

PAPER – 5
FINANCIAL ACCOUNTING
TEST PAPER – I/5/FAC/2008/T-1

Time Allowed: 3 Hours

Full Marks: 100

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

Q1a) Indicate the correct answer:

5 X 2 = 10

1. The output of financial accounting is
 - a. The measurement of accounting income
 - b. The measurement of taxable income
 - c. The preparation of financial statements
 - d. The preparation of financial Position

2. The basic objective of financial accounting is to:
 - (a) Provide quantitative information to users of financial statements
 - (b) Satisfy the legal requirements
 - (c) Report income to the shareholders
 - (d) Satisfy listing requirements of stock exchanges

3. Information about performance is disclosed by:
 - (a) Balance sheet
 - (b) Statement of cash flows
 - (c) Profit and loss account
 - (d) Both (a) and (b)

4. The lessee's right to recover the short working is related to:
 - (a) First five years
 - (b) Last three years
 - (c) Terms of the agreement
 - (d) None of the above.

5. In the books of lessee, short workings recoverable in future years are:
 - (a) A revenue expense
 - (b) A normal loss
 - (c) An asset
 - (d) A liability.

Q1b) What is meant by Hire purchase system and how does it differ from Installment payment system. **10**

Q2a) Oil India is bulk distributor of high octane petrol. A periodic inventory of petrol on hand is taken when the books are closed at the end of each month. The following summary of information is available for the month of June, 2007.

	Rs
Sales	. 94,50,000
General administration cost	2,50,000
Opening stock: 1,00,000 liters @ Rs. 30 per liter	30,00,000
Purchases (including freight)	
June 1: 2,00,000 liters @ Rs. 28.50 per liter	
June 30: 1,00,000 liters @ Rs. 30.30 per liter	
Closing stock June 30 1,30,000 liters	

Compute the following by the FIFO and weighted average method of inventory costing:

- (a) Value of inventory on June 30
- (b) Amount of the cost of goods sold for June
- (c) Profit or loss for June.

Q2b) Mahendra closes financial books on 31st December every year. Stock –taking continues one week after this date. In 2007 the value of closing stock came to Rs. 18,700 without making the following adjustment:

- (1) Goods Purchased are recorded in the books as on the date of invoice.
- (2) Purchase invoice was received on 28th December for Rs. 8,000 but goods adjusted this invoice were received on 4th January.
- (3) Purchase invoice was received on 29th December for Rs.500 but goods against this were not received until the stock–taking was completed.
- (4) Goods worth Rs. 700 were received on 31st December, the invoice of which was received on 3rd January.
- (5) Purchase invoice Rs.400 was received on 5th January, the goods against which were not received until the stock-taking was completed.
- (6) Purchase invoice of Rs.100 was received on 6th January, but goods of only Rs. 80 could be received up to the time of stock-taking.

You are required to calculate the value of stock as on December 31, 2007

Q3) The following is the Receipts and Payments account of the “Pluto Club” for the year ending Mar 31, 2007:

Receipts	Rs.	Rs.	Payments	Rs.
Opening balance:			Honorium to Secretary	4800
Cash in hand			Rates and taxes.	
	150		Printing and stationary	1,260
Balance as per pass book				470
	<u>8,230</u>	8,380		

Subscription	10,710	Other miscelin. expenses	1,530
Receipts from fetes	2,400	Wages	840
Net proceeds of varity Show	4,270	Expenditure on fetes	2,390
Bank interest	230	Payments for bar purchases	5,770
Bar takings	7,450	Repairs	320
Cash overspent	20	New car (less sale proceeds of old car Rs. 3,000)	12,600
		Closing balance as per bank pass book	3,480
	<u>33,460</u>		<u>33,460</u>

You are given the following additional information:

	1-04-2006	31-03-2007
	Rs	Rs
(1) Subscription due	1,200	980
(2) Unpresented cheques being payment on printing		
(3) Club premises at cost	90	30
(4) Depreciation on club premises	29,000	-
(5) Car at cost	18,800	-
(6) Depreciation on car	12,190	-
(7) Value of bar stock	10,290	-
(8) Amount due for bar purchases	710	870
	590	430

(9) Cash overspent represents amounts of honorarium to the secretary not drawn due to shortage of fund. But the total salary payable to him for the year was already included in Rs. 4,800.

(10) Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to adjust bank balance according to cash book and prepare-

- (i) An income and expenditure account of the club for the year ending 31st March 2007
- (ii) A balance sheet as on 31st March 2007.

