

**2021**

**FINANCIAL ACCOUNTING-III — HONOURS**

**Fifth Paper**

**(A-31-A)**

**(Accounting & Finance Group)**

**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**

Answer the following questions.

1. Prepare a comparative income statement from the following information of HCT Ltd.: 5

|                        | 2019<br>(₹) | 2020<br>(₹) |
|------------------------|-------------|-------------|
| Sales                  | 16,00,000   | 20,00,000   |
| Cost of goods sold     | 9,60,000    | 12,40,000   |
| Selling and Admn. exp. | 1,60,000    | 2,20,000    |
| Other Income           | 20,000      | 60,000      |
| Income Tax             | 1,50,000    | 1,80,000    |

*Or,*

Briefly mention the three uses of Common Size Statement Analysis. 5

2. Calculate Fund from Operation before tax from the information given below. 5

|                                    |          |
|------------------------------------|----------|
| Cash from operation before tax (₹) | 1,10,000 |
| Depreciation charged (₹)           | 15,000   |
| Interest paid (₹)                  | 8,000    |

Balances relating to current assets and liabilities are —

|                 | <u>Opening (₹)</u> | <u>Closing (₹)</u> |
|-----------------|--------------------|--------------------|
| Debtors         | 11,000             | 9,000              |
| Inventory       | 21,000             | 24,000             |
| Accrued Expense | 13,000             | 10,000             |
| Creditors       | 15,000             | 9,000              |
| Cash and Bank   | 24,000             | 21,000             |

**Please Turn Over**

**Group-B**

Answer the following questions.

3. On 01.04.2020, RS Ltd. held 800, 10% Debentures of BECO Ltd. The cost price was ₹ 97 each and the nominal value was ₹ 100 each. Interest on the debentures becomes due on 30th June and 31st December every year.

On 01.05.2020 it purchased 700 debentures cum-interest at ₹ 97.50 each. On 01.08.2020, it sold 1200 debentures cum-Interest at ₹ 99.50 each.

Prepare Investment Account for the year ended 31.03.2021 (Workings should be the part of the answer).

(Assume that the prices given above are after adjustment for applicable brokerage and the company follows Weighted Average method for stock valuation). 10

Or,

ARCO Ltd. was formed by taking over the existing business of BIRD Bros. with effect from 01.04.2020. But the company was incorporated on 01.07.2020. No entries were made relating to the transfer till 31.03.2021. On that date, the following balances were found to determine the net profit:

Gross Profit — ₹ 3,60,000; Carriage Outwards — ₹ 25,400; Travellers' Commission — ₹ 20,000; Office Expenses — ₹ 49,000; Rent and Rates — ₹ 72,000; Directors' Fees — ₹ 17,000; Depreciation on Fixed Assets — ₹ 51,000; Debenture Interest — ₹ 8,600; Audit Fees — ₹ 5,200; Partners' remuneration — ₹ 9,000.

Other information:

- (i) GP ratio was constant per month  
(ii) Monthly sales in May, June, September and December were double the average monthly sales for the remaining months.

Show the pre and post-incorporation profit. 10

4. Calculate Goodwill as per (a) 5 years' purchase of Super Profit Method and (b) Capitalisation of Average Profits method from the following information: 10

(i) Capital employed ₹ 6,30,000

(ii) Normal Rate of Return 10%

(iii) Net profits before tax (Tax Rate 50%):

Year 1: ₹ 1,05,000; Year 2: ₹ 1,45,000; Year 3: ₹ 1,75,000; Year 4: ₹ 2,00,000; Year 5: ₹ 1,50,000

(iv) Non-trading income ₹ 5,000 and Debenture Interest ₹ 10,000 on an average included in the Profit & Loss A/c.

(v) Fixed Assets revalued by ₹ 20,000 more than the existing book value of the assets.

