



FINANCIAL ACCOUNTING

**PREVIOUS
QUESTIONS
PAPERS BOOK**



**INTERMEDIATE EXAMINATION
GROUP - I
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2017**

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Both the sections are to be answered subject to instructions given against each.
All workings must form part of your answer.

Section - A

1. Answer the following questions:

1×10=10

(a) Choose the most appropriate one from given four alternatives:

- (i) Creditors ledger adjustment account is opened in
 - (A) General Ledger
 - (B) Debtors Ledger
 - (C) Creditors Ledger
 - (D) Either (B) or (C)

- (ii) Receipts and Payments account is a
 - (A) Nominal Account
 - (B) Real Account
 - (C) Personal Account
 - (D) Artificial Personal Account

- (iii) A resource owned by the business with purpose of using it for generating future profit, is known as
 - (A) Capital
 - (B) Asset
 - (C) Liability
 - (D) Surplus

- (iv) Outward Invoice issued is a source document of
 - (A) Purchase Book
 - (B) Sales Book
 - (C) Return Inward Book
 - (D) Return Outward Book

- (v) Which of the following is of capital nature?
 - (A) Commission on purchases
 - (B) Cost of repairs
 - (C) Rent of factory
 - (D) Wages paid for installation of machinery

- (vi) If any stock is taken by a co-venturer, it will be treated as
 - (A) an income of the joint venture.
 - (B) an expense of the joint venture.
 - (C) to be ignored from joint venture.
 - (D) it will be treated in the personal books of the co-venturer.

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- (vii) Contingent liability would appear
- (A) on the liability side of the Balance Sheet.
 - (B) on the assets side of the Balance Sheet.
 - (C) do not shown in the books of accounts.
 - (D) as a note in Balance Sheet.
- (viii) Income statement of a Charitable Institution is known as
- (A) Statement of profit and loss
 - (B) Receipts and Payments Account
 - (C) Income and Expenditure Account
 - (D) Profit and Loss Account
- (ix) Which of the following account is mainly prepared at the time of dissolution of the firm
- (A) Revaluation A/c
 - (B) Goodwill A/c
 - (C) Realization A/c
 - (D) Memorandum Revaluation A/c
- (x) Advertisement expenses are apportioned among departments in the proportion of
- (A) sales of each department
 - (B) purchases of each department
 - (C) no. of units sold by each department
 - (D) cost of sales of each department

- (b) Match the following in Column-I with the appropriate in Column-II: 1×5=5

Column-I		Column-II	
(i)	Garner Vs. Murray case	(A)	AS-10
(ii)	Repossession of goods	(B)	Computerized Accounting System
(iii)	Provision for unrealized profit	(C)	Insolvency of a partner
(iv)	Property, Plant and Equipment	(D)	Royalty Accounts
(v)	Automatic Financial Statements	(E)	Hire Vendor
		(F)	Inter-departmental transfer at invoice price
		(G)	Retirement of a Partner

- (c) State whether the following statements given below are true or false: 1×5=5

- (i) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.
- (ii) Royalty account is a real account in nature.
- (iii) As per AS-7 expenses recognized in the period in which the work to which expenses relate is performed.
- (iv) Expenses incurred by branch out of petty cash balance are debited to branch account by the head office.
- (v) In absence of partnership deed the profit or loss should be distributed among partners in their capital ratio.

- (d) Fill in the blanks: 1×5=5

- (i) The _____ discount is never entered in the books of accounts.
- (ii) A bill of exchange drawn on 12th April, 2017 for four months, the date of maturity will be _____.
- (iii) The parties of joint venture is called _____.
- (iv) Outstanding subscription is shown in the _____ side of Balance Sheet.

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(v) According to AS-2 inventories should be valued at lower of cost and _____value.

Answer:

1. (a) (i) —(a)
(ii) —(b)
(iii) —(b)
(iv) —(b)
(v) —(d)
(vi) —(a)
(vii) —(d)
(viii) —(c)
(ix) —(c)
(x) —(a)

- (b) (i) — (C)
(ii) — (E)
(iii) — (F)
(iv) — (A)
(v) — (B)

- (c) (i) True
(ii) False
(iii) True
(iv) False
(v) False

- (d) (i) Trade
(ii) 14th August, 2017
(iii) Co-venturers
(iv) Assets
(v) Net realizable

Section - B

Answer any five from the following.
Each question carries 15 marks.

15×5=75

2. (a) Sunil owed Anil ` 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April.

Sunil accepts it and returns it to Anil. On 15th April, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges ` 100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ` 3,000 on 1st July. Before the new bill become due, Sunil retires the bill with a rebate of ` 500. Show journal entries in books of Anil. 9

- (b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of Final Accounts. 6

- (i) No adjustment entry was passed for an amount of ` 2,000 relating to outstanding rent.
(ii) Purchase book was overcast by ` 1,000.
(iii) ` 4,000 depreciation of Machinery has been omitted to be recorded in the book.
(iv) ` 600 paid for purchase of stationary has been debited to Purchase A/c.
(v) Sales books was overcast by ` 1,000.
(vi) ` 5,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet.

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Answer:

2. (a)

Journal entries in the books of Anil

Date	Particulars	L.F	Dr.(₹)	Cr. (₹)
April, 1	Bills Receivables A/c To, Sunil's A/c (Being acceptance by Sunil)	Dr.	80,000	80,000
April, 15	Bank A/c Discount A/c To, Bills Receivables A/c (Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)	Dr. Dr.	78,000 2,000	80,000
June, 30	Sunil's A/c To, Bank A/c (Being dishonour of the bill & noting charges paid by bank)	Dr.	80,100	80,100
June, 30	Bank A/c To, Cash A/c (Being cash paid to bank)	Dr.	80,100	80,100
July, 1	Sunil's A/c To, Interest A/c (Being interest due from Sunil)	Dr.	3,000	3,000
July, 1	Bills Receivables A/c To, Sunil's A/c (Being new acceptance by Sunil for ₹ 80,100 & interest of ₹ 3,000)	Dr.	83,100	83,100
July, 1	Bank A/c Rebate A/c To, Bills Receivables A/c (Being the amount received on retirement of the bill)	Dr. Dr.	82,600 500	83,100

(b) Effects of the errors in Profit and Loss A/c and Balance Sheet

Profit & Loss A/c.		Balance Sheet	
a	Profit was overstated by ₹ 2,000	a	Capital was also overstated by ₹ 2,000 & outstanding liability was understated by 2,000.
b	Gross profit was under stated by ₹ 1,000 & also the Net Profit.	b	Capital was understated by ₹ 1,000.
c	Net Profit was overstated by ₹ 4,000.	c	Machinery was overstated by ₹ 4,000 & so the Capital A/c was also overstated by ₹ 4,000.
d	No effect on Net Profit.	d	No effect in Balance Sheet.
e	Gross Profit and Net Profit were overstated by ₹ 1,000.	e	Capital was overstated by ₹ 1,000.
f	Gross Profit & Net Profit were overstated by ₹ 5,000.	f	Capital & Sundry Debtors were overstated by ₹ 5,000.

3. (a) Khetan Ltd. has received two lakh subscriptions during the current year under its scheme whereby customers are required to pay a sum of ₹ 4,500 for which they be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for current year. Comment. 3

(b) Alex. Ltd. intends to set up a solar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site.

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Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired. 6

- (c) State briefly the factors which should be considered while selecting pre-packaged accounting software. 6

Answer:

3. (a) As illustrated in AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription. Accordingly, in the given case the accounting treatment adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

(b)

Computation of value of land acquired

Particulars	₹ in lakhs
Purchase price @ ₹ 70,000 per acre for 7,500 acres	5,250.00
Stamp duty & registration charges @ 5%	262.50
Legal fees	5.00
Title guarantee insurance	2.00
Demolition expenses	50.00
Less: Sale of salvaged materials (net of tax) (43,57,500×100/105)	<u>41.50</u>
Value of land	5,528

- (c) The following factors should be considered while selecting pre-packaged accounting software:

1. Fulfillment of Business Requirements	The purchaser should ensure whether the available software meets all the business requirements.
2. Completeness of Reports:	The purchaser should ensure whether the available software can provide all the reports required by business.
3. Ease of Use	The purchaser should ensure whether the available software is easy to operate.
4. Cost	The software should not involve very high installation and running cost.
5. Reputation of the vendor	It should be ensured whether the vendor has good reputation and good track records or not.
4. Regular updates	It should be ensured whether the vendor is prepared to give updates.

4. The statement of Affairs of Mr. M on Saturday, the 31st December 2015 was as follows:

Capital	50,000	Fixed Assets	30,000
Sundry Creditors	10,000	Stock	10,000
Liability for Expenses	1,000	Debtors	15,000
		Bank	5,000
		Cash	1,000
	61,000		61,000

Mr. M did not maintain his books on the Double Entry System. But he carefully follows the following system:

- (a) Every week he draws ₹ 200.
 (b) After meeting his weekly sundry expenses (₹ 100 on average) and his drawings, the

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- balance of weekly collection is banked at the commencement of the next week.
- (c) No cash purchase is made and creditors are paid by cheques.
- (d) Sales are at fixed price which include 20% profit on sales.
- (e) Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.
- (f) Expenses other than sundries and other special drawings are made in cheques.
- (g) All unpaid bills are kept in a file carefully.

The following are his bank transactions for 13 weeks:

	5,000		
Balance on Jan. 1	5,000	Creditors paid	40,000
Cheques deposited	2,000	Rent paid	600
Cash deposited	42,000	Expenses (other than Sundry Expenses)	3,000
		Balance on April 1	5,400
	49,000		49,000

After 13 weeks on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:

- (a) Stock on that day was valued at ` 4,000;
- (b) Sundry Debtors amounted to ` 20,000 as per diary;
- (c) Sundry Creditors were ` 8,000 as per unpaid bills file. Find out the amount of cash missing.

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Answer:

4. (a)

Sundry Debtors Account

Dr.		Cr.	
Particulars	`	Particulars	`
To Balance b/f	15,000	By Bank	2,000
To Credit Sales (balancing figure)	7,000	" Balance c/f	20,000
	22,000		22,000

Sundry Creditors Account

Dr.		Cr.	
Particulars	`	Particulars	`
To Bank	40,000	By Balance b/f	10,000
To Balance c/f	8,000	By Credit Purchases [balancing figure]	38,000
	48,000		48,000

Cash Account

Dr.		Cr.	
Particulars	`	Particulars	`
To Balance b/f	1,000	By Drawings: (13 × ` 200)	2,600
" Cash Sales	48,000	Sundry Expenses: (13 × ` 100)	1,300
		" Bank	42,000
		Balance being cash missing	3,100
	49,000		49,000

Note: Calculation of Cash Sales

Particulars	`
Opening Stock	10,000
Add: Purchases	38,000
	48,000
Less: Closing Stock Cost of goods sold	4,000
	44,000
Add : Gross Profit @ 20% on Sales i.e., 25% on cost	11,000
Total Sales	55,000

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Less: Credit Sales	7,000
Cash Sales	48,000

5. (a) Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st year, 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year. 8
- (b) Ram trader's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trader provides you the following additional information:

	-
Cost of stock on 1st April, 2015	3,55,250
Cost of stock on 31st March, 2016	3,95,050
Purchases during the year ended 31st March, 2016	28,39,800
Purchases from 1st April, 2016 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2016 to the date of fire	1,000
Sales for the year ended 31st March, 2016	40,00,000
Sales from 1st April, 2016 to the date of fire	22,68,000

The insurance company also admitted fire fighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. 7

Answer:

5. (a) Calculation of Interest for each year:

Interest for 1 st year	₹ 3,00,000 × 150/360 =	₹ 1,25,000
Interest for 2 nd year	₹ 3,00,000 × 108/360 =	₹ 90,000
Interest for 3 rd year	₹ 3,00,000 × 69/360 =	₹ 57,500
Interest for 4 th year	₹ 3,00,000 × 33/360 =	₹ 27,500
		₹ 3,00,000

Working Notes:

1. Hire Purchase Price = Down Payment + Installments
= ₹ 3,00,000 + (₹ 4,20,000 + ₹ 3,90,000 + ₹ 3,60,000 + ₹ 3,30,000) = 18,00,000
2. Total Interest = H.P. Price - Cash Price
= 18,00,000 - ₹ 15,00,000 = ₹ 3,00,000
3. Calculation of ratio of hire purchase price outstanding in the beginning of each year

A Year	B Outstanding Hire Purchase Price in the beginning of each year	C Installment Paid	D = B-C Outstanding Hire Purchase Price at the end of each year
I	15,00,000	4,20,000	10,80,000
II	10,80,000	3,90,000	6,90,000
III	6,90,000	3,60,000	3,30,000
IV	3,30,000	3,30,000	Nil

Ratio of Outstanding Hire Purchase Price at the beginning of year = 150:108:69:33

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(b)

Memorandum Trading Account for the period 1st April, 2016 to 29th August 2016

Particulars		\`	Particulars		\`
To Opening Stock		3,95,050	By Sales		22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)		4,41,300
Less: Advertisement	(20,500)				
Drawings	(1,000)	16,33,850			
To Gross Profit [30% of Sales][WN]		6,80,400			
		27,09,300			27,09,300

Statement of Insurance Claim

Particulars		\`
Value of stock destroyed by fire		4,41,300
Less: Salvaged Stock		(54,000)
Add: Fire Fighting Expenses		2,350
Insurance Claim		3,89,650

Note: Since policy amount is more than claim amount, average clause will not apply Therefore, claim amount of ` 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2016

To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2015-16 = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{12,00,000}{40,00,000} \times 100 = 30\%$

6. P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31.3.2017 on which date Balance Sheet of the firm is as follows.

Capital accounts:	P	1,20,000	Cash	36,000
	Q	85,000	Debtors	74,000
	R	75,000	Stock	60,000
Creditors		85,000	Plant and Machinery	1,20,000
		3,65,000	Land and Building	75,000
				3,65,000

Value of goodwill was agreed as `93,000. Land and building increased in value, it being agreed at `1,05,600, plant and machinery was revalued at `1,00,500 and it was agreed to provide 6% in respect of debtors. Prepare revaluation account, capital accounts and balance sheet.

5+5+5=15

Answer:

6.

Revaluation Account

Dr.			Cr.
Particulars	\`	Particulars	\`
To Depreciation on plant & machinery	19,500	By Land & building	30,600
To Provision for bad and doubtful debts	4,440		
To Profit-P	2,220		

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Profit-Q	2,220		
Profit-R	2,220		
	30,600		30,600

Capital Accounts

Dr.				Cr.			
Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To R's loan			1,08,220	By Balance b/d	1,20,000	85,000	75,000
Balance c/d	1,53,220	1,18,220		By Revaluation a/c	2,220	2,220	2,220
				By Goodwill	31,000	31,000	31,000
	1,53,220	1,18,220	1,08,220		1,53,220	1,18,220	1,08,220

Balance Sheet

Liabilities		`	Assets		`
Creditors	85,000		Cash		36,000
R's Loan	1,08,220		Debtors [74,000 -4,440]		69,560
Capital : P	1,53,220		Stock		60,000
Q	1,18,220		Plant and machinery		1,00,500
			Land and building		1,05,600
			Goodwill		93,000
	4,64,660				4,64,660

7. (a) Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2017 assuming that H.O. supplied goods at cost plus 25%.