Q4a) A colliery company took a lease of a coal mine for a period of 20 years from January 1, 2000 upon the terms of royalty of Rs 50 per tonne of the output with a minimum rent of Rs. 8,00,000 per annum with power to recoup short workings over the first three years of the lease. However in case of strike the actual amount payable to be considered as minimum rent.

You are required to prepare the royalty account, minimum rent account and short working account in the books of the colliery company assuming the output for the first six year to be as follows:

2000	6,000 tonnes	2003	20,000 tonnes
2001	8,000 tonnes	2004	8,000 tonnes (Strike)
2002	16,000 tonnes	2005	18,000 tonnes

Q4b) On 1st April 1990 Global Limited, patentees a new type of electric razor, issued a license to Arthar Limited for manufacture and sale of razors. On the same date, Arthar Limited issued to Allied Limited a sub-license for the same purpose. The license issued by Global Limited provided for a royalty of Rs. 10 per razor produced, subject to a minimum sum of Rs. 75,000 per annum, and sub license issued by Arthar Limited provided for a royalty of Rs. 15 per razor sold, subject to a minimum sum of Rs. 30,000 per annum. Both the license and sub-license provided that should the royalties for any year be less than the specified minimum the short workings could be recouped, out of royalties, in excess of the minimum amount falling due for payment in the immediately following two years.

From the following information, prepare royalty accounts and short working accounts in the books of Arthar Limited for the years ended 31st March, 1991, 1992 and 1993:

		Arthar Limited	
		Sales	Stock
31-3-91	3,000 razors		500 razors
31-3-92	5,000 ,,		1,500 ,,
31-3-93	4,900 ,,		2,000 ,,

		Allied Limited Production	
		Sales	Stocks
31-3-91	2,000 razors		440 razors
31-3-92	3,000 ,,		500 ,,
31-3-93	2,400 ,,		100 ,,

5. Air Cool House sells Air Conditioner both for hire-purchase and cash. Cash sales are priced 25% lower than the price for H.P. sales. The abridged Trial Balance on 31st December 2007 was as follows:

	Dr. Rs.	Cr. Rs.
H.P. Installments a/c	7,30,000	
Stock of Goods (1-1-2007)	90,000	
Cash	1,30,000	
Capital		5,00,000
Creditors		1,60,000
Sales-Hire-purchase		6,00,000
Sales-Cash		3,00,000
Purchases	5,60,000	
Selling and other expenses	50,000	
	<hr/>	<hr/>
	15, 60,000	15,60,000
	<hr/>	<hr/>

Stock of goods on 31 st December 2007 was Rs. 1,67,000

Details of H.P. Installments account were:

	Total	Sales relating to		
	Rs.	2005	2006	2007
	Rs.	Rs.	Rs.	Rs.
Balance on 1-1-2006	5,00,000	3,00,000	2,00,000	-----
Sales in 2006-07	<u>6,00,000</u>	-----	-----	<u>6,00,000</u>
	11,00,000	3,00,000	2,00,000	6,00,000
Cash Received	<u>3,70,000</u>	<u>1,80,000</u>	<u>1,00,000</u>	<u>90,000</u>
	7,30,000	1,20,000	1,00,000	5,10,000

In December 2007, the firm reposed radios from overdue customers. The unpaid balances arising out of the 2006 sales amounted to Rs. 74,000 at the time of repossession. Radios so repossessed have been included in the closing stock at Rs. 67,000.

The rate of gross profit on H.P. sales included the charge for interest also and after making adjustments for repossession was 30% in 2005 and 32% in 2006.

The firm would like to change the practice of taking full credit of hire-purchase profits at the time of delivery of goods with effect from 1st January 2007 to account for profits only on the proportionate bases of installments collected. Adjustments for the prior two years on installments outstanding are to be made.

Prepare the profit and Loss Account for 2007

6. A Company sells goods on hire purchase on the basis of 25 % down, the balance, with 20% interest thereon being payable in 8 quarterly installments due on end of March, June, September and December in each year. The first installments is payable at the end of the quarter in which the sale is made. The Company transfer 50 %, 30 %, and 20 % of the interest to the profit and loss account in the first, second and third years.

Balance on 1.1.2004 : Hire Purchase debtors – Rs 75,735; Hire Purchase Interest suspense- Rs 9,900; Hire Purchase Sales (exclusive of interest), which have evenly occurred each of the three calendar years are : 2002 – Rs 80,000; 2003- Rs 1,00,000; 2004 – Rs 76,000.

All dues are promptly paid in each year. Prepare for the year 2004

a. Hire Purchase Debtors account

b. Hire Purchase Interest suspense Account and prove the opening and closing balances of the latter account.