Account of Sodepore Recreation Club for the year ended 31.12.2008 :

	Rs.		Rs.
To Cash in hand	1,000	By Rent of Club House	2,600
" Cash at Bank	12,000	" Painting of Club House	1,400
" Members' Subscription		" Wages of Ground Maintenance	3,000
2007           200		" General Expenses	2,600
2008           3,600		" Electricity Charges	3,600
2009           400	4,200	" Investment	20,000
" Life Membership Subscription	4,000	" Secretary's Honorarium	1,200
" Sale of Ticket of annual exhibition	20,000	" Annual Meeting Expenses	800
" Sale of refreshment	24,000	" Sports Equipment	3,600
" Interest on investment	2,600	" Purchase of refreshment	11,000
" Sale of furniture	200	" Printing & Stationery	1,000
(Original Cost on 1.1.02		" Insurance	600
Rs. 1,000)		" Cash in hand	4,000
		" Cash at Bank	12,600
	<u>68,000</u>		<u>68,000</u>

The following information are available to you :

- On 31.12.2007 outstanding subscription for 2007 was Rs. 300.
- On 31.12.2007 advance subscription for 2008 received was Rs. 100.
- On 31.12.2008 outstanding subscription for 2008 was Rs. 600.

[Ref: Q6. (b), Dec. '08 / Paper-5] 5

## PARTNERSHIP ACCOUNTING

### Objective -Type Questions :

- Q1. A & B are two partners of a firm sharing the profits & losses in the ratio of 7/12 and 5/12 respectively. On 1st April 2008 they take C as a partner giving him 1/6 share. A & B agreed further to share the future profits in the ratio of 13/24 and 7/24 respectively. C, in addition to his capital, brings in Rs. 96,000 as his goodwill for 1/6 share. This goodwill amount is to be shared between A & B.

The share of goodwill amount of A & B respectively will be :

- A : Rs. 24,000 and Rs. 72,000
- B : Rs. 72,000 and Rs. 24,000
- C : Rs. 56,000 and Rs. 40,000
- D : Rs. 52,000 and Rs. 44,000

Choose the correct answer .:

[Ref : Q1. (g), Dec. '08 / Paper-5] 3

- Q2. State briefly the Rule of Gerner vs. Murray.

[Ref : Q1. (f), June '09 / Paper-5] 4

### Descriptive & Practical Questions :

- Q1. A and B carry on independent business in provisions and their position as at 31.03.09 are reflected in the Balance Sheets given below :

	A Rs.	B Rs.
Stock in Trade	1,70,000	98,000
Sundry Debtors	89,000	37,000
Cash at Bank	13,000	7,500
Cash in hand	987	234
Furniture and fixture	2,750	1,766
Investments	513	—
	2,76,250	1,44,500
Represented by Sundry Creditors for		
Purchases	1,10,000	47,000
Expenses	13,250	2,000
Caipital Account	1,53,000	95,500
	2,76,250	1,44,500

Both of them want to form a partnership firm from 1st April, 2009 on the following understanding :

- (a) The capital of the partnership would be Rs. 3 lakhs which would be contributed by them in the ratio of 2 : 1.

(b) The assets of the individual business would be evaluated by C at which values, the firm will take them over and the value would be adjusted against the contribution due by A and B.

(c) C gave his valuation report as follows :

Business of A : Stock in Trade to be written down by 15% and a portion of Sundry Debtors amounting to Rs. 9,000 estimated unrealisable not to be assumed by the firm; furniture and fixtures to be valued at Rs. 2,000 and investments to be taken of market value of Rs. 1,000.

Assets of B : Stocks to be increased by 10%, and Sundry Debtors to be admitted at 85% of their value; rest of the assets to be assumed at their book value.

(d) The firm is not to assume any Creditors other than dues on account of purchase made.

Prepare the opening Balance Sheet of the firm. [Ref: Q5. (a), June '09 / Paper-5] 10

Q2. Suchandra, Ashmita and Kasturi were running partnership business sharing Profit and Losses in 2 : 2 : 1 ratio. Their Balance Sheet as on 31.03.2008 stood as following :

(Rs. in 000's)

<i>Liabilities</i>	Rs.	Rs.	<i>Assets</i>	Rs.	Rs.
Fixed Capital :			Fixed Assets		920.00
Suchandra	690.00		Investment		115.00
Ashmita	460.00		Current Assets :		
Kasturi	<u>230.00</u>	1,380.00	Stock	230.00	
Current Account :			Debtors	632.50	
Suchandra	138.00		Cash at Bank	<u>287.50</u>	1,150.00
Kasturi	<u>92.00</u>	230.00			
Unsecured Loan		230.00			
Current Liabilities		<u>345.00</u>			
		2,185.00			<u>2,185.00</u>

On 1.4.2008, they agreed to form new company Tata (P) Ltd. with Ashmita and Kasturi each taking up 460 eq. share of Rs. 10 each, which shall take over the firm as going concern including Goodwill, but excluding cash and bank balance.