Particulars	Amount (₹)	Particulars	Amount (₹)
Stock on 1.4.2016 (LP.)	12,500	Bad Debts	2,000
Debtors „	5,000	Allowances to customers	1,000
Petty Cash „	1,000	Returns Inwards	1,000
Goods sent to branch (LP.)	40,000	Cheques sent to Branch for expenses:	
Goods return to H.O. (LP.)	5,000	Rates & Taxes	3,000
Cash Sales	12,000	Salaries	8,000
Cash received from debtors	30,000	Misc. Exps.	1,000
		Stock on 31.03.2017 (LP.)	15,000
		Debtors „	4,000
		Petty Cash „	1,000

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- (b) The following information is available in the books of N.R. & Sons, for the year ending 31st March 2017:
- (i) Total Sales amounted to ` 24,43,000 including the sale of old machinery for ` 25,000 (book value is ` 43,000). The total cash sales were 70% less than total credit sales.
 - (ii) Cash collection from Debtors amounted to 70% of the aggregated of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ` 15,700.
 - (iii) Bills receivable drawn during the period totaled ` 84,000 of which bills amounting to ` 45,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ` 17,600 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.
 - (iv) Cheques received from customers ` 50,000 were dishonoured; a sum of ` 4,500 is irrecoverable.
 - (v) Bad Debts written-off in the earlier year realized ` 2,500.

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- (vi) Interest charged to customers ` 9,800.
 (vii) Sundry debtors on 1st April, 2016 stood at ` 2,45,000.

You are required to show the General Ledger Adjustment Account in the Debtors Ledger. 6

Answer:

7. (a)

In the books of H.O. Branch Account

Dr.			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars Amount (₹) Amount (₹)		
By Balance b/d			By Stock Reserve (Loading)	2,500	
Stock	12,500		— Bank A/c:		
Debtors	5,000		— Cash Sales	12,000	
Petty Cash	1,000	18,500	— Cash Received from Debtors	30,000	42,000
Goods sent to branch A/c		40,000	— Goods sent to branch (Return to H.O.)	5,000	
Bank A/c			— Goods sent to branch (Loading)	8,000	
Rates & taxes	3,000		By Balance c/d		
Salaries	8,000		Stock	15,000	
Misc. Expenses	1,000	12,000	Debtors	4,000	
Goods sent to Branch (Loading on returns)		1,000	Petty Cash	1,000	20,000
Closing Stock Reserve ($15,000 \times \frac{1}{5}$)		3,000			
General P & L A/c		3,000			
Note: Here loading is $\frac{25}{125} = \frac{1}{5}$ of invoice price. Hence, loading on opening stock will be ` 12,500 $\times \frac{1}{5} =$ ` 2,500 and so on.		77,500		77,500	

(b)

In the Debtors Ledger General Ledger Adjustment Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.17	To Sales Ledger Adj. A/c in General Ledger		1.4.16	By Balance b/d	2,45,000
	Cash	14,73,500	31.3.17	By Sales Ledger Adj. A/c in General Ledger	
	Discount Allowed	15,700		Sales	18,60,000
	B/R	84,000		B/R Disohnoured	17,600
	Bad Debts (17,600+4,500)	22,100		Cheque Dishonoured	50,000
31.3.17	To Balance c/d	5,87,100		Interest Charged	9,800
		21,82,400			21,82,400

Workings:

1. Calculation of Credit Sales

Cash Sales were 70% less than Credit Sales. So, if credit sales are ` 100 Cash Sales

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will be ₹ 30;

Total Sales (Cash + Credit) will be ₹ 130. Total Sales (₹24,43,000 – ₹ 25,000) = ₹24,18,000

Amount of Credit sales will be = ₹24,18,000 × (100/130) = ₹18,60,000.

2. Cash received

Cash received is 70% of opening Debtors plus Credit sales i.e. ₹2,45,000 + ₹18,60,000 = ₹21,05,000, Cash Received ₹21,05,000 × (70/100) = ₹14,73,500.

8. Write short notes on any three of the following:

5×3=15

- (a) The Accrual Concept
- (b) Weaknesses of Single Entry System
- (c) Advantages of Accounting Standard
- (d) Treatment of Abnormal Loss in case of Consignment Account.

Answer:

8. (a) The Accrual Concept

The accrual concept is based on recognition of both cash and credit transactions. In case of a cash transaction, owner's equity is instantly affected as cash either is received or paid. In a credit transaction, however, a mere obligation towards or by the business is created. When credit transactions exist (which is generally the case), revenues are not the same as cash receipts and expenses are not same as cash paid during the period.

When goods are sold on credit as per normally accepted trade practices, the business gets the legal right to claim the money from the customer. Acquiring such right to claim the consideration for sale of goods or services is called accrual of revenue. The actual collection of money from customer could be at a later date.

Similarly, when the business procures goods or services with the agreement that the payment will be made at a future date, it does not mean that the expense effect should not be recognized. Because an obligation to pay for goods or services is created upon the procurement thereof, the expense effect also must be recognized.

Today's accounting systems based on accrual concept are called as Accrual System or Mercantile System of Accounting.

(b) Weakness of single entry system

- (i) As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.
- (ii) Profit or loss can be found out only by estimates as nominal accounts are not maintained.
- (iii) It is not possible to make a balance sheet in absence of real accounts, d] It is very difficult to detect frauds or errors.
- (iv) Valuation of assets and liabilities is not proper.
- (v) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
- (vi) It is quite likely that the business and personal transactions of the proprietor get mixed.

(c) Advantages of Accounting Standard

- (i) It provides the accountancy profession with useful working rules.
- (ii) It assists in improving quality of work performed by accountant.
- (iii) It strengthens the accountant's resistance against the pressure from directors to use accounting policy which may be suspected in that situation in which they perform their work.
- (iv) It ensures the various users of financial statements to get complete crystal information on more consistent basis from period to period.

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GROUP - I
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS
DECEMBER - 2017**

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

*Both the sections are to be answered subject to instructions given against each.
[All workings must form part of your answer.]*

Section - A

1. Answer the following questions:

- (a) Choose the most appropriate one from given four alternatives: 1×10=10
- (i) If an employee of the business files a legal suit on business, it is considered in the books as a
 - (A) Legal Expense
 - (B) Liability
 - (C) Contingent Asset
 - (D) Contingent Liability
 - (ii) At the end of the accounting year the capital expenditures are shown in the
 - (A) assets side of the Balance Sheet.
 - (B) liabilities side of the Balance Sheet.
 - (C) debit side of the Profit and Loss A/c.
 - (D) credit side of the Profit and Loss A/c.
 - (iii) Which of the following is not a method of charging depreciation?
 - (A) Sinking Fund Method
 - (B) Sum of years Digit Method
 - (C) Working hours Method
 - (D) Asset's Life-cycle Method
 - (iv) If average inventory is `1,25,000 and closing inventory is `10,000 less than opening inventory then the value of closing inventory will be
 - (A) ` 1,35,000
 - (B) ` 1,15,000
 - (C) ` 1,30,000
 - (D) ` 1,20,000
 - (v) The Accommodation bill is drawn
 - (A) to finance actual purchase or sale of goods.
 - (B) to facilitate trade transmission.
 - (C) when both parties are in need of funds.
 - (D) None of the above
 - (vi) Balance of X's account in creditors ledger is transferred to X's account in debtors ledger, in this case
 - (A) X's account in debtors ledger will be debited.

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- (B) X's account in creditors ledger will be debited.
 (C) Suspense account will be debited.
 (D) None of the above

(vii) Ground rent or surface rent means

- (A) Minimum rent
 (B) Maximum royalty payable
 (C) Minimum royalty payable
 (D) Fixed rent payable in addition to minimum rent

(viii) Accounting standard in India are issued by

- (A) Government of India
 (B) Reserve Bank of India
 (C) The Institute of Chartered Accountants of India
 (D) The Institute of Accounting Standard of India

(ix) As on 31st March, 2017 debtors; and additional bad debts are ` 8,00,000 and ` 10,000 respectively. If the provision for bad debts is made at 5% on debtors then amount of such provision will be

- (A) ` 40,000
 (B) ` 50,000
 (C) ` 39,500
 (D) ` 40,500

(x) Income and Expenditure Account is a

- (A) Nominal Account
 (B) Real Account
 (C) Personal Account
 (D) Artificial Personal Account

(b) Match the following in Column-I with the appropriate in Column-II:

1×5=5

	Column-I		Column-II
(i)	Noting Charges	(A)	Branch Accounts
(ii)	Stock and debtors Method	(B)	Piecemeal Distribution
(iii)	Work certified	(C)	Not-for Profit Organization
(iv)	Average clause	(D)	Royalty Accounts
(v)	Maximum Loss Method	(E)	Bill of Exchange
		(F)	Construction Contract
		(G)	Insurance Claims

(c) State whether the following statements given below are 'True' or 'False':

1×5=5

- (i) Memorandum joint venture account is prepared to find out amount due from co-venture.
 (ii) Receipts and Payments Account is prepared by adopting cash principle of accounting.
 (iii) As per AS-9 revenue from interest should be recognized on the time proportion basis.
 (iv) Bad debts recovered is credited to debtor's personal account.
 (v) New-partner pays premium for goodwill, which will be shared by old partners in their new profit sharing ratio.

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(d) Fill in the blanks:

1x5=5

- (i) The _____discount is not recorded in the books of accounts.
- (ii) Profit or Loss on revaluation is shared among the partners in _____Ratio.
- (iii) At the time of goods sent to consignee, the proforma invoice is prepared by_____.
- (iv) Memorandum revaluation account is prepared when the _____of assets and liabilities are not altered.
- (v) Realisation account is opened at the time of _____of firm.

Answer:

1. (a) (i) (D)
(ii) (A)
(iii) (D)
(iv) (D)
(v) (C)
(vi) (B)
(vii) (D)
(viii) (C)
(ix) (C)
(x) (A)
- (b) (i) (E)
(ii) (A)
(iii) (F)
(iv) (G)
(v) (B)
- (c) (i) False
(ii) True
(iii) True
(iv) False
(v) False
- (d) (i) Trade
(ii) Old profit sharing
(iii) Consignor
(iv) Book value
(v) Dissolution of the firm

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Section - B

*Answer any five from the following.
Each question carries 15 marks.*

15×5=75

2. The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2017:

Income and Expenditure Account for the year ended 31st March, 2017

To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of Furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-03-2016	31-03-2017
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is ` 7,000. Entrance fees capitalized ` 4,000. On 1st April, 2016 there was no cash in hand but Bank Overdraft was for ` 15,000. On 31st March, 2017 cash in hand amounted to ` 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2017. 15

Answer:

Receipts and Payments Account for the year ended 31.3.2017

Dr.		Particulars		Cr.
To Subscription A/c (W.N.1)	67,050	By Balance b/d (Bank overdraft)		15,000
To Donation A/c	5,000	By Salary	19,500	
To Entrance Fees A/c	4,000	Add: Outstanding of last year	1,200	
To Furniture A/c (Sale of furniture)(7,000 -2,500)	4,500	Less: Outstanding of this year	(350)	20,350

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	By Rent	4,500	
	Add: Outstanding of last year	500	
	Less: Outstanding of this year	(800)	4,200
	By Printing		750
	By Insurance	500	
	Add: Prepaid in this year	150	650
	By Audit Fees	750	
	Add: Outstanding of last year	500	
	Less: Outstanding of this year	(750)	500
	By Games & Sports		3,500
	By Miscellaneous Expenses		14,500
	By Sports Equipment(Purchased)(W.N. 2)		5,000
	By Furniture (Purchased)(W.N.3)		8,000
	By Balance c/d		
	Cash		850
	Bank (bal. fig.)		7,250
	80,550		80,550

Working Notes:

1. Calculation of subscription received during the year 2016-2017

Particulars	`	`
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2016-2017	3,700	
Advance in 2015-2016	1,000	(4,700)
		63,300
Add: Arrears of 2015-2016	2,600	
Advance for 2017-2018	1,500	4,100
		67,400
Less: Written off during 2016-2017		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2016-2017

Sports Equipment Account

Dr.	`	Cr.	`
Particulars		Particulars	
To Balance b/d	25,000	By Income & Expenditure A/c (Depreciation)	6,000
To Receipts & Payments A/c (Purchases) (bal. fig.)	5,000	By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2016-2017

Furniture Account

Dr.	`	Cr.	`
Particulars		Particulars	
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c (Purchases) (bal. fig.)	8,000	By Income & Expenditure A/c (Loss on sale)	2,500
		By Income & Expenditure A/c	3,100

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		(Depreciation)	
		By Balance c/d	27,900
	38,000		38,000

3. The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities		Assets	
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor Car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at Bank	8,500
	94,000		94,000

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- (a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases.
- (b) On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- (c) Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.
- (d) Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500 and Cash withdrawn from Bank ₹ 12,000.
- (e) Gross Profit as per last year's audited accounts was ₹ 30,000.
- (f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- (g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date. 15

Answer:

Trading and Profit and Loss Account For the year ending on 31st March, 2016

Dr. Particulars			Cr. Particulars	
To Opening Stock		20,000	By Sales	1,80,000
To Purchase (bal. fig.)		1,54,000	By Closing stock	30,000
To Gross Profit c/d (@ 20% on sales)		36,000		
		2,10,000		2,10,000
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation on Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net Profit transferred to Capital A/c		12,325		
		36,000		36,000

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Balance Sheet as at 31st March, 2016

Liability			Assets		
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	(1,625)	30,875
Add: Net Profit	12,325		Furniture	5,000	
	60,325		Less: Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in Trade		30,000
Outstanding expenses		5,000	Sundry Debtors		21,000
			Cash at bank		22,000
			Sundry Advances (Amount recoverable from cashier)		4,500
		1,20,325			1,20,325

Working Notes:

(i)

Total Debtors Account

Dr.		Cr.	
Particulars		Particulars	
To Balance b/d	17,000	By Bank (` 1,40,000 – ` 35,000)	1,05,000
To Sales (80% of ` 1,80,000)	1,44,000	By Cash A/c	35,000
To Gross Profit c/d (@ 20% on sales)		By Balance c/d	21,000
	1,61,000		1,61,000

(ii)

Total Creditors Account

Dr.		Cr.	
Particulars		Particulars	
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

(iii)

Cash Book

Dr.			Cr.		
Particulars	Cash (`)	Bank (`)	Particulars	Cash (`)	Bank (`)
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	---	By Drawings	---	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	---	1,37,500
To Cash (Contra)	---	71,500	By Bank (Contra)	71,500	---
To Bank (Contra)	12,000	---	By Cash (Contra)	---	12,000
			By Defalcation (Bal. Fig.)	4,500	---
			By Balance c/d (Bal. Fig.)	---	22,000
	85,000	1,85,000		85,000	1,85,000

(iv) Last year's Total Sales = Gross Profit x 100/20 = ` 30,000 x 100/20 = ` 1,50,000

(v) Current year's Total Sales = ` 1,50,000 + 20% of ` 1,50,000 = ` 1,80,000

(vi) Current year's Credit Sales = ` 1,80,000 x 80% = ` 1,44,000

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(v) Cost of Goods Sold = Sales - G.P. = ₹ 1,80,000 - ₹ 36,000 = ₹ 1,44,000

(vi) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= ₹ 1,44,000 + ₹ 30,000 - ₹ 20,000
= ₹ 1,54,000.

