PAPER – 5
FINANCIAL ACCOUNTING

TEST PAPER –I/5/FAC/2008/T-3

Time Allowed: 3 Hours Full Marks: 100

Answer Q.No.1 and any four Questions from the rest

Q1) Indicate the correct answer:

1. Profit or loss for the period includes
(a) Ordinary activities
(b) Extraordinary activities
(c) Prior period items
(d) All the above

2. The perception of extraordinary events must be made with reference to
(a) Business ordinarily carried on by an enterprise
(b) The frequency with which such events are expected to occur
(c) Both (a) and (b)
(d) The size of the transaction

3. Prior period items must be shown
(a) In the current profit and loss account along with the ordinary activities
(b) In the current profit and loss account in a manner that their impact on the current profit or loss can be perceived
(c) As adjustments to reserves
(d) As a separate item in the balance sheet

4. A change in the estimated life of the asset, which necessitates adjustment in the depreciation, is an example of
(a) Prior period item
(b) Ordinary item
(c) Extraordinary item
(d) Change in the accounting estimate

5. A change in the accounting policy should be made
(a) When states so direct
(b) For compliance with an accounting standard
(c) For better presentation of financial statements
(d) All the above.

6. The stage of completion of a contract is determined on the basis of:
(a) Proportion of costs incurred to date to the estimated total contract costs
(b) Survey of work performed

(c) Completion of physical proportion of the contract work
(d) Either (a) or (b) or (c)

7. Revenue is recognized on the basis of:
(a) Percentage of contract completion
(b) Architect's certificates
(c) Payment received from the customer
(d) Either (a) or (c)

8. Items of fixed assets that have been retried from active use and are held for disposal should be stated at:
(a) Net book value
(b) Net realizable value
(c) Lower of the net book value and net realizable value
(d) Higher of the net book value and net realizable value

9. Estimated total loss on the contract:
(a) Spread over accounting periods equally
(b) Must be recognized as an expense immediately
(c) Allocated on the basis of architects certificates
(d) Allocated on the basis of percentage of completion

10. Selling and distribution costs are not included in cost of inventories because they
(a) are negligible
(b) do not relate to bringing the inventories in their present location and condition
(c) are period costs
(d) are in relation to specific customers

Q2) Bright Ltd issued Rs. 6,00,000 debentures during 2000 on the following terms and conditions:

(i) A sinking fund to be created by yearly appropriations of profits and similar amount to be invested outside.

(ii) The company will have the right to purchase for cancellation debentures from the market if available below per value.

(iii) The debentures are to be redeemed on 31st December, 2005 at a premium of 2%. The following balances appeared in the books of company as on 1st January, 2005: sinking fund investment Rs.4,43,250; sinking fund Rs. 4,43,250; debentures account Rs. 4,50,000.

The following transactions took place during the subsequent twelve months:

(a) On 1st July, 2005 Rs. 30,000 debentures were purchased for Rs. 26,664 and cancelled immediately the amount being provided out of sale proceeds of investments of the book value of Rs. 34,800 at Rs. 33,900.

(b) The income from sinking fund investment Rs. 22,200, received on 1st July, 2005 was not invested.

(c) On 29th December, 2005 Rs. 4,23,000 was received on sale of the remaining sinking fund investments.

(d) On 31st December, 2005 the remaining debentures were redeemed.

You are required to show for the year ended 31st December, 1986:

(i) Debentures account
(ii) Sinking fund account
(iii) Sinking fund Investment account

(iv) Debenture redemption account.

Q3) Nariman Electronics Limited obtained necessary license for manufacture and sale of Television sets. As a part of financing the project 500,00,000 equity shares of Rs. 10 each were issued at a premium of 20 % on the following terms.
Value of each share is payable as follows:

On application	Rs. 8 (Including Premium)
On allotment	Rs. 4
On first call	Rs. 2
On second and final call	Rs. 1

Applications were received for 600,00,000 shares. Allotments were made on the following basis:
(a) To applicants for 100,00,000 shares in full.
(b) To applicants for 200,00,000 shares 150,00,000 shares.
(c) To applicants for 300,00,000 shares 250,00,000 shares.
All excess amounts paid on application to be adjusted against next calls.
The shares were fully called and paid up except the following.

1) Failed to pay the allotment money by those who applied for 200,000 shares belongs to Group B.
2) First and second calls not paid by those who were allotted for 100,000 shares belong to Group C.

All those shares were forfeited by the Board of Directors after Final call was made.
150,000 forfeited shares were re-issued as fully paid on receipt of Rs. 12 per share.
Show journal entries including those relating to cash and show the resultant Balance Sheet.