Or,

The following particulars of Jupiter Co. Ltd. are available:

Fixed Assets ₹ 5,80,000; Goodwill ₹ 50,000; Current Assets ₹ 1,80,000; Discount on issue of Debentures ₹ 10,000; 5% Debentures ₹ 1,00,000; Current Liabilities ₹ 1,30,000. The net profit after tax for three years were: 2009 ₹ 51,600; 2010 ₹ 52,000; 2011 ₹ 51,650 of which 20% was placed to reserve and fair rate of return on investments is 10%. Issued capital was 40,000 equity shares of ₹ 10 each fully paid up.

Compute the value of the company's shares by:

(a) The Assets Backing Method; (b) the Yield Method.

5+5

5. (a) Explain in brief, the capital maintenance concept in accounting.

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(b) Write a note on Fair Value Accounting.

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### Group-C

Answer the following questions.

6. The statement of assets and liabilities of Mind Ltd. and its subsidiary Tree Ltd. as at 31.03.2021 stood as follows:

| Particulars                                      | Notes No. | Mind Ltd. Amount(₹) | Tree Ltd. Amount(₹) |
|--|-----------|---------------------|---------------------|
| <b>I. Equity and Liabilities</b>                 |           |                     |                     |
| 1. <i>Equity Shareholder's Fund:</i>             |           |                     |                     |
| (a) Share Capital                                | 1         | 12,00,000           | 3,00,000            |
| (b) Reserves and Surplus                         | 2         | 13,00,000           | 6,00,000            |
| 2. <i>Non-Current Liabilities:</i> 8% Debentures |           | 3,00,000            | —                   |
| 3. <i>Current Liabilities :</i> Trade Payable    |           | 3,00,000            | 80,000              |
| <b>TOTAL</b>                                     |           | <b>31,00,000</b>    | <b>9,80,000</b>     |
| <b>II. Assets:</b>                               |           |                     |                     |
| 1. <i>Non-Current Assets:</i>                    |           |                     |                     |
| (a) Property, Plant and Equipment                | 3         | 16,00,000           | 5,00,000            |
| (b) Non-Current Investment (Shares in Tree Ltd.) |           | 8,00,000            | —                   |
| 2. <i>Current Assets</i>                         | 4         | 7,00,000            | 4,80,000            |
| <b>TOTAL</b>                                     |           | <b>31,00,000</b>    | <b>9,80,000</b>     |

#### Notes to the Financial Statements

##### 1. Share Capital

Authorised: Equity shares of ₹10 each.

Issued, Subscribed and Fully Paid:

Mind Ltd.  
Amount (₹)

20,00,000

12,00,000

Tree Ltd.  
Amount (₹)

6,00,000

3,00,000

##### 2. Reserves and Surplus:

General Reserve

Balance of Profit & Loss (Cr.)

8,00,000

5,00,000

13,00,000

4,00,000

2,00,000

6,00,000

|  | <u>Mind Ltd.</u><br>Amount (₹) | <u>Tree Ltd.</u><br>Amount (₹) |
|--|--------------------------------|--------------------------------|
| <b>3. Property, Plant and Equipment:</b> |                                |                                |
| Tangible Assets                          | 5,00,000                       | 2,00,000                       |
| Intangible Assets                        | 4,00,000                       | 2,00,000                       |
| Capital work-in-progress                 | 7,00,000                       | 1,00,000                       |
|  | 16,00,000                      | 5,00,000                       |
| <b>4. Current Assets:</b>                |                                |                                |
| Inventory                                | 4,00,000                       | 1,50,000                       |
| Trade Receivables                        | 1,75,000                       | 2,35,000                       |
| Cash and Cash Equivalents                | 1,25,000                       | 95,000                         |
|  | 7,00,000                       | 4,80,000                       |

Other information:

- (i) Mind Ltd. acquired 20,000 Equity Shares of Tree Ltd. on 01.04.2020 at cost of ₹ 8 lakhs and immediately after acquisition Mind Ltd. received dividend @ 40% on equity share for the year 2019-2020. Mind Ltd. has credited its share of dividend to Profit & Loss Account.
- (ii) Balance of Profit & Loss and General Reserves of Tree Ltd. stood at ₹ 3,50,000 and ₹ 1,00,000 as on 01.04.2020 respectively.
- (iii) Trade payables of Tree Ltd. include ₹ 25,000 due to Mind Ltd.
- (iv) The stock of Tree Ltd. includes goods worth ₹ 40,000 purchased from Mind Ltd. The cost of the goods is ₹ 25,000.