4. (a) (i) A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March, 2017 documentation and legal formalities are pending. The Company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer give in its financial statements? 3

- (ii) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to show closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock? 2

- (b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.

- (i) No adjustment entry was passed for an amount of ₹ 2,000 relating to outstanding rent.
(ii) Purchase book was overcast by ₹ 1,000.
(iii) ₹ 4,000 depreciation of Machinery has been omitted to be recorded in the book.
(iv) ₹ 600 paid for purchase of stationary has been debited to Purchase A/c.
(v) Sales books was overcast by ₹ 1,000.
(vi) ₹ 5,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet. 6

- (c) (i) Why is goodwill considered to be an intangible asset and not a fictitious asset?
(ii) The Balance Sheet of a Partnership Firm had an Investment Fluctuation Reserve of ₹ 10,000. A new partner is admitted. Value of Investment is ₹ 60,000 against its book value of ₹ 70,000. What amount of the Investment Fluctuation Reserve will be distributed among partners?
(iii) When does the Capital Account of a partner not show a debit balance in spite of regular losses incurred by the firm?
(iv) At the time of dissolution of Partnership Firm realisation expenses amounted to ₹ 3,000 paid by Nisha, a partner who was to bear these expenses. What entry is required in the Books of the firm? 4

Answer:

- (a)(i) Although legal title has not been transferred, the economic reality and substance is that the rights and beneficial interest in the immovable property have been transferred. Therefore, recording of acquisition/disposal (by the transferee transferor respectively) would, in substance, represent the purchase/sale. In view of this A Ltd., should record the sales and recognize the profit of ₹ 15 lakhs in its Profit and Loss Account. It should eliminate building from its balance sheet. In notes to accounts, it should disclose that building has been sold, full consideration has been received, possession has been handed over to the buyer and documentation and legal formalities are pending.

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The buyer should recognize the building as an asset in his balance sheet and charge depreciation on it. The buyer should disclose in his notes to account that possession has been received however documentation and legal formalities are pending.

- (ii) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

(b)

Profit & Loss A/c		Balance Sheet	
(i)	Profit was overstated by ₹ 2,000.	(i)	Capital was also overstated by ₹ 2,000 & outstanding Liability was understated by 2,000.
(ii)	Gross profit was under stated by ₹ 1,000 & also the Net Profit.	(ii)	Capital was understated by ₹ 1,000
(iii)	Net Profit was overstated by ₹ 4,000.	(iii)	Machinery was overstated by ₹ 4,000 & so the Capital A/c was also overstated by ₹ 4,000.
(iv)	No effect on Net Profit.	(iv)	No effect in Balance Sheet.
(v)	Gross Profit and Net Profit were overstated by ₹ 1,000.	(v)	Capital Was overstated by ₹ 1,000.
(vi)	Gross Profit & Net Profit were overstated by, ₹ 5,000.	(vi)	Capital & Sundry Debtors were overstated by ₹ 5,000.

- (c) (i) Goodwill is not a fictitious asset because it has a realisable value. It is an intangible asset because it cannot be seen and touched.
 (ii) Nil. There is no excess amount in the Investment Fluctuation Reserve Account as the fall in the value of the investment is equal to the reserve.
 (iii) When partners maintain Fixed Capital Account, all adjustments including share of profit or loss is shown in their Current Account. Hence, the Capital Account of the partners will not be disturbed and this will not show a debit balance in spite of regular losses.
 (iv) No entry is required as the expenses are to be borne by the partners.

5. (a) Snehal, Suchita and Sindhu were partners sharing profits and losses in the ratio of 3 : 2 : 1. The firm was dissolved on 31.03.2015. After transfer of assets and liabilities to Realisation A/c, the following transactions took place.

Give journal entries in the books on dissolution of the firm.

- (i) Suchita's Loan to the firm ₹ 30,000 was settled at ₹ 28,500.
 (ii) A creditor for ₹ 50,000, took over Machinery of Book value ₹ 40,000 at ₹ 35,000. The balance was settled in Cash.
 (iii) Workmen Compensation Reserve - ₹ 40,000. A liability equal to 60% of the Reserve was settled.
 (iv) Sindhu was to receive 5% of the value of assets realised as remuneration for completing the dissolution work and was to bear realization expenses. Realisation expenses were ₹ 5,500 that was paid by Sindhu. Assets realised ₹ 60,000.
 (v) The Balance Sheet disclosed a footnote, contingent liability for ₹ 5,000 in respect of a bill discounted. The bill was received from Megha. On the date of dissolution Megha was declared insolvent and was not able to pay the amount due. The bill had to be met by the firm.
 (vi) Loss on realization amounted to ₹ 24,000.

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(b) The following details are available in respect of a business for a year.

Department	Opening Stock	Purchase	Sales
X	120 units	1,000 units	1,020 units at ` 20.00 each
Y	80 units	2,000 units	1,920 units at ` 22.50 each
Z	152 units	2,400 units	2,496 units at ` 25.00 each

The total value of purchases is ` 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year.

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Answer:

(a)

In the books of Snehal, Suchita and Sindhu Journal

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
(a)	Suchita's Loan A/c To Bank A/c To Realisation A/c (Being settlement of partner's loan)	Dr.	30,000	28,500 1,500
(b)	Realisation A/c To Bank A/c (Being settlement of creditor's liability)	Dr.	15,000	15,000
(c)	Workmen Compensation Reserve A/c To Realisation A/c To Snehal's Capital A/c To Suchita's Capital A/c To Sindhu's Capital A/c (Being WCR transferred)	Dr.	40,000	24,000 8,000 5,333 2,667
	Realisation A/c To Bank A/c (Being liability against Workmen Compensation paid)	Dr.	24,000	24,000
(d)	Realisation A/c To Sindhu's Capital A/c (Being remuneration payable to Sindhu)	Dr.	3,000	3,000
(e)	Realisation A/c To Bank A/c (Being amount paid for the bill)	Dr.	5,000	5,000
(f)	Snehal's Capital A/c Suchita's Capital A/c Sindhu's Capital A/c To Realisation A/c (Being loss on realisation transferred)	Dr. Dr. Dr.	12,000 8,000 4,000	24,000

(b)

1. Computation of Closing Stock Quantity (in units)

Particulars	X	Y	Z
Opening Stock	120	80	152
Add: Purchase	1,000	2,000	2,400
Less: Units Sold	(1,020)	(1,920)	(2,496)
Closing Stock	100	160	56

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2. Computation of Gross Profit Ratio

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under.

Assuming all purchases are sold, the sale proceeds would be

Department X	1,000 Units @ ` 20.00	20,000
Department Y	2,000 Units @ ` 22.50	45,000
Department Z	2,400 Units @ ` 25.00	60,000
Total Sale Value of Purchase Quantity	125,000	
Less : Cost of Purchase	1,00,000	
Gross Profit Amount	25,000	
Gross profit Ratio	$25,000 \div 1,25,000$	20% of Selling Price

3. Computation of Profit and Cost for each article

Department	Selling Price	Profit at 1/5 of SP	Cost = Sales - Profit
Department x	` 20.00	$1/5 \text{ of } ` 20.00 = 4.00$	` 16.00
Department Y	` 22.50	$1/5 \text{ of } ` 22.50 = 4.50$	` 18.00
Department 2	` 25.00	$1/5 \text{ of } ` 25.00 = 5.00$	` 20.00

4. Departmental Trading Account for the year ended.....

Dr.					Cr.				
Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
To Op. stock	1,920	1,440	3,040	6,400	By Sales	20,400	43,200	62,400	1,26,000
To Purchase	16,000	36,000	48,000	100,000	By Cl. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
	22,000	46,080	63,520	1,31,600		22,000	46,080	63,520	131,600

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

6. (a) On 1st April, 2012, X Ltd. sells a Truck on hire purchase basis to X Transporters & Co. for a total purchase price of ` 18,00,000 payable as to ` 4,80,000 as down payment and the balance in three equal annual installments of ` 4,40,000 each payable on 31st March, 2013, 2014, and 2015.

The hire vendor charges interest @10% per annum.

You are required to ascertain the cash price of the truck for X Transporters & Co. Calculations may be made to the nearest rupee.

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- (b) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger? 7

Opening Balance of Debtors' Ledger	40,000
Opening Balance of Creditors' Ledger	20,000
Credit Sales	92,000
Credit Purchases	59,600
Transfer from Debtors' Ledger to Creditors' Ledger	6,000
Bill receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered ` 600)	4,400
Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bill Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400
Discount allowed to Debtors ` 1,000 was recorded as discount received, from Creditors	
Closing Debtors Balance (As per General Ledger Adjustment Account)	1,20,000 (Cr.)
Closing Creditors Balance (As per General Ledger Adjustment Account)	60,000 (Dr.)

Answer:

$$\frac{\text{Rate of Interest}}{100 + \text{Rate of Interest}} = \frac{10}{110} = \frac{1}{11}$$

- (a) Ratio of interest and amount due = $\frac{10}{110} = \frac{1}{11}$

There is no interest element in the down payment as it is paid on the date of the transaction. Installments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last installment to first installment as follows:

Calculation of Interest and Cash Price

No. of installments	Amount due at the time of installment	Interest	Cumulative cash price
[1]	[2]	[3]	[2 - 3] = [4]
3 rd	4,40,000	1/11 of ` 4,40,000 = ` 40,000	4,00,000
2 nd	8,40,000	1/11 of ` 8,40,000 = ` 76,364	7,63,636
1 st	12,03,636	1/11 of ` 12,03,636 = ` 1,09,421	10,94,215

Total cash price = ` 10,94,215 + 4,80,000 (down payment) = ` 15,74,215.

(b)

In Debtors Ledger General Ledger Adjustment Account

Dr.	Particulars	`	Particulars	Cr.
	To Debtors Ledger Adjustment A/c:		By Balance b/d	40,000
	Discount Allowed	4,000	By Debtors Ledger	

Suggested Answer Syl16 Dec2017 Paper 5

(` 3,000 + ` 1,000)		Adjustment A/c:	
Bad Debts (4,400 + 600)	5,000	Sales	92,000
Transfer to creditor ledger	6,000	Endorsed Bills receivable dishonoured	2,000
To Balance c/d (1,20,000 – 1,000)	1,19,000		
	1,34,000		1,34,000

In Creditors Ledger General Ledger Adjustment Account

Dr.		Cr.	
Particulars	`	Particulars	`
To Balance b/d	20,000	By Creditors Ledger Adjustment A/c	
To Creditors Ledger Adjustment A/c		Transfer from Debtors' ledger	6,000
Purchases	59,600	Bills Receivable endorsed to creditors	8,000
Endorsed Bills receivable dishonoured	2,000	Discount received (` 1,200 - ` 1,000)	200
		Allowances	6,400
		By Balance c/d (60,000 + 1,000)	61,000
	81,600		81,600

(i) The following items do not appear in GLA Account in Debtors' Ledger:

- (1) Cash sales
- (2) Provision for Doubtful Debts
- (3) Provision for Discount on Debtors
- (4) Bad Debts Recovered
- (5) Bills Receivable matured/collected on maturity
- (6) Bills Receivable discounted

(ii) The following items do not appear in GLA Account in Creditors' Ledger:

- (1) Cash Purchases
- (2) Reserve for Discount on Creditors
- (3) Bills Payable Matured

7. (a) The premises of X Ltd. caught fire on 22nd January, 2015 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2014 the stock at cost was `13,27,200 as against `9,62,200 on 31st March, 2013.

Purchases from 1st April, 2014 to the date of fire were ` 34,82,700 as against `45,25,000 for the full year 2013-2014 and the corresponding sales figures were `49,17,000 and `52,00,000 respectively.

You are given the following further information:

- (i) In July, 2014, goods costing `1,00,000 were given away for advertising purposes, no entries being made in the books.
- (ii) The rate of gross profit is constant.

X Ltd. had taken an insurance policy of `5,50,000 which was subject to the average clause. From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company.

10

- (b) List the significances of computerised accounting system.

5

Suggested Answer Syl16 Dec2017 Paper 5

Answer:

(a) Memorandum Trading Account from 1st April, 2014 to 22nd January, 2015

Dr.		Cr.	
Particulars	Amount (₹)	Amount (₹)	Particulars
To Opening Stock		13,27,200	By Sales
To Purchases	34,82,700		By Stock on 22 nd January, 2015 – Balancing figure
Less: Cost of goods used for advertising	(1,00,000)	33,82,700	
To Gross Profit			
20% of sales (Working Note)		9,83,400	
		56,93,300	56,93,300

Stock in hand on date of fire = ₹ 7,76,300.

Computation of claim for loss of stock

Particulars	Amount (₹)
Stock on the date of fire i.e. on 22nd January, 2015	7,76,300
As the value of goods salvaged was negligible, therefore Loss of stock	7,76,300

Since policy amount is less than claim amount, claim will be restricted to policy amount only. Therefore, claim of ₹ 5,50,000 should be lodged by X Ltd. to the insurance company.

Working Note:

Trading Account for the year ended on 31st March, 2014

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	9,62,200	By Sales	52,00,000
To Purchases	45,25,000	By Closing Stock	13,27,200
To Gross Profit	10,40,000		
	65,27,200		65,27,200

Rate of gross profit to sales = $10,40,000 / 52,00,000 \times 100 = 20\%$.

(b) Significance of computerised accounting system

- The speed with which accounts can be maintained is several fold higher;
- Automatic Correct Balancing of Ledger Accounts;
- Automatic Talled Trial balance unless some mistake is made while recording the opening balance;
- Automatic Income Statement;
- Automatic Balance Sheet.

8. Write short notes on any three of the following:

5×3=15

- (a) Objectives of Accounting
- (b) Methods/Criteria to the selection and application of Accounting policies
- (c) Difference between sale and consignment
- (d) Criticism of the decision of Garner vs. Murray

Answer:

(a) Objectives of Accounting

The main objective of Accounting is to provide financial information to stakeholders. This financial information is normally given via financial statements, which are prepared on the basis of Generally Accepted Accounting Principles (GAAP). There are various accounting standards developed by professional accounting bodies all over the world. In India, these are governed by The Institute of Chartered Accountants

of India, (ICAI). In the US, the American Institute of Certified Public Accountants (AICPA) is responsible to lay down the standards. The Financial Accounting Standards Board (FASB) is the body that sets up the International Accounting Standards. These standards basically deal with accounting treatment of business transactions and disclosing the same in financial statement:

The following objectives of accounting will explain the width of the application of this knowledge stream:

- (a) To ascertain the amount of profit or loss made by the business i.e. to compare the income earned versus the expenses incurred and the net result thereof.
- (b) To know the financial position of the business i.e. to assess what the business owns and what it owes.
- (c) To provide a record for compliance with statutes and laws applicable.
- (d) To enable the readers to assess progress made by the business over a period of time.
- (e) To disclose information needed by different stakeholders.