The following are also agreed upon :

- Goodwill will be valued at 3 years purchase of super profit.
- The actual profit for the purpose of Goodwill valuation will be Rs. 4,60,000.
- The normal rate of return will be 18% p.a. on Fixed Capital.
- All other assets and liabilities will taken at Book value.
- Ashmita and Kasturi are to acquire interest in the new company at the ratio 3 : 2.
- The purchase consideration will be payable partly in shares of Rs. 10 each and partly in cash. Payment in cash being to meet the requirement to discharge Suchandra, who has agreed to retire.
- Realisation expenses amounted to Rs. 1,17,300.

You are required to close the books of the firm by passing necessary journal entries.

[Ref: Q4. (a), Dec. '08 / Paper-5] 10

## BRANCH AND DEPARTMENTAL ACCOUNTS

### Descriptive & Practical Questions :

Q1. Write short notes on treatment of abnormal losses in Branch Account.

[Ref: Q4. (b), Dec. '08 / Paper-5] 5

## ACCOUNTING STANDARDS

### Objective -Type Questions :

Q1. Match the following :

- |          |  |
|----------|--|
| I AS-1   | I Contingencies and events occurring after the Balance Sheet date. |
| II AS-3  | II Accounting for Fixed Assets.                                    |
| III AS-4 | III Disclosure of Accounting policies.                             |
| IV AS-10 | IV Cash flow statement. [Ref: Q1. (d), Dec. '08 / Paper-5] 4       |

Q2. Match the following :

- |          |  |
|----------|--|
| 1. AS-7  | (i) Earning per Share                            |
| 2. AS-9  | (ii) Construction Contracts (Revised)            |
| 3. AS-19 | (iii) Revenue Recognition                        |
| 4. AS-20 | (iv) Leases [Ref: Q1. (c), June '09 / Paper-5] 3 |

Q3. State whether the following statements are true or false :

- (i) AS-26 applies when computer software is acquired for sale in the ordinary course of business.  
 (ii) Cost incurred in salaries/wages in internally generated software are included in the cost computation. [Ref: Q1. (g), June '09 / Paper-5] 3

### Descriptive & Practical Questions :

Q1. Mention any five areas in which different accounting policies may be adopted by different enterprises. [Ref: Q3. (b), Dec. '08 / Paper-5] 5

Q2. Segment reporting. [Ref: Q8. (d), Dec. '08 / Paper-5] 5

Q3. State clearly the provisions contained in the Accounting Standard in respect of Revaluation of fixed Assets. [Ref: Q6. (b), June '09 / Paper-5] 5

Q4. Disclosure requirement in a case where the companies do not comply with Accounting standard. [Ref: Q8. (d), June '09 / Paper-5] 3

## JOINT STOCK COMPANIES

### Objective -Type Questions :

- Q1. Distinguish between shares and stock. [Ref: Q1. (a), Dec. '08 / Paper-5] 3
- Q2. What is meant by Revesionary Bonus? [Ref: Q1. (e), Dec. '08 / Paper-5] 3
- Q3. Choose the correct answer :  
The excess amount received over the face value of shares, should be credited to  
(i) Current Liabilities;  
(ii) Currents Assets;  
(iii) Reserves & Surplus;  
(iv) Securities Premium Account. [Ref: Q1. (b), June '09 / Paper-5] 3
- Q4. Can dividend be declared out of Security Premium Account? [Ref: Q1. (e), June '09 / Paper-5] 3
- Q5. State whether the following statements are true or false :  
(i) Capital Redemption Reserve Account is created to meet legal requirements.  
(ii) Partly paid-up preference shares can be redeemed.  
(iii) Capital Redemption Reserve Account cannot be utilised for issuing fully paid bonus shares. [Ref: Q1. (h), June '09 / Paper-5] 3

### Descriptive & Practical Questions :

- Q1. Mention any five purposes for which share premium account can be utilised. [Ref: Q3. (a), Dec. '08 / Paper-5] 5

- Q2. The summarized balance sheet of A Co. Ltd. as on 30th June 2008 is as under :

Share Capital :	
10% redeemable preference shares of Rs. 100 each	10,00,000
Equity shares of Rs. 10 each	15,00,000
12% Debentures	7,00,000
Revenue reserves	40,00,000
Total	72,00,000
Represented by Net assets	72,00,000

The redeemable preference shares were due for redemption on 31st August 2008 and were redeemed and duly paid off. The company is permitted to redeem the debentures at any time at a premium of 10% and did so on 30th September 2008.