You are required to prepare a Consolidated Balance Sheet of Mind Ltd. and its subsidiary Tree Ltd. as at 31.03.2021. 15

7. The Balance Sheets of Root Ltd. and Fruit Ltd. as on 31.03.2021 are given below:

| Particulars                        | <u>Root Ltd.</u><br>Amount (₹) | <u>Fruit Ltd.</u><br>Amount (₹) |
|------------------------------------|--------------------------------|---------------------------------|
| <b>I. Equity and Liability:</b>    |                                |                                 |
| 1. <i>Shareholders' Funds:</i>     |                                |                                 |
| Equity Shares of 10 each           | 20,00,000                      | 12,00,000                       |
| Reserves and Surplus               | 5,00,000                       | 3,00,000                        |
| 2. <i>Non-Current Liabilities:</i> |                                |                                 |
| 10% Debentures                     | 6,00,000                       | 4,00,000                        |
| 3. <i>Current Liabilities:</i>     |                                |                                 |
| Short term Loan                    | —                              | 3,00,000                        |
| Trade Payable                      | 2,50,000                       | 1,50,000                        |
| <b>TOTAL</b>                       | <b>33,50,000</b>               | <b>23,50,000</b>                |
| <b>II. Assets</b>                  |                                |                                 |
| 1. <i>Non-Current Assets:</i>      |                                |                                 |
| Property, Plant and Equipment      | 10,00,000                      | 9,00,000                        |
| Intangible Assets                  | 12,00,000                      | 8,00,000                        |
| 2. <i>Current Assets:</i>          |                                |                                 |
| Inventory                          | 5,15,000                       | 4,00,000                        |
| Trade Receivables                  | 4,00,000                       | 2,20,000                        |
| Cash and Cash Equivalents          | 2,35,000                       | 30,000                          |
|                                    | <b>33,50,000</b>               | <b>23,50,000</b>                |

The companies decide to amalgamate on 01.04.2021 and form Flower Ltd. on the following terms:

- (i) All Assets and Current Liabilities of the old companies are taken over by the Flower Ltd. The net worths of Root Ltd. and Fruit Ltd. have been determined at ₹ 36 lakhs and ₹ 18 lakhs respectively.
- (ii) The purchase considerations have been discharged by issuing sufficient numbers of Equity Shares of ₹ 10 each at a premium of ₹ 50 each.

Show the Journal Entries in the books of Flower Ltd. and the Opening Balance Sheet of Flower Ltd. 15

Or,

The Balance Sheet of Mass Ltd. as on 31.03.2021 is as under:

|  | <b>Amount (₹)</b> |
|--|-------------------|
| <b>I. Equity and Liability</b>                         |                   |
| 1. <i>Shareholders' Funds:</i>                         |                   |
| (a) Share Capital – 40000 Equity Shares of ₹ 100 each. | 40,00,000         |
| (b) Reserves and Surplus:                              |                   |
| Statement of Profit & Loss                             | (15,00,000)       |
| 2. <i>Non-current Liabilities:</i>                     |                   |
| 10% Debentures   | 12,00,000         |
| 3. <i>Current Liabilities:</i>                         |                   |
| Interest Due on Debentures                             | 2,40,000          |
| Term Loan  | 6,00,000          |
| Trade Payables   | 5,00,000          |
|  | <b>50,40,000</b>  |
| <b>II. Assets</b>                                      |                   |
| 1. <i>Non-current Assets:</i>                          |                   |
| (a) Property, Plant and Equipment                      |                   |
| (i) Tangible Assets                                    | 33,00,000         |
| (ii) Intangible Assets (Goodwill)                      | 6,00,000          |
| 2. <i>Current Assets:</i>                              |                   |
| (a) Inventories  | 5,00,000          |
| (b) Trade Receivables                                  | 6,00,000          |
| (c) Cash and Cash Equivalents                          | 40,000            |
|  | <b>50,40,000</b>  |