(b) The major considerations governing the selection and application of accounting policies are:

Prudence - Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement, these uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.

Substance over form - It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.

Materiality - Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

(c) Difference between Sale and Consignment

1. In sale the property in goods is transferred to The buyer immediately whereas in consignment the property transferred to the buyer only when goods are sold by the consignee. The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.
2. In sale, the risk attaching to the goods passes with ownership to the buyer, in case of a consignment, the risk attaching to the goods does not pass to the consignee who acts as a mere agent. If there is any damage or loss to the goods it is borne by the consignor provided the consignee has taken reasonable care of the goods and the damage or loss is not due to his negligence.
3. The relationship of consignor and consignee is that of a principal and an agent as in a contract of agency whereas the relationship of buyer and seller is governed by the Sale of Goods Act.
4. Unsold goods on consignment are the property of the consignor and may be returned if not saleable in the market whereas goods sold on sale basis are normally not returnable unless there is some defect in them.

(d) Criticism of the decision of Garner vs. Murray

The following criticism may be advocated against the decisions laid down in Garner vs. Murray principle:

- (i) If any solvent partner has a debit balance in capital account, he must not bear the deficiency of the insolvent partner;
- (ii) This principle does not apply if there are only two partners;

Suggested Answer_Syl16_Dec2017_Paper 5

- (iii) In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on revaluation which is immaterial and useless; and
- (iv) If any solvent partner who possess more private asset but contributes less capital, he will naturally, as per Garner vs. Murray decision, bear less amount of deficiency of the insolvent partner than the other solvent partner who possess less private assets but contributes more capital to the firm. This is not justified.

CMA HUSTLERS

**INTERMEDIATE EXAMINATION
GROUP - I
(SYLLABUS 2016)
SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2018**

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Both the sections are to be answered subject
to instructions given against each.
All workings must form part of your answer.

Section - A

1. Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives: 1×10=10
- (i) Which of the following is not a Qualitative Characteristics of Financial Statement?
 - (A) Cost Principle
 - (B) Understandability
 - (C) Relevance
 - (D) Reliability
 - (ii) Name the book in which, entries are recorded on the basis of credit notes issued.
 - (A) Sales Book
 - (B) Purchase Book
 - (C) Sales Return Book
 - (D) Purchase Return Book
 - (iii) Exception to consistency principle is
 - (A) Cost Principle
 - (B) Going Concern Principle
 - (C) Matching Principle
 - (D) Prudence Principle
 - (iv) Interest charged by vendor in Hire Purchase System, is calculated on the basis of
 - (A) Outstanding hire purchase price
 - (B) Outstanding cash price
 - (C) Instalment amount
 - (D) Cost price of the asset
 - (v) The balance in consignment account shows
 - (A) Amount receivable from consignee
 - (B) Amount payable to consignee
 - (C) Profit/ loss on consignment
 - (D) Closing stock with consignee
 - (vi) Provision for bad debts is
 - (A) Real Account
 - (B) Nominal account
 - (C) Personal account
 - (D) None of the above

Suggested Answers Syl2016 June2018 Paper 5

- (vii) The business is treated as distinct and separate from its owners on the basis of the
 (A) Going concern concept
 (B) Conservatism concept
 (C) Matching concept
 (D) Business entity concept
- (viii) Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is
 (A) Prior - period item
 (B) Extra - ordinary item
 (C) Ordinary item requiring separate disclosure
 (D) Contingent item
- (ix) Discount given in the Sales - Invoice itself is
 (A) Cash discount
 (B) Trade discount
 (C) Rebate
 (D) Allowance
- (x) Canteen expenses are apportioned among departments in the proportion of
 (A) Departmental floor space
 (B) Departmental direct wages
 (C) Departmental sales
 (D) Departmental No. of employees

(b) Match the following in Column-I with the appropriate in Column-II: 1×5=5

	Column-I		Column-II
(i)	Receipt & Payment A/c	(a)	AS-10
(ii)	Revaluation model of Asset	(b)	Consignment
(iii)	Proforma Invoice	(c)	Not-for-Profit Organization
(iv)	Stage of Completion Method	(d)	Hire Purchase
(v)	Partial Repossession	(e)	AS-7
		(f)	AS-6

(c) State whether the following statements given below are True or False: 1×5=5

- (i) Receipt & Payment Account only records the revenue nature of receipts and expenses.
 (ii) Sales Book records both cash and credit sales.
 (iii) Normal loss of goods sent on consignment is shown in Consignment Account.
 (iv) In case of trading concern, cost of goods sold and cost of sales are same.
 (v) In Proprietorship business, Income-tax payable is shown as a liability in Balance Sheet.

(d) Fill in the blanks: 1x5=5

- (i) The Bank A/c is a _____ Account.
 (ii) Assets are classified as non-current asset and current assets as per _____ Principle.
 (iii) _____ Amount is the higher of asset's net selling price and its value in use.
 (iv) The _____ Loss is included in the valuation of inventories.
 (v) _____ is the amount by which minimum rent exceeds the actual royalty.

Answer:

1. (a) (i) (A)
 (ii) (C)
 (iii) (D)
 (iv) (B)
 (v) (C)
 (vi) (C)

- (vii) (D)
- (viii) (C)
- (ix) (B)
- (x) (D)

(b)

	Column-I		Column-II
(i)	Receipt & Payment A/c	(c)	Not-for-Profit Organization
(ii)	Revaluation model of Asset	(a)	AS-10
(iii)	Proforma Invoice	(b)	Consignment
(iv)	Stage of Completion Method	(e)	AS-7
(v)	Partial Repossession	(d)	Hire Purchase

- (c) (i) False
- (ii) False
- (iii) False
- (iv) False
- (v) False

- (d) (i) Personal
- (ii) Going - Concern
- (iii) Recoverable/ Fair Value
- (iv) Normal
- (v) Short - workings

Section - B

Answer any five from the following.
Each question carries 15 marks.

2. (a) The Trial Balance of S Ltd. as on 31/03/2018 showed the credit in excess by ` 415 which was been carried to Suspense Account. On a closed scrutiny of the books, the following errors were revealed:
- (i) A cheque of ` 3,456 received from AB Ltd. after allowing it a discount of ` 46 was endorsed to CD Ltd. in full settlement for ` 3,500. The cheque was finally dishonoured but no entries are passed in the books of account.
 - (ii) Goods of the value of ` 230 returned by PQ Ltd. were entered in Purchase Day book and posted there from to MN Ltd. as ` 320.
 - (iii) Bad debts aggregating ` 505 written off during the year in Sales Ledger but were not recorded in General Ledger.
 - (iv) Bill for ` 750 received from Z Ltd. for repairs to Machinery was entered in the Inward Invoice Book as ` 650.
 - (v) Goods worth ` 1,234 purchased from Y Ltd. on 28/03/2018 had not been entered in Day book and credited to Y Ltd. but Goods were not delivered till 5th April, 2018. The title of Goods was however passed on 28/03/2018 and was taken into stock on 31-03-2018.
 - (vi) ` 79 paid for Freight on Machinery was debited to Freight account as ` 97.

Pass the necessary Journal Entries to rectify the above mentioned errors.

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- (b) A company maintains its reserve for bad debts @ 5% and a reserve for discount on debtors @ 2%. You are given the following details:

Particulars	2016	2017
Bad debts	800	1,500
Discount allowed	1,200	500
Sundry debtors (before providing all bad debts and discounts)	60,000	42,000

Suggested Answers Syl2016 June2018 Paper 5

On 01/01/2016, Reserve for bad debts and Reserve of discount on debtors had balance of ` 4,550 and ` 800 respectively.

Show Reserve for Bad Debts and Reserve for Discount on Debtors Account for the year 2016 and 2017.

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Answer:

2. (a)

Date	Particulars	L.F	Dr.	Cr.
	AB Ltd. A/c Dr.		3,502	
	Discount Received A/c Dr.		44	
	To CD Ltd. A/c			3,500
	To Discount Given A/c			46
	(Being Cheque received from AB Ltd. was endorsed to CD Ltd. However, the cheque was later dishonoured)			
	Sales Return A/c Dr.		230	
	MN Ltd. A/c Dr.		320	
	To Purchase A/c			230
	To PQ Ltd. A/c			230
	To Suspense A/c			90
	(Being goods returned by PQ Ltd. were wrongly recorded in purchase book and from thereon wrongly posted to MN Ltd.)			
	Bad debts A/c Dr.		505	
	To Suspense A/c			505
	(Being Bad debts written off in Sales Ledger but not yet recorded in General Ledger, now recorded)			
	Repairs A/c Dr.		750	
	To Purchase A/c To Z Ltd.			650
	(Being repair of machinery amounting to `750 wrongly entered in Inward book as `650)			
	Goods - in - Transit A/c Dr.		1,234	
	To Trading A/c			1,234
	(Being goods - in - transit were recorded in books)			
	Machinery A/c Dr.		79	
	Suspense A/c Dr.		18	
	To Freight A/c			97
	(Being amount paid on Freight on Machinery amounting to ` 79 was wrongly debited to Freight A/c as ` 97)			

(b)

Reserve for Bad Debts Account

Dr.			Cr.		
Date	Particulars	`	Date	Particulars	`
31.12.2016	To Bad Debts A/c	800	01.01.2016	By Balance b/d	4,550
31.12.2016	To Profit & Loss A/c	850			
31.12.2016	To Balance c/d (5% on ` 58,000)	2,900			
		4,550			4,550
31.12.2017	To Bad Debts A/c	1,500	01.01.2017	By Balance b/d	2,900
31.12.2017	To Balance c/d (5% on ` 40,000)	2,000	31.12.2017	By Profit & Loss A/c	600
		3,500			3,500

Reserve for discount on Debtors Account

Dr.			Cr.		
Date	Particulars	`	Date	Particulars	`
31.12.2016	To Discount A/c	1,200	01.01.2016	By Balance b/d	800

Suggested Answers Syl2016 June2018 Paper 5

31.12.2016	To Balance c/d (2% on ` 58,000 - `2,900)	1,102	31.12.2016	By Profit & Loss A/c	1,502
		2,302			2,302
31.12.2017	To Discount	500	01.01.2017	By Balance b/d	1,102
31.12.2017	To Balance c/d (2% on ` 40,000 - `2,000)	760	31.12.2017	By Profit & Loss A/c	158
		1,260			1,260

3. Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

Opening Cash Balance	56,000
Donation Received (including ` 50,000 for Building Fund.)	1,55,000
Payment to creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @ 9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical Camp Expenses	10,500
Miscellaneous Expenses	7,000

Additional Information:

Sl. No		01.04.2016	31.03.2017
1.	Subscription Due	10,500	15,400
2.	Subscription Received in Advance	8,400	4,900
3.	Stock of Medicine	70,000	1,05,000
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	3,15,000
6.	Creditor for Medicine Supply	63,000	91,000
7.	Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017.

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Answer

: 3.

Receipts and Payments Account of Radix Clinic for the year ended 31.03.2017

Dr.	Receipts	Payments	Cr.
	To Cash in Hand (Opening)	By Medical Supply	2,10,000
	To Subscription	By Honorarium to doctors	1,90,000
	To Donation	By Salaries	70,000
	To Interest on Investment	By Misc. expenses	7,000
	To Medical Camp collections	By Purchase of equipment	1,05,000
		By Telephone expenses	6,000
		By Medical camp expenses	10,500
		By Cash in Hand (Closing)	1,13,000
	7,11,500		7,11,500

Suggested Answers Syl2016 June2018 Paper 5

Income and Expenditure Account of Radix Clinic for the year ended 31.03.2017

Dr.		Income	Cr.
Expenditure		Income	
To Medicine consumed	2,03,000	By Subscription	3,58,400
To Honorarium to doctors	1,90,000	By Donation	1,05,000
To Salaries	70,000	By Interest on investments	63,000
To Telephone expenses	6,000	By Profit on Medical camp:	
To Misc. expenses	7,000	Collections	87,500
To Depreciation on:		Less: Expenses (10,500)	77,000
Medical equipment	37,800		
Building (3,50,000 – 3,15,000)	35,000		
	72,800		
To Surplus-excess of Income over expenditure	54,600		
	6,03,400		6,03,400

Balance Sheet of Radix Clinic as on 31st March, 2017

Liability			Assets		
Capital Fund:			Building	3,50,000	
Opening Balance	12,62,100		Less: Depreciation	(35,000)	3,15,000
Add: Surplus	54,600	13,16,700	Medical Equipment	1,47,000	
Building Fund		50,000	Add: Purchase	1,05,000	
Subscription received in advance		4,900		2,52,000	
Creditors for medicine supply		91,000	Less: Depreciation	(37,800)	2,14,200
			Stock of Medicine		1,05,000
			Investments		7,00,000
			Subscription receivable		15,400
			Cash in hand		1,13,000
		14,62,600			14,62,600

Working Notes:

1.	Subscription for the year ended 31.03.2017		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 01.04.2016	10,500	
	Less: Subscription received in advance on 31.03.2017	4,900	(15,400)
			3,34,600
	Add: Subscription receivable on 31.03.2017	15,400	
	Add: Subscription received in advance on 01.04.2016	8,400	23,800
			3,58,400
2.	Purchase of medicine		
	Payment of medicine supply		2,10,000
	Less: Amount due for medicine supply 01.04.2016		(63,000)
			1,47,000
	Add: Amounts due for medicine supply on 31.03.2017		91,000
			2,38,000
3.	Medicine Consumed		
	Stock of medicine on 01.04.2016		70,000
	Add: Purchase of medicine during the year		2,38,000
			3,08,000
	Less: Stock of medicine on 31.03.2017		(1,05,000)
			2,03,000
4.	Depreciation on equipment		
	Value of equipment on 01.04.2016		1,47,000
	Add: Purchase of equipment during the year		1,05,000

Suggested Answers Syl2016 June2018 Paper 5

		2,52,000
	Less: Value of equipment on 31.03.2017	(2,14,200)
	Depreciation on equipment for the year	37,800

Balance Sheet of Radix Clinic as on 31st March, 2016

Liability		Assets	
Capital Fund: (balancing Figure)	12,62,100	Building	3,50,000
Subscription received in advance	8,400	Medical Equipment	1,47,000
Creditors for medicine supply	63,000	Stock of Medicine	70,000
		Investments	7,00,000
		Subscription receivable	10,500
		Cash in hand	56,000
	13,33,500		13,33,500

4. The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and profit & loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date:

(a) Assets and Liabilities as on:

	01.04.2016 (₹)	31.03.2017 (₹)
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

- (i) Collection from Debtors, after allowing discount of ₹15,000 amounted to ₹5,85,000.
 - (ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹1,250 by bank, totalled to ₹61,250.
 - (iii) Creditors of ₹4,00,000 were paid ₹3,92,000 in full settlement of their dues.
 - (iv) Payment of Freight inward of ₹30,000.
 - (v) Amount withdrawn for personal use ₹70,000.
 - (vi) Payment for office furniture ₹10,000.
 - (vii) Investment carrying annual interest of 6% were purchased at ₹95 (200 shares, face value ₹100 each) on 1st October, 2016 and payment made thereof.
 - (viii) Expenses including salaries paid ₹95,000.
 - (ix) Miscellaneous receipts of ₹5,000.
- (c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹1,00,000. Of these, bills of exchange of ₹20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹4,000 was dishonoured.
- (d) Goods costing ₹9,000 were used as advertising material.
- (e) Goods are invariably sold to show a gross profit of 20% on sales.
- (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.
- (g) Provide at 2% for doubtful debts on closing debtor.