Q4) Kuber Ltd. Furnishes you with the following Balance Sheet as at 31st March, 2000:

Sources of funds:		(Rs. In crores)
Share Capital:	100	
Authorised		
Issued:		
12% Redeemable preference shares of		
Rs. 100 each fully paid	75	
Equity shares of Rs. 10 each fully paid	25	100
Reserves and surplus:		
Capital reserve	15	
Security premium	25	
Revenue reserves	260	300
		400
Funds employed in:		
Fixed assets: Cost	100	
Less: Provision for deprecation	100	nil
		100
Investments at cost (market value Rs. 400 Cr.)		
Current assets	340	
Less: Current Liabilities	40	300
		400

The company redeemed preference shares on 1st April 2000. It also bought back 50 lakh equity shares of Rs. 10 each at Rs. 50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets. Holder of 10000 shares not being traceable.
After completion of All the above decision a bonus issue was made in the form of 1 equity share for every 5 shares held.
You are required to:

(i) Pass journal entries to record the above.
(ii) Prepare balance sheet.

Q5) Eskay Ltd. was incorporated on 1.08.2005 to take over the business of PK & Co. with effect from 01.04.2005. The Company received the Certificate for Commencement of business on 1st October 2005. The following profit and loss account was prepared for the year ended 31st March 2006.

Particulars	Rs'000	Particulars	Rs'000
Office salaries	21,000	Gross Profit b/d	80,000
Partners' Salaries	6,000	Share Transfer Fees	1,000
Advertisement	4,400		
Printing & Stationery	1,500		
Traveling Expenses	4,000		
Office Rent	9,600		
Electricity charges	900		
Auditors Charges	600		
Directors Charges	1,000		
Bad Debt	1,200		
Commission on sales	4,000		
Preliminary Expense	700		
Debenture Interest	1,600		
Interest on Capital	1,800		
Depreciation	2,100		
Net Profit	20,600		
	81,000		81,000

Additional Information:

A. Total sales for the year, which amounted to Rs 800 Lakh arose evenly upto the date of Certificate for Commencement, where after they recorded an increase of 2/3 during the remaining period. Gross profit was at a uniform rate of 10 % of selling price throughout the year and a commission of 0.5 % was paid on sales.
B. Office rent was paid @ Rs 84 lakh p.a up to 30th September and thereafter it was paid @ Rs 10.80 lakh p.a.
C. Traveling expenses include Rs 16 lakh towards sales promotion.
D. Bad debts written off –
   a) A debt of Rs 4 lakh taken over from the vendor;
   b) A debt of Rs 8 Lakh in respect of goods sold in September 2005.

E. Depreciation includes Rs 6 Lakh assets acquired in the post–incorporation period.

Show the 'Pre' and "Post" incorporation results and also state how the results of pre-and post – incorporation are dealt with.

Q6) From the following balance of Pascal India Ltd. As on 31.03.2006, prepare Profit and Loss Account for the year ended 31st March 2006 and Balance Sheet as on that date.

Particulars	Dr(Rs'000)		Cr(Rs'000)
Stock (31.03.06)	40	Income from Investment	12
Cost of Goods sold	300	Provision for bad debt	2
Salaries and Wages	15	Creditors	30
Repair and maintenance	2	Provision for depreciation	
Interest on Bank Loan	3	Building	5
Bad Debt	1	Furniture	5
Freehold Premises	100	Suspense Account	3
Land	250	Equity Share Capital	367
Furniture	30	6 % Cum-Pref Capital	80
Debtors	50	Security Premium	20
Cash in Hand	1	Bank Overdraft	100
Cash at Bank	15	Sales	400
Miscellaneous Expenses	8	Profit and Loss account	7
Advance payment of tax	16		
Investment in shares	200		
	1,031		1,031

Other informations:

1) Land was revalued on 1st January 2006 but no effect has yet been given.
2) Provision for bad debt @ 5 %.
3) Equity shares capital consists of 36,900 shares @ Rs 10 each. Final call of 500 shares @ Rs 4 per share remains unpaid and subsequently forfeited..
4) Suspense account represents amount received on reissue of 500 shares forfeited. No entry has yet been passed for the same.
5) Provide Tax @ 45 %.
6) Rate of Depreciation : Building – 5%; Furniture – 10 %
7) Dividend on Cumulative Preference Shares is in arrear for 5 years upto 31 st March 2005. Directors have recommended payment of dividend for 4 years.
8) Bills receivable for Rs 6,500 was discounted. Same will mature after 31st March 2006.