The company was in a reasonably liquid position but to assist in providing funds for redemption of the redeemable preference shares, a rights issue of equity shares was made. 20000 equity shares were issued for cash at a premium of Rs. 20 per share, Rs. 12.50 payable on application

on 15th July 2008 and the balance on allotment on 31st July 2008. All cash due was received on the due dates.

During the three months ended 30th September 2008, the company traded at a profit of Rs. 2,50,000.

Required :

- (i) Pass journal entries (including cash transactions) showing the relevant entries in respect of the above.
- (ii) Prepare summarized balance sheet of the company as on 30th September 2008.

[Ref: Q7. (a), Dec. '08 / Paper-5] 10

Q3. Reserve Capital. [Ref: Q8. (e), June '09 / Paper-5] 3

Q1. Bonus shares. [Ref: Q8. (c), Dec. '08 / Paper-5] 3

Q2. Discuss the conditions of Companies Act with regard to buy-back of shares.  
[Ref: Q7. (b), June '09 / Paper-5] 5

## PREPARATION OF COMPANY ACCOUNTS

### Descriptive & Practical Questions :

Q1. Preparation the Balance Sheet as at 31st March, 2008 from the particulars furnished by Vision Ltd., as per Schedule VI of Companies Act.

	Rs.
Equity Share Capital (Rs. 10 each fully paid)	8,00,000
Calls in arrear	800
Land	1,60,000
Building	2,80,000
Plant & Machinery	4,20,000
Furniture	40,000
General Reserve	1,68,000
Loan from IDBI	1,20,000
Loans (Unsecured)	96,800
Provision for Taxation	54,400
Sundry Debtors	1,60,000
Advances (Dr.)	34,160
Proposed dividend	48,000
Profit & Loss A/c.	80,000
Cash balance	24,000
Cast at Bank	1,97,000
Preliminary Expenses	10,640
Sundry Creditors (For goods & expenses)	1,60,000
Stock :	
Finished goods	1,60,000
Raw material	<u>40,000</u>
	2,00,000

*Adjustment :*

- (i) 1500 equity shares were issued for consideration other than cash.
- (ii) Loan of Rs. 1,20,000 fro IDBI is inclusive of Rs. 6,000 for interest accrued but not due. The loan is hypothecated by plant & machinery.
- (iii) Debtors of Rs. 50,000 are due for more than six months.
- (iv) The cost of assets :

	Rs.
Building	3,20,000
Plant & Machinery	5,60,000
Furniture	50,000

- (v) Bank balance includes Rs. 2,000 with Trust Bank Ltd., which is not a schedule Bank.
- (vi) Bills receivable for Rs. 2,20,000 maturing on 30th June, 2008 have been discounted.
- (viii) The company had contract for the erection of machinery at Rs. 1,50,000 which is still incomplete.

[Ref: Q2. (a), June '09 / Paper-5] 10

## ACCOUNTING SERVICES IN ORGANIZATIONS

### Objective -Type Questions :

Q1. Match the following items shown below :

- |                       |                         |
|-----------------------|-------------------------|
| I Cash Reserve        | I Electric Supply Co.   |
| II Clear Profit       | II Construction Company |
| III Escalation clause | III Banking Company     |

[Ref: Q1. (b), Dec. '08 / Paper-5] 3

Q2. Choose the correct answer :

The amortization of amount of software commences from the date when it is

- (i) available for use
- (ii) put to use
- (iii) developed upto 75%.

[Ref: Q1. (c), Dec. '08 / Paper-5] 3

### Descriptive & Practical Questions :

Q1. Distinguish between Statutory Reserve and Cash Reserve in respect of Banking Companies.

[Ref: Q5. (b), Dec. '08 / Paper-5] 5

Q2. Escrow Account.

[Ref: Q8. (a), June '08 / Paper-5] 3

Q3. Statutory Reserve in case of Bank.

[Ref: Q8. (c), June '08 / Paper-5] 3

Q4. Kanpur Electric Supply Company rebuild and reequipped one of their plant at a cost of Rs. 80,00,000. The old plant thus, superceded, cost of Rs. 30,00,000. The capacity of new plant is thrice of the old plant. Rs. 1,00,000 realised from sale of old materials. Four old motors valued at Rs. 2,00,000 salvaged from old plant, were used in the construction. The cost of labour and material was respectively 20% and 25% lower than now.