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Suggested Answers Syl2016 June2018 Paper 5

Answer

: 4.

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017

Dr.			Cr.	
Particulars			Particulars	
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight Inwards		30,000		
To Gross Profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross Profit b/d	1,21,750
To Advertisement		9,000	By Interest on Investment	600
To Discount Allowed - Debtors	15,000		(20,000 × 6/100 × ½)	
Bills Receivable	1,250	16,250	By Discount received	8,000
To Depreciation on furniture		6,500	By Miscellaneous income	5,000
To Provision for doubtful debts		1,455		
To Net Profit		10,145		
		1,35,350		1,35,350

Balance Sheet as on 31st March, 2017

Liability			Assets		
Capital as on 01.04.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
	97,000		Less: Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing Inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at Bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liability			Assets		
Capital (Bal. Fig.)	1,88,000		Furniture (w.d.v.)	60,000	
Creditors	1,10,000		Closing Inventory	80,000	
Outstanding expenses	20,000		Sundry debtors	1,60,000	
			Cash in hand and at Bank	12,000	
			Prepaid expenses	6,000	
		3,18,000			3,18,000

(2) Purchases made during the year

Sundry Creditors Account

Dr.			Cr.	
Particulars			Particulars	
To, Cash & bank A/c	3,92,000		By Balance b/d	1,10,000
To Discount Received A/c	8,000		By Sundry Debtors	4,000

Suggested Answers Syl2016 June2018 Paper 5

To Bills Receivable A/c	20,000	By Purchases A/c (Balancing figure)	4,56,000
To Balance C/d	1,50,000		
	5,70,000		5,70,000

(3) Sales made during the year

Particulars	\`	\`
Opening Inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight Inwards		30,000
		5,57,000
Less: Closing Inventory		(70,000)
Cost of Goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

Dr.		Cr.	
Particulars	\`	Particulars	\`
To Balance b/d	1,60,000	By Cash and Bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c (Bill Dishonoured)	4,000	By Bills receivable A/c	1,00,000
	7,72,750	By Balance c/d (Bal. Fig.)	72,750
			7,72,750

(5) Additional drawings by proprietors of ABC Enterprises

Cash and Bank Account

Dr.		Cr.	
Particulars	\`	Particulars	\`
To Balance A/c	12,000	By Freight Inwards A/c	30,000
To Sundry Debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous Income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings [` 70,000+ ` 21,000] [Additional Drawings]	91,000
		By Balance c/d	26,250
	6,63,250		6,63,250

(6) Amount of expenses debited to Profit and Loss Account

Sundry Expenses Account

Dr.		Cr.	
Particulars	\`	Particulars	\`
To Prepaid Expenses A/c (on 01.04.16)	6,000	By Outstanding Expenses A/c (on 01.04.16)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Bal. Figure)	92,000
To Outstanding Expenses/c (on 31.03.17)	18,000	By Prepaid Expenses A/c (On 31.03.17)	7,000
	1,19,000		1,19,000

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

Dr.		Cr.	
Particulars	\`	Particulars	\`
To Debtors A/c	1,00,000	By Creditors A/c	20,000

Suggested Answers Syl2016 June2018 Paper 5

		By Bank A/c	61,250
		By Discount on Bills Receivable A/c	1,250
		By Balance c/d (Balancing Figure)	17,500
	1,00,000		1,00,000

Note: All sales and purchases are assumed to be on credit basis.

5. (a) (i) M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), Prepare Hire-Purchase Trading Account for the year ending, March 31, 2017:

April 01, 2016 goods with customers (Instalments not yet due)	80,000
Goods sold on Hire-purchase during the year	4,00,000
Cash received during the year from customers	3,00,000
Instalments due but not yet received at the end of the year, customers paying	10,000

5

- (ii) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.

On 3rd January, 2018 the accountant of the company located the following errors in the books of account:

- (A) An amount of ` 8,700 received from customer Mehra was credited to Mehta, another customer.
 (B) The sales book for December, 2017 was under cast by ` 1,000.
 (C) Goods invoiced at ` 15,600 were returned to supplier, M/s Mega Ltd. but no entry was made in the books for this return made on 28th December, 2017.

Pass the necessary Journal Entries to rectify the above mentioned errors.

5

- (b) On 15th December, 2017, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of Stock salvaged being ` 1,40,000. From the books of account, the following particulars were available:

- (i) Stock at the close of account on 31st March, 2017 was valued at ` 9,40,000.
 (ii) Purchases from 01.04.2017 to 15-12-2017 amounted to ` 13,20,000 and the sales during that period amounted to ` 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ` 4,00,000.

5

Answer:

5. (a) (i)

**Hire-purchase Trading Account
 (On the basis of Hire-Purchase Price)
 for the year ending 31st March, 2017**

Dr.		Cr.	
Particulars	`	Particulars	`
To Balance b/d H.P. Stock as on 01.04.2016	80,000	By Bank A/c	3,00,000
		By Goods sold on hire purchase A/c (Loading)(1/5 th of 4,00,000)	80,000
To Goods sold on hire purchase A/c	4,00,000	By Stock Reserve (Opening) (1/5 th of 80,000)	16,000
To Stock reserve (Closing) (1/5 th of 1,70,000)	34,000	By Balance c/d: H.P. Debtors (Installment due)	10,000
To Profit & Loss A/c	62,000	H.P. Stock as on 31.03.2017 (Working Note)	1,70,000
	5,76,000		5,76,000

Suggested Answers Syl2016 June2018 Paper 5

Working Note:

H.P. Stock on 31.03.2017

Particulars		
Stock with customers (Installment not due) on 01.04.2016		80,000
Goods sold on hire purchase during the year		4,00,000
		4,80,000
Less: Cash received during the year	3,00,000	
Installments due but not received	10,000	(3,10,000)
H.P. Stock on 31.03.2017		1,70,000

(ii)

Journal Entries

In the books of M/s Big Systematic Ltd.

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Mehta (In Sales/Debtors Ledger) A/c Dr. To Mehra (In Sales/Debtors Ledger) A/c (Being amount received from Mehra was wrongly credited to Mehta, now rectified)		8,700	8,700
(ii)	(a) Suspense Account (In Sales/Debtors Ledger) Dr. To Sales A/c (In General Ledger)		1,000	1,000
	(b) Sales/Debtors Ledger Adjustment A/c (In General Ledger) Dr. To General Ledger Adjustment A/c (In Sales/Debtors Ledger) (Being rectification of the error resulting from under casting of the Sales Books)		1,000	1,000
(iii)	(a) M/s. Mega Ltd. Account (In Creditors/Bought Ledger) Dr. To Purchase Returns A/c (In General Ledger) (b) Creditors/Bought Ledger Adjustment A/c (In General Ledger) Dr.		15,600	15,600
	To General Ledger Adjustment A/c (In Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)		15,600	15,600

(b)

Memorandum Trading Account for the period 01.04.2017 – 15.12.2017

Dr.	Particulars		Particulars	Cr.
	To Opening Stock	9,40,000	By Sales	20,25,000
	To Purchases	13,20,000	By Closing stock (Balancing Figure)	6,40,000
	To Gross Profit @ 20%	4,05,000		
		26,65,000		26,65,000

Statement of Claim

Particulars	
Estimated value of Stock as at date of fire	6,40,000
Less: Value of Salvaged Stock	1,40,000
Estimated Value of Stock lost by Fire	5,00,000

As the value of stock is more than insured value, amount of claim would be subject to average clause.

$$\text{Amount of Claim} = \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$\text{Amount of Claim} = \frac{4,00,000}{6,40,000} \times 5,00,000 = ₹ 3,12,500.$$

Suggested Answers Syl2016 June2018 Paper 5

6. A and B were partners of a firm sharing profits and losses in the ratio 2:1. The Balance Sheet of the firm as at 31st March, 2017 was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		
	21,00,000		21,00,000

They agreed to admit P and Q into the partnership on the following terms:

- (i) The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits' of the last 3 years. The relevant figures are:
 Year ended 31.03.2014 - Profit ` 37,000
 Year ended 31.03.2015 - Profit ` 40,000
 Year ended 31.03.2016 - Profit ` 45,000
- (ii) The value of the stock and Plant & Machinery were to be reduced by 10%.
- (iii) Building was to be valued at ` 10,11,000.
- (iv) There was an unrecorded liability of ` 10,000.
- (v) A, B, P & Q agreed to share profits and losses in the ratio 3 : 2 : 1 : 1.
- (vi) The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.
- (vii) P and Q were to bring capitals equal to their shares of Profit considering B's capital as base after all adjustments.

You are required to prepare:

- (1) Memorandum Revaluation Account,
- (2) Partner's Capital Accounts and
- (3) The Balance Sheet of the newly constructed firm.

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Answer:

6.

Memorandum Revaluation Account

Dr.		Cr.	
Particulars		Particulars	
To Stock	30,000	By Building	1,11,000
To Plant & machinery	50,000		
To Unrecorded liability	10,000		
To Profit transferred to Partners' Capital A/cs (in old ratio) A = 14,000 B = 7,000	21,000		
	1,11,000		1,11,000
To Building	1,11,000	By Stock	30,000
		By Plant & Machinery	50,000
		By Unrecorded liability	10,000
		By Loss transferred to Partners' Capital A/cs (in new ratio) A = 9,000 B = 6,000 P = 3,000 Q = 3,000	21,000
	1,11,000		1,11,000

Partner's Capital Accounts

Dr.					Cr.				
Particulars	A	B	P	Q	Particulars	A	B	P	Q
To Memorandum Revaluation A/c	9,000	6,000	3,000	3,000	By Balance b/d	8,00,000	4,00,000	---	---
To Reserves A/c	2,25,000	1,50,000	75,000	75,000	By Memorandum Revaluation A/c	14,000	7,000	---	---
To A&B (W.N.2)	---	---	12,000	12,000	By Reserves A/c	3,50,000	1,75,000	---	---
To Balance c/d (Refer W.N.3)	9,50,000	4,30,000	2,15,000	2,15,000	By P&Q (W.N.2)	20,000	4,000	---	---
					By Cash (Bal. Fig.)	---	---	3,05,000	3,05,000
	11,84,000	5,86,000	3,05,000	3,05,000		11,84,000	5,86,000	3,05,000	3,05,000

Balance Sheet of newly reconstituted firm as on 31.03.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Plant and Machinery	5,00,000
A – 9,50,000		Building	9,00,000
B – 4,30,000		Sundry Debtors	2,50,000
P – 2,15,000		Stock	3,00,000
Q – 2,15,000	18,10,000	Cash (1,50,000+3,05,000+3,05,000)	7,60,000
Reserves	5,25,000		
Sundry Creditors	2,75,000		
Bills Payable	1,00,000		
	27,10,000		27,10,000

Working Notes:

1. Calculation of Goodwill
Weighted Average Profit:

Year	Profit (₹)	Weight	Weighted Profit (₹)
2014	37,000	1	37,000
2015	40,000	2	80,000
2016	45,000	3	1,35,000
		6	2,52,000

Weighted Average Profit = ₹ 2,52,000/6 = ₹ 1,42,000 Goodwill is valued at 2 year's purchase
Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

2. (a) Profit sacrificing Ratio

Particulars	Old Shares	New Shares	Share sacrificed	Share gained
A	2/3	3/7	5/21	-
B	1/3	2/7	1/21	-
P	-	1/7	-	1/7
Q	-	1/7	-	1/7

(b) Adjustment for goodwill

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect
A	56,000	36,000	+ 20,000
B	28,000	24,000	+ 4,000
P	---	12,000	---
Q	---	12,000	---
	84,000	84,000	24,000

Suggested Answers Syl2016 June2018 Paper 5

Journal Entry

Particulars		Amount (₹)	Amount (₹)
P's Capital A/c	Dr.	12,000	
Q's Capital A/c	Dr.	12,000	
To A's Capital A/c			20,000
To B's Capital A/c			4,000

3. Calculation of closing capitals of P and Q

B's capital is taken as base. Closing capital of B after all adjustments is 4,30,000. Total capital of firm will be = $4,30,000 \times 7/2 = 15,05,000$

Hence, P's and Q's closing capital should be ₹ 2,15,000 ($15,05,000 \times 1/7$) each i.e. at par with B (as per new profit and loss sharing ratio)

7. (a) (i) (A) X sells goods to Y for ₹ 2,00,000. Instead of one bill of ₹ 2,00,000, X draws three bills of exchange on Y for ₹ 40,000; ₹ 60,000 and ₹ 1,00,000. What is the value involved in drawing three bills instead of one?

(B) Sunny draws a bill on Vivek for three months. On the due date, Vivek finds himself in financial difficulties and requests Sunny to renew the bill for a further period of one month. Sunny agrees to his request. What is the virtue involved in renewing the bill?

(C) What is the value involved in accepting an accommodation bill?

(D) What is the reason that a drawer cannot file a suit against drawee in case of dishonour of an accommodation bill? 1x4=4

(ii) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premises of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9. 5

(b) X Ltd. has its H.O. in Delhi and a branch in Mumbai. H.O. supplied goods to its branch at cost plus $33\frac{1}{3}\%$. From the particulars given below prepare a Branch Trading Account for the year ended 31st March 2018 in the books of H.O.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock (I.P.)	40,000	Sales:	
Goods sent to Branch (I.P.)	2,50,000	Cash	1,00,000
Return to H.O. (I.P.)	10,000	Credit	3,00,000
		Discount allowed to customers	10,000
		Closing Stock (I.P.)	60,000

It is estimated that 2% of the goods received are lost through natural wastage. 6

Answer:

7. (a) (i) (A) Any of three bills may be put to different uses i.e., any of the bill may either be discounted, endorsed or kept till the date of maturity. For example, if X is in need of ₹ 30,000 he may get only the first bill discounted from the bank.
- (B) Virtue involved is the expression of morality and humanism towards a fellow businessman by helping him in case of need.
- (C) Value involved in accepting an accommodation bill is helping a friend who is temporarily in need of money.