The following scheme of reconstruction has been passed and approved by the Court:

- (i) The Equity Shares are to be subdivided into shares of ₹ 10 each and each shareholder shall surrender 80% of his/her holdings.
- (ii) The company issues 100000 Equity Shares of ₹ 10 each at a premium of ₹ 5 each.
- (iii) 50% of 10% Debentures are redeemed.
- (iv) The claims of Trade Payables are to be reduced by 40%.
  - (a) Outstanding Interest on Debenture is paid off.
  - (b) The surrendered shares are cancelled.
- (v) The Capital Reduction A/c should be utilised to write off Tangible Assets as maximum as possible after writing off intangible assets and accumulated losses.
- (vi) Expenses of reconstruction are ₹ 50,000.

You are required to prepare journal entries and a Balance Sheet after effecting the scheme in the books of Mass Ltd. (Narration not required). 15

8. The Balance Sheet of Sun Ltd. as on 31st March 2019 and 2020 are given below:

| Particulars                        | 31.03.2019<br>(₹) | 31.03.2020<br>(₹) |
|------------------------------------|-------------------|-------------------|
| <b>Equity and Liability:</b>       |                   |                   |
| 1. <i>Shareholders' Fund:</i>      |                   |                   |
| Share capital                      | 4,00,000          | 5,00,000          |
| Capital Reserve                    | —                 | 20,000            |
| General Reserve                    | 1,80,000          | 2,10,000          |
| Profit & Loss Account              | 80,000            | 1,20,000          |
| 2. <i>Non-Current Liabilities:</i> |                   |                   |
| Debentures                         | 3,00,000          | 2,00,000          |
| 3. <i>Current Liabilities:</i>     |                   |                   |
| Creditors                          | 1,30,000          | 1,20,000          |
| Provision for Income Tax           | 80,000            | 60,000            |
| <b>TOTAL</b>                       | <b>11,70,000</b>  | <b>12,30,000</b>  |
| <b>Assets:</b>                     |                   |                   |
| 1. <i>Non-Current Assets:</i>      |                   |                   |
| (a) Fixed Assets at cost           | 10,00,000         | 10,00,000         |
| Less: Depreciation                 | (2,60,000)        | (3,10,000)        |
| (b) Investments                    | 1,10,000          | 90,000            |
| 2. <i>Current Assets:</i>          | 3,20,000          | 4,50,000          |
| <b>TOTAL</b>                       | <b>11,70,000</b>  | <b>12,30,000</b>  |

During the year ended 31st March, 2020 the company:

- (i) Sold one machine for ₹ 40,000 the cost of which was ₹ 80,000 and the depreciation provided on it was ₹ 30,000.
- (ii) Provide ₹ 1,00,000 as depreciation.
- (iii) Redeem the debentures at ₹ 105.
- (iv) Sold some investment at a profit which was credited to Capital Reserve.
- (v) Decided to write off the fixed assets (fully depreciated) costing ₹ 20,000.
- (vi) Decided to value opening stock at cost which was valued previously at cost less 10%. The opening stock according to books was ₹ 63,000. The closing stock was correctly valued at cost.

Prepare statement of sources and application of funds for the year ended 31.03.2020 showing changes in working capital.

15

Or,

- (a) What are the advantages and limitations of Fund Flow Statement?
- (b) Distinguish between Fund Flow Statement and Cash Flow Statement.

5+10

9. (a) Following figures are related to XYZ Ltd.:

|   |            |
|---|------------|
| (i) G.P. Ratio  | 20%        |
| (ii) Current Ratio  | 2·5        |
| (iii) Liquid Ratio  | 1·5        |
| (iv) Stock Turnover Ratio<br>(Cost of sales to closing stock) | 6 times    |
| (v) Fixed Assets to Net Worth                                 | 0·80       |
| (vi) Average Debt Collection Period                           | 2 months   |
| (vii) Reserve to share capital                                | 0·50       |
| (viii) Net Working Capital                                    | ₹ 3,00,000 |

Based on the above information you are required to prepare the Balance Sheet of the company as on 31.12.2020.

(b) State the limitations of Ratio Analysis.

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