The proportion of labour to material in the plant then and now in 2 : 1. Show the journal entries for recording the above transactions if accounts are maintained under double entry system.

[Ref: Q3. (a), Dec. '08 / Paper-5] 10

Q5. Double Accounting system.

[Ref: Q8. (b), Dec. '08 / Paper-5] 3

Q6. Following balance have been extracted from the books of an electricity company at the end of 2007 :

	(Figures in '000)
Share Capital	1,00,000
Reserve fund (investment in 4.5% Govt. securities at par)	50,00
Contingencies reserve investment in 5% State Loan	10,00
8% debenture	20,00
Loan from State Electricity Board	40,00
Development Reserve	10,00
Fixed Assets	2,00,00
Depreciation reserve on fixed assets	50,00
Consumer deposit	55,00
Amount contributed by consumer for fixed assets	1,00
Intangible assets	5,00
Tariffs and dividend control reserve	5,00
Current Assets (monthly average)	20,00

The company earns a profit of Rs. 8,50,000 (after tax) in 2007. Show how the profit is to be dealt with by the company, assuming bank rate is 5%. [Ref: Q5. (a), Dec. '08 / Paper-5] 10

Q7. Re-insurance. [Ref: Q8. (a), Dec. '08 / Paper-5] 3

Q8. The following balances have been extracted from the books of Star Insurance Co. Ltd. for the year ending 31st December, 2006 :

	Rs.
Amount of Life Assurance at the beginning of the year	12,56,450
Claims by death	93,584
Claims by maturity	77,136
Premia	1,68,457
Expenses of management	23,912
Commission	29,233
Consideration for annuities	8,496
Interest, dividends and rents	41,969
Income-tax paid on profit	2,448
Surrenders	17,414
Annuities	23,536
Bonus paid in cash	7,560
Bonus paid in reduction of premium	2,800
Preliminary expenses	480
Claims admitted but not paid at the end of the year	64,027
Annuities due but not paid	17,904
Capital paid up	4,80,000

Government Securities	13,52,712
Sundry Assets	4,54,488
Investment Reserve	48,000

Prepare the Revenue Account and the Balance Sheet after taking into account the following :

	Rs.
(i) Claims covered under re-insurance	8,000
(ii) Further claims intimated	6,400
(iii) Further bonus utilised in reduction of premium	1,200
(iv) Interest accrued	12,320
(v) Premium outstanding	5,920
(vi) Bonus surrendered	4,000

[Ref: Q3. (a), June '08 / Paper-5] 10

## ACCOUNTING INTERPRETATION OF FINANCIAL STATEMENTS

Q1. Solvency Ratio. [Ref: Q8. (b), June '08 / Paper-5] 3

Q2. From the following information relating to ND Ltd, prepare a Balance Sheet as on 31.12.2007.

Current Ratio – 2
Fixed Assets/Shareholders' net worth – .60
Reserve & Surplus/share capital – .25
Average Debt collection period – 2 months
G. P. Ratio – 25%
Cost of sales/closing stock – 9 times
Net working Capital – Rs. 4,00,000
Liquid Ratio – 1.5

[Ref: Q2. (a), Dec. '09 / Paper-5] 10

Q10. The following extracts of financial information relate to Complex Ltd. :

	(Rs. in lakhs)	
Balance Sheet as at 31st March	2008-09	2007-08
	Rs.	Rs.
Share Capital	10	10
Reserves and Surplus	30	10
Loan Funds	60	70
	<u>100</u>	<u>90</u>
Fixed Assets (Net)	<u>30</u>	<u>30</u>

	(Rs. in lakhs)	
Balance Sheet as at 31st March	2008-09	2007-08
	Rs.	Rs.
<b>Current Assets :</b>		
Stock	30	20
Debtors	30	30
Cash at Bank	10	20
Others Current Asset	<u>30</u>	<u>10</u>
	<u>100</u>	<u>80</u>
<i>Less : Current Liabilities</i>	<u>30</u>	<u>20</u>
Net	<u>70</u>	<u>60</u>
Total Assets	<u>100</u>	<u>90</u>
Sales (Rs. lakhs)	<u>270</u>	<u>300</u>

- (i) Calculate for the two years Debt Equity Ratio, Quick Ratio and Working Capital Turnover Ratio.
- (ii) Find the Sales volume that should have been generated in 2008-09 if the company were to have maintained its Working Capital Turnover Ratio.

*Note :* All Current Liabilities are quick liabilities.      [Ref: Q6. (a), June '08 / Paper-5] 10