Suggested Answers Syl2016 June2018 Paper 5

(D) Because accommodation bills are drawn without consideration.

(ii) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 × 6) and no part of the same is to be treated as Advance Received against Sales.

(b)

**In the books of H.O.
Trading Account
for the year ended 31st March, 2018**

Dr.			Cr.
Particulars	\`	\`	Particulars
To Opening Stock	40,000		By Sales:
Less: Loading	10,000	30,000	Cash
To Goods Sent to Branch	2,50,000		Credit
Less: Returns to H.O.	10,000		By Closing Stock
	2,40,000		Less: Loading
Less: Loading ($\frac{1}{4} \times 2,40,000$)	60,000		($\frac{1}{4} \times 60,000$)
$\frac{1}{3}$ on CP = $\frac{1}{4}$ on SP ↓		1,80,000	
To Gross Profit c/d		2,35,000	
		4,45,000	4,45,000

Note:

1. Discount allowed to customer will appear in Branch Profit & Loss Account.
2. Loss through natural wastage is a normal loss and as such, the same should be charged against branch gross profit. So, no adjustment is required.

8. Write short notes on any *three* of the following:

5×3=15

- (a) Operating cycle of Consignment Arrangement.
- (b) Disadvantages of a Computerized Accounting Package.
- (c) Features of Single Entry System.
- (d) Bearer

Plant. Answer:

8. (a) Operating Cycle of Consignment Arrangement:

- (i) Goods are sent by consignor to the consignee.
- (ii) Consignee may pay some advance or accept a bill of exchange.
- (iii) Consignee will incur expenses for selling the goods.
- (iv) Consignee maintains records of all cash and credit sale.
- (v) Consignee prepares a summary of results called as Account sales.
- (vi) Consignor pays commission to the consignee.

Sometimes, the consignor may send the goods at a price higher than cost so that the consignee gets no knowledge of the real cost of goods which is confidential for the consignor.

(b) Disadvantages of a Computerized Accounting Package:

1. A standard package may not be able to take care of complexities of a specific business.
2. The reports required for existing management control may not be available in such package.
3. Lack of security.
4. Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system.
5. Bugs may remain in the software because of inadequate testing.
6. Documentation may not be completed.
7. Frequent changes made to the system with inadequate change management procedure may result in system compromise.
8. Vendor may not be unwilling to give support of the software due to other commitments.
9. Vendor may not be willing to part with the source code or enter into an escrow agreement.
10. Control measures may be inadequate.
11. There may be delay in completion of the software due to problems with the vendor or inadequate project management.

(c) Single Entry System has the following features:

- (a) Maintenance of books by a sole trader or partnership firm: The books which are maintained according to this system can be kept only by a sole trader or by a partnership firm.
- (b) Maintenance of cash book: In this system it is very often to keep one cash book which mixes up business as well as private transactions.
- (c) Only personal accounts are kept: In this system, it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, sometimes, this is precisely defined as a system where only personal accounts are kept.
- (d) Collection of information from original documents: For information one has to depend on original vouchers, example, in the case of credit sales, the proprietor may keep the invoice without recording it anywhere and at the end of the year the total of the invoices gives an idea of total credit sales of the business.
- (e) Lack of uniformity: It lacks uniformity as it is a mere adjustment of double entry system according to the convenience of the person.
- (f) Difficulty in preparation of final accounts: It is much difficult to prepare trading, profit and loss account and balance sheet due to the absence of nominal and real accounts in the ledger.

(d) Bearer plant is a plant that

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than a period of twelve months; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants:

- (i) plants cultivated to be harvested as agricultural produce;
- (ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales;
- (iii) annual crops.

**INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS
DECEMBER 2018**

Paper-5: FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

*The figures in the margin on the right side indicate full marks.
Both the sections are to be answered subject to instructions given against each.
[All workings must form part of your answer.]*

Section – A

1. Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives: **1×10=10**
- (i) Both cash and credit transactions are recorded, on the basis of
- (A) Accounting Period Concept
 - (B) Going Concern Concept
 - (C) Business Entity Concept
 - (D) Accrual Concept
- (ii) Which of the following book is both a journal and a ledger?
- (A) Cash Book
 - (B) Sales Day Book
 - (C) Bills Receivable Book
 - (D) Journal Proper
- (iii) Interest received in advance account is a
- (A) Nominal Account
 - (B) Real Account
 - (C) Artificial Personal Account
 - (D) Representative Personal Account
- (iv) Shiva draws a bill on Sanat on 25th October, 2018 for 90 days, the maturity date of the bill will be
- (A) 27th January, 2019
 - (B) 26th January, 2019
 - (C) 25th January, 2019
 - (D) 28th January, 2019

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- (v) Peeru and Simu are entered in the business of buy and sale of food grain for a period of one year and sharing the profit in the ratio of 3 : 2, this agreement is a
- (A) Partnership
(B) Consignment
(C) Joint-venture
(D) Lease
- (vi) At the end of the year 2017-18, Prepaid Insurance Premium Rs. 7,500 appeared in the Trial Balance, it will be shown
- (A) only in Profit & Loss Account.
(B) only in Balance Sheet.
(C) both in Profit & Loss Account and in Balance Sheet.
(D) not in Both in Profit & Loss Account and in Balance Sheet.
- (vii) Contingent Liability would appear
- (A) on the liabilities side of the Balance Sheet.
(B) on the assets side of the Balance Sheet.
(C) as a note in the Balance Sheet.
(D) None of the above
- (viii) Debtors Ledger Adjustment Account is opened in the
- (A) Debtors Ledger
(B) Creditors Ledger
(C) General Ledger
(D) Both Creditors Ledger and General Ledger
- (ix) Generally sacrifice ratio is concerned with the situation of
- (A) Admission of a new partner
(B) Retirement of a partner
(C) Dissolution of firm
(D) Conversion of firm into company
- (x) KCS purchased a machine from JPS on hire purchase system, whose cash price was Rs.8,64,000. Rs.2,16,000 being paid on delivery and balance in three annual instalments of Rs.2,88,000 each. The amount of interest included in first installment would be
- (A) Rs. 72,000
(B) Rs. 57,600
(C) Rs. 1,08,000
(D) Rs. 36,000

(b) Match the following:

1×5=5

Column-I		Column-II	
(1)	Dead Rent	(A)	Bills Receivable
(2)	Marshalling	(B)	Consignment
(3)	Protesting	(C)	Liquidity Order
(4)	Account Sales	(D)	Accounting Policies
(5)	Substance over form	(E)	Royalty

Suggested Answer Syl16 Dec2018 Paper 5

(c) Fill in the blanks:

1×5=5

- (i) While posting an opening entry in the ledger, in case of an Account having debit balance, in 'Particulars' column the wordsare written on debit side.
 - (ii) Depreciation Accounting is the process of and not
 - (iii) Finished goods are normally valued at cost orwhichever is lower.
 - (iv) The relation between Consignee and Consignor is that of
 - (v) The relationship between Co- venturers is that of
- (d) State with reason whether the following statements are true or false (No marks shall be awarded without valid reason):

1×5=5

- (i) Bank reconciliation statement is prepared to arrive at the bank balance.
- (ii) Deferred revenue expenditure is current year's revenue expenditure to be paid in the later years.
- (iii) Reducing balance method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- (iv) Reserve for Discount on Creditors has a credit balance.
- (v) A promissory note can be made payable to the bearer.

Answer: 1 (a)

- (i) D
- (ii) A
- (iii) D
- (iv) C
- (v) C
- (vi) B
- (vii) C
- (viii) C
- (ix) A
- (x) C

Answer: 1 (b)

Column-I		Column-II	
(1)	Dead Rent	(E)	Royalty
(2)	Marshalling	(C)	Liquidity Order
(3)	Protesting	(A)	Bills Receivable
(4)	Account Sales	(B)	Consignment
(5)	Substance over form	(D)	Accounting Policies

Answer: 1 (c)

- (i) To Balance b/f
- (ii) allocation .valuation

Suggested Answer Syl16 Dec2018 Paper 5

- (iii) Net Realisable Value
- (iv) Agent and Principal
- (v) Co-owners

Answer: 1 (d)

- (i) False
- (ii) False
- (iii) True
- (iv) False
- (v) False

Section – B

Answer any five from the following.
Each Question carries 15 marks.

15 ×5=75

2. (a) A bookkeeper extracted the following Trial Balance as on 31st March, 2018:

Heads of Accounts	Dr. Balance (Rs.)	Cr. Balance (Rs.)
Furniture	20,000	-----
Capital	-----	2,00,000
Debtors	2,00,000	-----
Stock (1st April, 2017)	1,04,000	-----
Creditors	-----	80,000
Trade Expenses	50,000	-----
Sales	-----	8,58,000
Wages	30,000	-----
Stock (31st March, 2018)	98,000	-----
Machinery	-----	50,000
Purchases	6,25,000	-----
Wife's loan to the business	50,000	-----
Discount Allowed	-----	4,000
Drawings made by the Proprietor	-----	45,000
Motor Van	60,000	-----
Total	12,37,000	12,37,000

You are required to:

- (i) State the errors giving reasons,
- (ii) Redraft the Trial Balance correctly.

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- (b) Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as at that date:

Particulars	31st March, 2017 (Rs.)	31st March, 2018 (Rs.)
Furniture	1,00,000	1,20,000
Stock of Goods-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	1,40,000
Prepaid Expenses	-----	4,000

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Sundry Creditors	40,000	?
Unpaid Expenses	12,000	20,000
Cash	22,000	6,000

Receipts and payment during the year were as follows:

Particulars	Rs.
Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000
Transportation	40,000
Drawings	1,20,000
Sundry Expenses	1,40,000
Furniture Purchased	20,000

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted Rs. 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors. 8

Answer: 2(a) (i)

- (I) Stock on 31st march, 2018, will not appear in the Trial balance because it represents a part of the goods purchased but not yet sold. As the total purchases have been included in the Trial balance, there is no need of including the Closing Stock again.
- (II) Machinery is an asset and thus will appear in the debit column.
- (III) Wife's loan to the business is a liability. It will appear in the credit column.
- (IV) Discount allowed, being an expense, will appear in the debit column.
- (V) Drawings made by the proprietor is a decrease of capital (i.e., decrease of proprietor's claim from the business). It will appear in the debit column.

(ii) Trial balance as on 31st March, 2018

Heads of Accounts	Dr. Balance (Rs.)	Cr. Balance (Rs.)
Furniture	20,000	-----
Capital	-----	2,00,000
Debtors	2,00,000	-----
Stock (1st April, 2017)	1,04,000	-----
Creditors	-----	80,000
Trade Expenses	50,000	-----
Sales	-----	8,58,000
Wages	30,000	-----
Machinery	50,000	-----
Purchases	6,25,000	-----
Wife's loan to the business	-----	50,000
Discount Allowed	4,000	-----
Drawings made by the Proprietor	45,000	-----
Motor Van	60,000	-----
Total	11,88,000	11,88,000

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Answer: 2(b)

Ram Prakash
Trading and Profit and Loss Account for the year ended 31st march, 2018

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		60,000	By Sales:		
To Purchases		2,30,000	Credit (WN 1)	4,40,000	
To Transportation		40,000	Cash (WN 3)	84,000	5,24,000
To Gross Profit c/d		2,14,000	By Closing Stock		20,000
		<u>5,44,000</u>			<u>5,44,000</u>
To Sundry Exp.	1,40,000				
Less: Unpaid exp. For 2017	<u>12,000</u>		By Gross Profit b/d		2,14,000
	1,28,000				
Less: Prepaid Exp. 2019	<u>4,000</u>				
	1,24,000				
Add: Unpaid Exp. For 2018	<u>20,000</u>	1,44,000			
To Provision for Doubtful debts.		14,000			
To Net Profit transferred to Capital A/c		56,000			
		2,14,000			2,14,000

Balance Sheet as at 31st March, 2018

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Creditors (WN 2)		70,000	Cash and balance		6,000
Unpaid Expenses		20,000	Debtors	1,40,000	
Capital (WN 4)	2,50,000		Less: Provision for Doubtful Debts	<u>14,000</u>	1,26,000
Add: Net Profit	<u>56,000</u>		Closing Stock		20,000
	3,06,000		Prepaid Expenses		4,000
Less: Drawing	<u>1,20,000</u>	1,86,000	Furniture	1,00,000	
			Add: Additions	20,000	1,20,000
		2,76,000			2,76,000

Working Notes:

1. Calculation of Credit Sales:

Total Debtors Account

Particulars	Rs.	Particulars	Rs.
To balance b/d	1,20,000	By Cash/Bank A/c	4,20,000
To Sales A/c – credit (b/f)	4,40,000	By Balance c/d	1,40,000
	<u>5,60,000</u>		<u>5,60,000</u>

2. Calculation of Closing balance of Creditors:

Total Creditors Account

Particulars	Rs.	Particulars	Rs.
To Cash/Bank A/c	2,00,000	By Balance c/d	40,000
To Balance c/d (b/f)	70,000	By purchase A/c (Credit Purchases)	2,30,000
	<u>2,70,000</u>		<u>2,70,000</u>

3. Calculation of Cash Sales:

Cash Book

Particulars	Rs.	Particulars	Rs.
To Balance b/d	22,000	By Total creditors A/c	2,00,000
To Total Debtors A/c	4,20,000	By Drawings A/c	1,20,000
To Sales A/c (b/f)	84,000	By Sundry Exp. A/c	1,40,000

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		By Transportation A/c	40,000
		By Furniture A/c	20,000
		By balance c/d	6,000
	5,26,000		5,26,000

4. Calculation of Capital in the Beginning:

Statement of Affairs as at 31st march, 2017

Particulars	Rs.	Particulars	Rs.
Creditors	40,000	Furniture A/c	1,00,000
Unpaid Expenses	12,000	Stock	60,000
Capital (B/F)	2,50,000	Debtors	1,20,000
		Cash in hand	22,000
	3,02,000		3,02,000

3. The following information provided by the Nav Yuvak Mandal, Delhi for the first year ended 31st March, 2018:

(i) Donations received for building Rs.25 Lakh.

(ii) Other incomes and receipts were:

(Rs. in '000)

Particulars	Capital Income	Revenue Income (Rs.)	Actual Receipt (Rs.)
Entrance fees	-----	251	251
Life Membership fees	105	-----	105
Subscription	-----	1160	1151
Play Ground rent	-----	120	110
Refreshment account	-----	115	115
Sundry incomes	-----	62	49

(iii) Expenditures and actual payment were:

(Rs. in '000)

Particulars	Capital Expenditure (Rs.)	Revenue Expenditure (Rs.)	Actual Payment (Rs.)
Land	800	...	800
Books	236	...	202
Furniture	345	...	315
Honorarium and salaries	...	165	131
Maintenance of play ground	...	52	50
Refreshment account	...	79	79
Insurance Premium	...	12	15
Sundry expenses	...	70	65

Others: Donation were utilized to the extent of Rs.13 Lakh in construction of building, balance were unutilized. In order to keep in safe, 8% Government Securities were purchased on 31st December, 2017 for Rs.10.50 Lakh. Remaining amount was put in bank as term deposit on 31st March, 2018. During the year 2017-18, Subscription received in advance Rs.52,000 for the year 2018-19. Depreciation to be charged on Building and Furniture @ 10% and on Books @ 15%.

