2021

FINANCIAL ACCOUNTING II — HONOURS

Second Paper

(C-22-A)

Full Marks : 100

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group - A

1. Mention, in brief, the salient features of Accounting Standard (AS) : 1 (ICAI). 5

Group - B

2. The firm 'Tantuja' has two departments— first one is 'Cloth' and the second one is 'Tailoring'. Tailoring department gets all its requirements of cloth from the cloth department at the usual selling price. From the following particulars prepare Departmental Trading Account and Profit & Loss Account for the year ended 31st March, 2021 : 10

	Cloth Dept.	Tailoring Dept.
	₹	₹
Stock on 01.04.2020	5,40,000	72,000
Purchases	30,60,000	45,000
Sales	36,00,000	7,20,000
Stock on 31.03.2021	9,00,000	1,35,000
Transfer of Cloth to Tailoring Dept.	4,50,000	—
Manufacturing expenses	—	1,08,000
Selling expenses	45,000	18,000

The stock of Tailoring Dept. may be assumed to consist of 80% cloth and 20% other expenses. General expenses of the business for the year came to ₹ 2,07,000. In 2019-20 the cloth dept. earned a gross profit of 30% on sales.

3. A company with its Head Office at Mumbai has a branch at Kolkata. The branch receives all goods from head office, who also remits cash for all expenses. Sales are made by the branch on credit as well as for cash. Total sales made by the branch for the year ending 31.03.2020 amounted to ₹ 5,60,000 out of which 20% is cash sales. The following information is relevant for branch :

   01.04.2019 : Stock – ₹ 25,000; Debtors – ₹ 60,000; Petty cash – ₹ 120

   31.03.2020 : Stock – ₹ 36,000; Debtors – ₹ 48,000; Petty cash – ₹ 180

   Expenses incurred by the branch : Salaries – ₹ 36,000; Rent – ₹ 12,000; Petty expenses – ₹ 5,600.

   All sales are made by the branch at cost plus 25%.

   You are required to prepare the Kolkata Branch Account in the books of the Head Office for the year ended 31.03.2020. 10

Or,

X Ltd. of Patiala has a Branch at Ambala. Goods sent to branch are invoiced at selling price i.e. cost plus 25%. From the following particulars you are required to prepare the Branch Stock Account and the Branch Adjustment Account as they would appear in the books of Head Office : 10

	₹
Opening stock at branch at invoice price	15,000
Closing stock at branch at invoice price	12,000
Goods sent to Ambala Branch during the year at invoice price	1,00,000
Sales at branch :	
On credit	32,000
For cash	75,000
Goods returned to head office at invoice price	5,000
Invoice price of goods lost by fire at branch (not covered by insurance)	1,000

4. A & Co. purchased a machine from B & Co. on 01.01.2018 on hire purchase system. As per the agreement the payment should be made in three annual instalments of ₹ 12,000 each (including interest). The rate of interest is 20% p.a. The buyer defaulted in the payment of final instalment and the vendor repossessed the machinery. Depreciation on machinery was provided @ 10% p.a. under reducing balance method.

Show Machinery Account and B & Co. Account in the books of A & Co. during the agreement period. 10

Or,

Following are the balances in the books of M/s H.P. Trader who sells goods on hire purchase basis :

	₹
2019	
April 01 : Stock out on hire at H.P. price	30,000
Stock in hand at shop	5,000
Instalment overdue	3,300
2020	
March 31 : Stock out on hire at H.P. price	20,000
Stock in hand at shop	7,000
Instalment overdue	3,600

Prepare H.P. Trading Account in the books of M/s H.P. Trader for the year ending 31.03.2020, if cash of ₹ 35,000 is received during the year by way of instalments and gross profit rate is $33\frac{1}{3}$% of selling price. 10

5. The following balances are extracted from the books of a company :

10000, 11% Redeemable Preference shares of ₹ 10 each fully paid-up;

5000, 10% Redeemable Preference shares of ₹ 10 each, ₹ 8 paid-up;

20000 Equity shares of ₹ 10 each fully paid-up;

General Reserve ₹ 2,00,000; Profit & Loss Account ₹ 90,000 Securities Premium ₹ 15,000.

Preference shares are redeemed at 10% premium to the extent possible. For this purpose 5000, ₹ 10 Equity shares are issued at 10% premium. Holders of 500, 11% Redeemable Preference shares are untraceable. For creation of Capital Redemption Reserve, if any, minimum use of General Reserve is recommended.

Pass journal entries recording the above transactions. 10

Or,

The following balances are extracted from the books of Titan Ltd. :

	₹
Subscribed and called up Equity share capital of ₹ 10 each	10,00,000
Less : Calls-in-arrear @ ₹ 2 per share	10,000
	9,90,000
Securities Premium	45,000
General Reserve	80,000

The company decides to buy-back 25% of issued equity shares as permissible under the Companies Act 2013 at par. For the purpose of buy-back of equity shares the company issued 1500, 6% preference shares of ₹ 100 each at par.

