

## INTERMEDIATE EXAMINATION

June 2009

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 from the rest.*

1. (a) Distinguish between liability and provisions. 3
- (b) Choose the correct answer: 3
- The excess amount received over the face value of shares, should be credited to
- (i) Current Liabilities;
  - (ii) Current Assets;
  - (iii) Reserves & Surplus;
  - (iv) Securities Premium Account.
- (c) Match the following: 3
- |          |                                       |
|----------|---------------------------------------|
| 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                           |
- (d) State whether following statements are true or false: 3
- (i) Goodwill is a fictitious asset.
  - (ii) Land is a depreciable asset.
- (e) Can dividend be declared out of Security Premium Account? 3
- (f) State briefly the Rule of Garner vs. Murray. 4
- (g) State whether the following statements are true or false: 3
- (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.
- (h) State whether the following statements are true or false: 3
- (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.

Please Turn Over

2. (a) Prepare 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
Cash at Bank	1,97,600
Preliminary Expenses	10,640
Sundry Creditors (For goods & expenses)	1,60,000
Stock:	
Finished goods	1,60,000
Raw material	40,000
	2,00,000

*Adjustment:*

- (i) 1500 equity shares were issued for consideration other than cash.
- (ii) Loan of Rs. 1,20,000 from 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 scheduled Bank.
- (vi) Bills receivable for Rs. 2,20,000 maturing on 30th June, 2008 have been discounted.
- (vii) The company had contract for the erection of machinery at Rs. 1,50,000 which is still incomplete.

- (b) What are the objects of charging depreciation and problems of measurement of depreciation? Explain. 5

3. (a) 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	10

- (b) Define the Concept of Minimum/Dead Rent. 5

4. (a) 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
Stock 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. 10  
 (b) Hire Purchase Trading Account. 5  
 (c) Hire Purchase Sales Account, for the year ended 31st December, 2007.
- (b) Distinguish between Hire Purchase System and Instalment System.

Please Turn Over

5. (a) 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 fixtures	2,750	1,766
Investments	513	—
	<u>2,76,250</u>	<u>1,44,500</u>
Represented by Sundry Creditors for		
Purchases	1,10,000	47,000
Expenses	13,250	2,000
Capital Account	1,53,000	95,500
	<u>2,76,250</u>	<u>1,44,500</u>

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 the dues on account of purchases made.

Prepare the opening Balance Sheet of the firm. 10

- (b) State the advantages and disadvantages of Weighted Average method of valuation of inventory. 5

6. (a) The following extracts of financial information relate to Complex Ltd.:

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

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

Note: All Current Liabilities are quick liabilities.

- (b) State clearly the provisions contained in the Accounting Standard in respect of Revaluation of fixed Assets. 5

7. (a) 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	.. 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:

- (a) On 31.12.2007 outstanding subscription for 2007 was Rs. 300.  
(b) On 31.12.2007 advance subscription for 2008 received was Rs. 100.  
(c) On 31.12.2008 outstanding subscription for 2008 was Rs. 600.

Please Turn Over

- (d) A life membership scheme was introduced in 2007. Under this scheme, life membership premium is Rs. 1,000 and it was to be apportioned to income 1/10th every year over a period of 10 years. Life membership subscriptions totalling Rs. 5,000 was collected during 2007.
- (e) On 1.1.2008 Investment was Rs. 40,000 and accrued interest on such date was Rs. 2,400.
- (f) On 1.1.2007 furniture costing Rs. 16,000 were purchased and it was decided to write off depreciation on furniture and sports equipment @ 10% on cost.
- (g) In 2007, a plot of land was purchased for Rs. 20,000 to construct Club House.
- (h) Other assets & liabilities of club were (all figures in rupees) as follows:

	Stock of refreshment	Prepaid Insurance	Accrued Rent	Creditors for refreshment
31.12.2007	Rs. 3,800	Rs. 140	Rs. 400	Rs. 800
31.12.2008	Rs. 4,200	Rs. 100	Rs. 200	Rs. 1,000

10

- (b) Discuss the conditions of Companies Act with regard to buy-back of shares.

5

8. Write short notes on:

3×5=15

- (a) Escrow Account;
- (b) Solvency Ratio;
- (c) Statutory Reserve in case of Bank;
- (d) Disclosure requirement in a case where the companies do not comply with Accountancy standard;
- (e) Reserve Capital.