You are required to prepare the Receipts & Payments Account, Income & Expenditure Account and Balance Sheet as on 31st March, 2018. 15

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Answer: 3

Receipts & payments Account for the year ending 31st march, 2018

(Rs. in 000)

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Donations	2,500	By Land	800
To Entrance fees	251	By Building	1,300
To Life Membership fees	105	By Books	202
To Subscription	1,151	By Furniture	315
To Play Ground rent	110	By Honorarium and salaries	131
To Refreshment account	115	By Maintenance of play ground	50
To Sundry incomes	49	By Refreshment account	79
		By Insurance Premium	15
		By Sundry expenses	65
		By Govt. Securities	1,050
		By Term Deposits	150
		By Balance c/d	124
	4,281		4,281

(Income & Expenditure Account For the year ending 31st march, 2018

(Rs. in 000)

Expenditures	Rs.	Amount (Rs.)	Incomes	Rs.	Amount (Rs.)
To Honorarium and salaries Add:	131		By Subscription	1,151	
Outstanding	34		Less: Received in Advance	52	
To Maintnc. of play ground Add:	50	165		1,099	
Outstanding	2		Add: Outstanding	61	1,160
To Insurance Premium	15	52	By Entrance fees		251
Less: Prepaid	3		By Play Ground rent	110	
To Sundry expenses Add:	65	12	Add: Outstanding	10	120
Outstanding	5		By Profit on Refreshment		36
To Depreciation		70			
On Building-10% on Rs.13 Lakh		130	By Sundry incomes Add:	49	
On Furniture-10% on Rs.3,45,000		34.50	Outstanding	13	62
On Books- 15% on Rs.236000		35.40	By Interest on Govt.		
To Surplus		1151.10	Securities(Accrued)		21
		1,650			1,650

Balance Sheet as at 31st march, 2018

(Rs. in 000)

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)

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Capital Fund		Land	800
Add: Life Membership fees	105	Building (Rs.13Lakh- 1.3 Lakh)	1170
Add: Surplus	<u>1151.10</u>	Books(Rs.236000 - 35400)	200.6
Donations for Building		Furniture(Rs.345000 - 34500)	310.5
Creditors for Books	2500	8% Govt. Securities	1050
Creditors for Furniture	34	Out. Int. on Govt. Securities	21
Outstanding Hon. and salaries	30	Outstanding Subscription	61
Outs. Maintenance of play ground	34	Prepaid Insurance Premium	3
Outstanding Sundry expenses	2	Play Ground rent- Outstanding	10
Subscription Received in Advance	5	Sundry incomes-Outstanding	13
	52	Term Deposits	150
		Cash and Bank	124
	3,913.1		3,913.1

Working Notes:

- (1) Donation received for building is treated as capital item.
- (2) Amount of Term Deposit = Donations Received-(Cost of Building + 8% Govt. Securities)
Rs.25 Lakh -(13 Lakh + 10.50 Lakh) = Rs.1,50,000
- (3) Profit on Refreshment = Rs.1,15,000- 79,000 = Rs.36,000
- (4) Outstanding Subscription = Rs. 1160000 - (11,51,000-52,000) = Rs. 61,000
- (5) Accrued Interest on Govt. Securities: Rs.10,50,000 × 8% × 3/12 = Rs.21,000

4. (a) A, B and C are partners in a firm sharing profits and losses as 3 : 2 : 1. Their Balance Sheet as on 31st March, 2018 was as follows:

		(Rs. in Lakh)	
Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Partners' Capital A/c:		Land and Building	210
A	145	Plant and Machinery	255
B	110	Stock	125
C	75	Debtors	95
General Reserve	165	Bills Receivable	25
Partners' Loan:		Cash in Hand	3
A	30	Cash at Bank	37
B	20		
Sundry Creditors	205		
	750		750

B died on 1st August, 2018. His account is to be settled under the following terms:

- (i) Goodwill will be valued at 3 years purchase of last four accounting years average profit. Profits were : 2014-15 Rs. 135 Lakh, 2015-16 Rs. 145 Lakh, 2016-17 Rs. 131 Lakh and 2017-18 Rs. 165 Lakh.
- (ii) Land and Building will be valued at Rs. 250 Lakh and Plant and Machinery will be valued at Rs. 240 Lakh.
- (iii) For the purpose of calculating B's share in the profits of 01.04.2018 to 31.07.2018, the profits for the year 2017-18 will be taken as base.
- (iv) Interest on Partners' Loan will be calculated @ 6% per annum.

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- (v) A sum of Rs.50 Lakh to be paid immediately to B's Executor and the balance to be paid on 1st December, 2018 together with interest @ 10% per annum.

You are required to pass necessary journal entries to record the above transactions and amount payable to B's Executor's Account. 15

Answer: 4

Journal

(Rs. in lakh)				
Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
1.08.18	Land & Building A/c Dr. To Revaluation A/c (For increase in the value of land and building)		40	40
1.08.18	Revaluation A/c Dr. To Plant & Machinery A/c (For decrease in the value of Plant & Machinery)		15	15
1.08.18	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For profit on revaluation)		25	12.5 8.333 4.167
1.08.18	General Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For transfer of reserve)		165	82.5 55 27.5
1.08.18	A's Capital A/c Dr. C's Capital A/c Dr. To B's Capital A/c (For the adjustment of goodwill)		108 36	144
1.08.18	Profit & Loss Suspense A/c Dr. To B's Capital A/c (For the adjustment of profit from 1.4.18 to 1.8.18)		18.333	18.333
1.08.18	B's Loan A/c Dr. To B's Capital A/c (Balance transferred)		20	20
1.08.18	Interest on B's Loan A/c Dr. To B's Capital A/c (Interest on B's Loan from 1.04.18 to 1.08.18 credited to B's Capital A/c)		0.40	0.40
1.08.18	B's Capital A/c Dr. To B's Executor's A/c (Being balance of B's Capital A/c transferred to his Executor's A/c = Rs.110 + 8.333 + 55 + 144 + 18.333 + 20 + 0.40)		356.066	356.066
1.08.18	B's Executor's A/c Dr. To Bank A/c (Amount paid)		50	50
1.12.18	Interest A/c Dr. To B's Executor's A/c (For interest due)		10.202	10.202
1.12.18	B's Executor's A/c Dr. To Bank A/c (Amount due to B's Executor including interest, paid)		316.268	316.268

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Ledger B's Executor's Account

(Rs. in lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
1.08.18	To Bank A/c	50	1.08.18	By Capital A/c By	356.066
1.12.18	To Bank A/c	316.268	1.12.18	Interest A/c	10.202
		366.268			366.268

Working Notes:

(1) Calculation of B's share in Goodwill:

Average of past four years profits = (Rs.135 Lakh + Rs.145 Lakh + Rs.131 Lakh + Rs.165 Lakh)/4 = Rs. 144 Lakh

Value of Firm's Goodwill = Rs.144 Lakh × 3 = Rs.432 Lakh

B's Share in Goodwill = Rs.432 Lakh × 2/6 = Rs. 144 Lakh, which will be credited to B's Capital A/c and Debited to A's Capital A/c & C's Capital A/c in the ratio of 3:1

(2) B's Share in profit from 01.04.18 to 1.8.18 = (Rs.165 × 4/12) × 2/6 = Rs.18.333 Lakh

(3) Interest on B's Loan from 01.04.18 to 1.8.18 = Rs.20 Lakh × 6% × 4/12 = Rs.40000

(4) Interest to B's Executor from 1.08.18 to 1.12.18 = Rs.356.066 Lakh – Rs.50 Lakh = Rs. 306.066 × 10% × 4/12 = Rs.10.2022 Lakh

5. (a) The following information provided by the Shobha Departmental Store for the year ended 31st March, 2018:

Department	Purchase(units)	Sales	Closing Stock(units)
X	2500	2550 units @ Rs. 160 per unit	250
Y	5000	4800 units @ Rs.180 per unit	400
Z	6000	6240 units @ Rs. 200 per unit	140

The total value of purchases is Rs. 15 Lakh. It is observed that the rate of gross profit is the same in each department.

You are required to prepare the Departmental Trading Account for the year ended 31 st March, 2018.

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(b) Following information is available from the books of Simu & Co. for the year ended 31st March, 2018:

(i) Total Sales amounted to Rs. 560 Lakh including the sale of old Machinery for Rs. 8 Lakh (Book Value Rs. 15 Lakh). The total Cash Sales were 80% less than the total Credit Sales.

(ii) Cash collection from debtors amounted to 75% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for Rs. 15.60 Lakh.

(iii) Bills Receivable drawn during the year totaled Rs.45 Lakh of which bills amounting to Rs. 28 Lakh were endorsed in favour of Creditors. Out of these endorsed B/R, some bills for Rs. 4.60 Lakh were dishonoured for non-payment as the parties became insolvent, their estate realizing nothing.

(iv) Cheques received from Sundry Customers for Rs.41 Lakh were dishonoured; a sum of Rs. 5 Lakh is irrecoverable.

(v) Bad Debts written off in the earlier years was recovered of Rs. 7.50 Lakh.

(vi) Transfers from Creditors Ledger to Debtors Ledger were of Rs. 38 Lakh.

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(vii) Sundry Debtors, as on 1st April, 2017, stood at Rs. 128 Lakh.

You are required to show the General Ledger Adjustments Accounts in the Debtors Ledger.

6

Answer: 5(a)

(i) Computation of Opening Stock Quantity (units):

Particulars	Dept. X	Dept. Y	Dept. Z
Sales- units	2550	4800	6240
Add: Closing Stock- units	250	400	140
	2800	5200	6380
Less: Purchases-units	2500	5000	6000
Opening Stock- units	300	200	380

(ii) Computation of Gross Profit Ratio:

	Rs.
Sales value of Total purchase Quantity:	
Department – X = Rs.160 × 2,500	4,00,000
Department – Y = Rs. 180 × 5,000	
Department – Z = Rs.200 × 6,000	9,00,000
	12,00,000
Sale value of total purchase Quantity	25,00,000
Less: total purchase price	15,00,000
Gross profit	10,00,000
Rate of gross profit = (Rs.10 lakh/25 lakh) × 100 = 40%	

(iii) Computation of Cost per unit for each Department

Particulars	Dept. X (Rs.)	Dept. Y (Rs.)	Dept. Z (Rs.)
Selling Price per unit	160	180	200
Less: G. P. @ 40%	64	72	80
Cost per unit	96	108	120

(iv) Departmental Trading Account for the year ended 31st march, 2018

Particulars	Dept. X (Rs.)	Dept. Y (Rs.)	Dept. Z (Rs.)	Particulars	Dept. X (Rs.)	Dept. Y (Rs.)	Dept. Z (Rs.)
To op. Stock	28,800	21,600	45,600	By Sales	4,08,000	8,64,000	12,48,000
To purchases	2,40,000	5,40,000	7,20,000	By Clo. Stock	24,000	43,200	16,800
To G. P.	1,63,200	3,45,600	4,99,200				
	4,32,000	9,07,200	12,64,800		4,32,000	9,07,200	12,64,800

Answer: 5(b)

**In the Debtors Ledger
General Ledger Adjustment Account**

Suggested Answer Syl16 Dec2018 Paper 5

(Rs. in Lakhs)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.03.18	To Debtors Led. Adj. A/c in G.L:		1.4.17	By Balance b/d	128
	Bank	441	31.3.18	By Debtors Led. Adj.A/c in G.L:	
	B/R	45		Sales (Credit)	460
	Discount Allowed	15.6		B/R Dishonored	4.60
	Bad Debts (4.6 + 5)	9.6		Cheque Dishonored	41
	Transfer	38			
	To Balance c/d	84.4			
		633.6			633.6

Note: Cash Sales, B/R endorsed and Bad Debts recovered are not shown in Gen. Led. Adj. A/c.

Workings: Computation Credit Sales and Collection from Debtors:

Net Total Sales = Rs.560 Lakh – Rs.8 Lakh(Sale of Machinery) = Rs.552 Lakh

Cash Sales 80% less than Total Credit Sales, Hence, Cash Sales and Total Credit Sales ratio = 1:5, then Credit Sales = Rs.552 Lakh × 5/6 = Rs.460 Lakh.

Collection from Debtors = (128 +460)× 75% = Rs.441 Lakh.

6. (a) CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facilities from its bank @ 15% interest to boost up the sales. The average daily overdraft balance will be around Rs. 3 Lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

Particulars	Rs.
Total variable expenses	24,00,000
Fixed expenses:	
Salaries	3,30,000
Rent, Rates and Taxes	30,000
Travelling expenses	50,000
Postage, Telegram, Telephone	60,000
Director's fees	10,000
Audit fees	20,000
Miscellaneous income	70,000
Net Profit	4,20,000

Determine the amount of policy to be taken for the current year. 7

- (b) Mansi Ltd. acquires the lease of a mine from Nanu Ltd. on the following terms:
- (i) Minimum Rent of Rs.40 Lakh per annum merging into a royalty of Rs.50 per tonne.
 - (ii) Shortworkings are recoverable out of future earnings subject to:
 - (I) Only half of the excess earnings over minimum rent may be used for this purpose.
 - (II) No Shortworkings may be carried forward for recoupment if output falls below 40000 Tonnes, in any year.

Output for the first four years was : 32000 Tonnes; 48000 Tonnes; 64000 Tonnes and

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112000 Tonnes respectively.

Prepare the necessary accounts for above four years in the books of the Lessee. 8

Answer: 6(a)

Particulars	Rs.
Gross profit on the basis of last year's sales	8,50,000
Add: 20% for increase of turnover	<u>1,70,000</u>
	10,20,000
Add: Increased standing charges (interest on overdraft)	45,000
Policy to be taken for current year	10,65,000

Working Notes:

1. Profit and Loss Account for the previous year

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To variable expenses	24,00,000	By Sales	32,50,000
To Fixed expenses	5,00,000	By Misc. income	70,000
To Net profit	4,20,000		
	<u>33,20,000</u>		<u>33,20,000</u>

2. Gross profit of the previous year

Particulars	(Rs.)
Sales	32,50,000
Less: Variable	24,00,000
	<u>8,50,000</u>

Answer: 6(b)

Analysis table for calculation of Different values

(Rs. in Lakh)

Year	Minimum Rent	Actual Royalty	Short workings (-) or Excess Workings(+)	Short workings		Actual Payment	Closing Balance of S.W.A/c
				Recouped	Transferred To P/L A/c		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	40	16	(-)24	----	24	40	----
2	40	24	(-)16	----	----	40	16
3	40	32	(-)8	----	----	40	24
4	40	56	(+)16	8	----	48	16

Books of Lessee (Mansi Ltd.)