Pass journal entries to record the buy-back of equity shares in the books of Titan Ltd. 10

6. The following balances appeared in the books of Delhi FC Ltd. on 01.04.2019 :

		₹
(i)	8% Debentures Account	1,20,000
(ii)	Sinking Fund Account (for redemption of debentures)	1,00,000
(iii)	Sinking Fund Investment Account (in 6% govt. bonds) (Nominal value being 1,10,000)	1,00,000

On 31.03.2020, annual contribution credited to the Sinking Fund was ₹ 13,400. Interest for the year on Sinking Fund Investment was also received. After receipt of interest, all the investments were sold at 90% of nominal value and the debentures were redeemed at par.

Show 8% Debentures Account, Sinking Fund Account and Sinking Fund Investment Account in the books of Delhi FC Ltd. 10

Group - C

7. (a) Remo & Co. Ltd. issued 10000 shares of ₹ 100 each at a premium of ₹ 20 per share. The entire issue was underwritten as follows :

X – 5000 shares; Y – 3000 shares and Z – 2000 shares. The firm underwriting was to be for X – 1000 shares, Y – 500 shares and Z – 500 shares. Shares were applied for 9000 (including firm underwriting); marked applications being :

X – 3500 shares; Y – 1400 shares and Z – 1600 shares.

Calculate the liability of each underwriter.

(b) On 01.04.2017 Beta Ltd. granted 2000 shares to the employees under Employees Stock Option Scheme at ₹ 75 (Face value ₹ 10; Market value ₹ 165) each. The company allowed 3 years for vesting the option and 1 year maximum exercise period. Employees exercised all the options on 30.09.2020.

Show necessary journal entries in the books of Beta Ltd. (assuming accounting year ends on 31st March every year). 8+7

***Or*,**

Sunshine Ltd. issued for public subscription 60000 Equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as under :

On Application	₹ 2 per share	On First call ₹ 2 per share
On Allotment	₹ 5 per share (including premium)	On Final call ₹ 3 per share

Applications were received for 90,000 shares. Allotment was made *pro rata* to the applicants for 72000 shares. The remaining applications were refused. Excess application money was adjusted with allotment.

Bablu to whom 2400 shares were allotted failed to pay the money due on allotment, first call and final call. Biju, to whom 3000 shares were allotted failed to pay the first and final calls. These shares were subsequently forfeited after the final call was made. All the forfeited shares were reissued to Bunty as fully paid-up at ₹ 7 per share.

Show the necessary journal entries in the books of Sunshine Ltd. 15

8. The following was the Balance Sheet as at 31st March, 2020 of M/s Ideal Works in which A, B and C were partners sharing profits and losses in the ratio of 6 : 3 : 5—

Liabilities	₹	**Assets**	₹
A's Capital A/c	25,000	Land and Building	10,000
C's Capital A/c	15,000	Furniture	5,000
A's Current A/c	1,000	Stock-in-trade	23,100
C's Current A/c	500	Sundry Debtors	30,000
Sundry Creditors	30,000	Cash at Bank	2,500
Loan on mortgage	4,000	B's Current A/c	4,900
	75,500		**75,500**

It was decided to dissolve the partnership as on the date of the Balance Sheet. The assets of the firm were realized as under :

Land and Building ₹ 6,000; Furniture ₹ 2,000; Stock in trade ₹ 15,000 and Sundry Debtors ₹ 20,000.

The expenses of realization amounted to ₹ 2,000. The Sundry Creditors agreed to receive 75 paise in a rupee in full settlement of their claim. Loan on mortgage was paid in full. It was ascertained that B had become insolvent. B's estate had contributed only 50 paise in a rupee.

Prepare the Realization Account, Bank Account and Capital Accounts of partners following the rule given in Garner vs. Murray. 15

Group - D

9. The following is the Trial Balance of M Ltd. as on 31.03.2020 :

Debit Balance	₹	**Credit Balances**	₹
Opening stock	75,000	Sales	3,40,000
Purchases	2,45,000	Return outward	10,000
Salaries and wages	30,000	Discount received	3,000
Freight and Carriage	950	Profit & Loss A/c (Cr.) [as on 01.04.2019]	15,000
Furniture	17,000	Share capital	1,00,000
Contribution to P.F.	5,000	Trade payables	24,500
Rent, rates and taxes	4,000	General Reserve	15,500
Postage and telephone	1,900		
Repairs and Maintenance	2,000		
Insurance	3,000		
Miscellaneous expenses	150		
Dividend paid	9,000		
Staff welfare expenses	2,500		
Plant and Machinery	29,000		
Cash at Bank	46,200		
Patents	4,800		
Trade receivables	32,500		
	5,08,000		**5,08,000**

Prepare a Statement of Profit and Loss for the year ended 31.03.2020 and a Balance Sheet as on that date after considering the following information : 15

(i) Closing stock in trade ₹ 88,000.

(ii) Provide for Income Tax at 30%.

(iii) Depreciate Plant and Machinery at 10%, Furniture at 10% and Patents at 5%

(iv) Outstanding rent amounted to ₹ 800 and outstanding salaries amounted to ₹ 900.

(v) Transfer ₹ 2,000 to General Reserve.

(vi) The Board recommends payment of a dividend @ 10%. Ignore Corporate dividend tax.

(vii) The authorised capital is ₹ 2,00,000 divided into 20000 Equity shares of ₹ 10 each of which 10000 Equity shares have been issued and fully paid-up.