Royalty Account

(Rs. in Lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
I Year	To Nanu Ltd.	16	I Year	By Profit & Loss A/c	16
II Year	To Nanu Ltd.	24	II Year	By Profit & Loss A/c	24
III Year	To Nanu Ltd.	32	III Year	By Profit & Loss A/c	32
IV Year	To Nanu Ltd.	56	IV Year	By Profit & Loss A/c	56

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Short Working Account

(Rs. in Lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
I Year	To Nanu Ltd.	24	I Year	By Profit & Loss A/c	24
II Year	To Nanu Ltd.	16	II Year	By Balance c/d	16
III Year	To Balance b/d To Nanu Ltd.	16 8	III Year	By Balance c/d	24
		24			24
IV Year	To Balance b/d	24	IV Year	By Nanu Ltd. By Balance c/d	8 16
		24			24

Nanu Limited Account

(Rs. in Lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
I Year	To Bank A/c	40	I Year	By Royalty A/c By Short workings A/c	16 24
		40			40
II Year	To Bank A/c	40	II Year	By Royalty A/c By Short workings A/c	24 16
		40			40
III Year	To Bank A/c	40	III Year	By Royalty A/c By Short workings A/c	32 8
		40			40
IV Year	To Short workings A/c To Bank A/c	8 48	IV Year	By Royalty A/c	56
		56			56

7. (a) In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs. 1,900. The entire quantity of waste is on stock at the year end. State with reference to Accounting standard, the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss, if any and the value of closing inventories. 8
- (b) Enumerate the advantages of computerized Accounting. 7

Answer: 7(a)

- Normal Loss Qty = 5% of 5,000 MT = 250 MT
Treatment: No entry is passed for normal loss. However, normal loss increases the

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- cost per good unit
2. Cost of Good units = Total Cost/(Total Qty - Normal Loss Qty) = (5000 × Rs.1,900)/(5000 - 250) = Rs. 2,000
 3. Abnormal Loss Qty = Total Loss - Normal Loss = 300 MT - 5% of 5,000 MT = 50 MT
 4. **Cost of Abnormal Loss** = 50MT × Rs.2,000 = Rs. 1,00,000
 5. **Treatment:** As per **AS 2**, abnormal amounts of waste materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.. Hence, the Cost of Abnormal Loss of Rs. 1,00,000 should be charged to Profit & Loss A/c.
 6. Closing Inventory Qty = 5,000 MT - 250 MT - 50 MT = 4,700 MT
Cost of Closing Inventory =4,700 MT × Rs. 2,000 = Rs.94,00,000

Answer: 7(b)

1. Computers are able to perform all the tasks at high speed. It can process a millions of instructions (MIS) per second.
2. Computer results are accurate. Once the right instructions have been given to it, the chances of the committing errors are almost zero.
3. The computer never tires. It can give a consistently good performance hour after hour.
4. It can store a large amount of data in its memory. Storage of data and information on the computer allows reduction of paper filing and other mundane tasks.
5. Due to some advanced features, duplication of records is not possible.
6. Modification can be easily done. Data can be easily updated, deleted or deleted in a computer system.
7. Sharing of data is possible through networking
8. It performs the same task again and again without getting bored.
9. A computer's efficiency does not decrease by age.

8. Write short notes on any three of the following:

5×3=15

- (i) **Applicability and Non-Applicability of Garner vs. Murray Rule**
- (ii) **Consequential Loss Policy**
- (iii) **Distinction between Hire Purchase Agreement and Instalment Purchase Agreement**
- (iv) **Distinction between Fundamental accounting assumptions and Accounting policies**

Answer: 8 (a)

In the case of dissolution of a partnership firm due to insolvency, Garner vs Murray rule is applicable at the time of any partner becoming insolvent. It requires—

1. That the solvent partners should bear the loss arising due to insolvency of a partner in their capital ratio after making adjustments for past accumulated reserves, profits or losses, drawings, interest on drawings/capitals, remuneration to partners etc., to the date of dissolution but before making adjustment for profit or loss on realization in case of fluctuating capital. In case of fixed capital no such adjustments are required.
2. That the solvent partners should bring in cash equal to their respective shares of the loss on realization.

Non-Applicability: This rule is not applicable when:

1. the solvent partner has a debit balance in the capital account.
2. only one partner is solvent.
3. all partners are insolvent.

Suggested Answer Syl16 Dec2018 Paper 5

4. the partnership deed provides for a specific method to be followed in case of insolvency of a partner, then the conditions given in the deed would prevail.

Answer: 8 (b)

Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets. Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc.

If loss of profits consequent to the event or mis-happening (Fire, flood, theft etc.) is also insured, the policy is known as loss of profit or consequential loss policy.

The Loss of Profit Policy normally covers the following items:

- (i) Loss of net profit
- (ii) Standing charges.
- (iii) Any increased cost of working e.g., renting of temporary premises.

Answer: 8 (c)

Hire Purchase Agreement differs from Installment purchase Agreement in the following respects:

Basis of Distinction	Hire Purchase Agreement	Installment Purchase Agreement
1. Act governing	It is governed by Hire Purchase Act 1972.	It is governed by the Sale of Goods Act 1930.
2. Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3. Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4. Right to Return goods	The hirer may return goods without further payment, except for accrued installment.	Unless seller defaults, goods are not returnable.
5. Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6. Right to Dispose off	Hirer cannot hire out, sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bonafide purchaser.
7. Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8. Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9. Relationship between parties involved	The relationship between hirer and hire vendor is that of Bailee and Bailor.	The relationship between the buyer and seller is that of a debtor and creditor till last installment is paid.
10. Component other than Cash Price	Component other than Cash Price included in Installment is called Hire charges.	Component other than Cash price included in Installment is called Interest.

Suggested Answer Syl16 Dec2018 Paper 5

11. Method of Accounting	<ol style="list-style-type: none"> 1. Sales Method for goods of substantial sales values 2. Stock Methods for Goods of small sales values 	Interest Suspense Method.
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Answer: 8 (d)

Basis of Discount ion	Fundamental Accounting Assumptions	Accounting Policies
1. Number	There are only three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
2. Disclosure if followed	No disclosure is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed
3. Disclosure if not followed	In case the fundamental assumptions are not followed; the fact has to be disclosed in the financial statements together with the reasons.	In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed.
4. Choice	There is no choice.	The firm has a choice to select a particular policy

INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

JUNE - 2019

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Both the sections are to be answered subject to instructions given against each.
[All workings must form part of your answer.]

SECTION - A

1. Answer the following questions:

1×10=10

(a) Choose the most appropriate one from the given following alternatives:

(i) Which of the following is a resource owned by the business with the purpose of using it for generating future profits?

- (A) Loan from Bank**
- (B) Owner's Capital**
- (C) Trade Mark**
- (D) All of the above**

(ii) Chandu & Co.'s Account is a

- (A) Real Account**
- (B) Nominal Account**
- (C) Representative Personal Account**
- (D) Artificial Personal Accounts**

(iii) Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of

- (A) Omission**
- (B) Commission**
- (C) Principle**
- (D) Misposting**

(iv) Which of the following term is most suitable for writing off Patent?

- (A) Depletion**
- (B) Amortization**
- (C) Depreciation**
- (D) All of the above**

- (v) Memorandum Joint Venture Account is prepared when
- (A) the separate set of books is maintained for Joint Venture.
 - (B) the each Co-venturer keeps records of all transactions.
 - (C) the each Co-venturer keeps records of their own transactions only.
 - (D) All of the above cases
- (vi) Which of the following commission is allowed by the consignor to the consignee to encourage the consignee for putting-up hard work in introducing new product in the market?
- (A) Del-credere Commission
 - (B) Over-riding Commission
 - (C) Hard work Commission
 - (D) Ordinary Commission
- (vii) If Ram's acceptance which was endorsed by us in favour of Saleem is dishonoured, then the amount will be debited in our books to
- (A) Saleem
 - (B) Ram
 - (C) Bills Receivable Account
 - (D) None of the above
- (viii) In case of a Club, the excess of expenditure over income is called as
- (A) Surplus
 - (B) Deficit
 - (C) Capital Fund
 - (D) Investment in Fixed Assets
- (ix) A Charitable Institution has 250 members with a annual subscription of ` 5,000 each. The subscription received during 2018-19 were ` 11,25,000, which include ` 65,000 and ` 25,000 for the years of 2017-18 and 2019-20 respectively. Amount of outstanding subscription for the 2018-19 will be
- (A) ` 90,000
 - (B) ` 1,25,000
 - (C) ` 2,15,000
 - (D) ` 1,90,000

- (x) The following are details of closing stock items in Aarvi Limited:

Items	Historical Cost (` in Lakh)	Net Realisable Value (` in Lakh)
A	30	27
B	15	18
C	35	35
D	40	45

The value of Closing Stock will be

- (A) ` 120 Lakh
- (B) ` 125 Lakh
- (C) ` 117 Lakh
- (D) ` 128 Lakh

Suggested Answers Syl2016 June 2019 Paper 5

(b) Match the following in Column-I with the appropriate in Column-II:

1x5=5

	Column-I		Column-II
(1)	Highest Relative Capital Method	(A)	Departmental Accounts
(2)	Basis of Apportionment of Expenses	(B)	Insurance Claim
(3)	Partial Repossession	(C)	AS-9
(4)	Indemnity Period	(D)	Piecemeal Distribution
(5)	Revenue Recognition	(E)	Hire Purchase

(c) State whether the following statements are True or False.

1x5=5

- (i) All these items of revenue nature which received during the period of accounts, are only shown in the Income and Expenditure Account.
- (ii) When the capitalization of profits method is used then the value of goodwill on the basis of future maintainable profits is more than that of on the basis of super profits.
- (iii) In case of transfer from Creditors Ledger to Debtors Ledger, the Debtors Ledger Adjustment Account should be debited.
- (iv) Unrecoupable short-workings should be charged to Profit and Loss Account.
- (v) In the Stock and Debtors Method of accounting, balance of Branch Stock Account shows either Gross Profit or Gross Loss.

(d) Fill in the blanks:

1x5=5

- (i) Net Worth is excess of _____ over _____.
- (ii) The Sales ` 180 Lakh, Purchases ` 129 Lakh and Opening Stock ` 33 Lakh. If the rate of Gross Profit is 50% on cost, then the value of closing stock will be _____.
- (iii) In case of Loss of Profit Policy, Gross Profit is the sum of Net Profit plus _____ Standing Charges.
- (iv) Interest to be allowed @ 0.75 per cent per month on Partners Capital of ` 60 Lakh; Manager's Commission @ 5 per cent of Net Profit before charging such commission. If the Net Profit before charging interest on capital and manager's commission amounted to ` 14.85 Lakh, then manager's commission will be _____.
- (v) A machinery was purchased on Hire Purchase System. Its cash price was ` 5,20,000 which was payable in annual instalments of ` 1,80,000 each including interest @ 15 per cent per annum. The amount of interest included in 2nd instalment would be _____.

Answer:

1. (a) (i) (C)
(ii) (D)
(iii) (C)
(iv) (B)

Suggested Answers Syl2016 June 2019 Paper 5

- (v) (C)
- (vi) (B)
- (vii) (B)
- (viii) (B)
- (ix) (C)
- (x) (C)

(b)

	Column-I		Column-II
(i)	Highest Relative Capital Method	(D)	Piecemeal Distribution
(ii)	Basis of Apportionment of Expenses	(A)	Departmental Accounts
(iii)	Partial Repossession	(E)	Hire Purchase
(iv)	Indemnity Period	(B)	Insurance Claim
(v)	Revenue Recognition	(C)	AS – 9

- (c)
- (i) False
 - (ii) False
 - (iii) False
 - (iv) True
 - (v) True

- (d)
- (i) Total assets, total liabilities
 - (ii) ₹ 42 Lakh
 - (iii) Insured
 - (iv) ₹ 47,250
 - (v) ₹ 62,700

SECTION – B

Answer any five questions from the remaining seven questions. Each question carries 15 marks. 15×5=75

2. (a) Rectify the following errors:

8

- (i) A Credit Sale of goods to X ₹ 3,000 posted as ₹ 30,000.
- (ii) A Cash Sale of goods to Y ₹ 3,000 posted as ₹ 30,000.
- (iii) A Credit Sale of Furniture to Z ₹ 3,000 posted as ₹ 30,000.
- (iv) A Credit Sale of goods of ₹ 3,000 to Krishan entered in the purchases book, as ₹ 30,000 and posted therefrom to the credit of Krishan as ₹ 3,000.
- (v) A Cash Sale of goods of ₹ 3,000 to Krishan posted to the credited of Krishan as ₹ 30,000.
- (vi) A Credit Purchase of old machinery from Sohan for ₹ 17,000 was entered in the Purchases Book as purchase from Mohan for ₹ 71,000. ₹ 3,000 paid as Repair Charges of this Machinery debited to General Expenses Account.
- (vii) A Bill drawn on Meenu for ₹ 30,000 was passed through bills payable book with ₹ 3,000 and posted therefrom to the credit of Meena as ₹ 300.
- (viii) Sales included a sale of furniture having a book of value of ₹ 900 for ₹ 850 on 31st March, 2018.

Suggested Answers Syl2016 June 2019 Paper 5

- (b) Mr. Kanan is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Kanan for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March, 2018	
Sundry Assets	` 16,65,000
Liabilities	` 4,13,000
On 31st March, 2019	
Sundry Assets	` 28,40,000
Liabilities	` 5,80,000
Mr. Kanan's drawings for the year 2018-19	` 32,000 per month
Income declared to the Income Tax Officer	` 9,12,000

During the year 2018-19, one life insurance policy of Mr. Kanan was matured and amount received ` 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

7

Answer:

2. (a)

JOURNAL

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Suspense A/c To X A/c (Being wrong posting now rectified)	Dr.	27,000	27,000
Or,				
	Sales A/c To, X A/c (being credit sale of `3,000 wrongly posted as `30,000, now rectified)	Dr.	27,000	27,000
(ii)	Sales A/c To Suspense A/c (Being wrong posting now rectified)	Dr.	27,000	27,000
Or,				
	Sales A/c To, Cash A/c (Being, cash sale of `3,000 wrongly posted as `30,000, now rectified)	Dr.	27,000	27,000
(iii)	Furniture A/c To Z A/c (Being wrong posting, now rectified)	Dr.	27,000	27,000
(iv)	Krishan A/c Kishan A/c Suspense A/c	Dr. Dr. Dr.	 3,000 3,000 27,000	

Suggested Answers Syl2016 June 2019 Paper 5

	To Sales A/c To Purchases A/c (Being sale recorded as purchase with wrong amount and wrong posting therefrom, now rectified)			3,000 30,000
(v)	Kishan A/c To Sales A/c To Suspense A/c (Being wrong posting, now rectified)	Dr.	30,000	3,000 27,000
(vi)	Mohan A/c Machinery A/c To Sohan A/c To Purchases A/c To General Expenses A/c (Being purchase of old machinery recorded the Purchases Book and repairing charges debited to General Expenses A/c, now rectified)	Dr. Dr.	71,000 20,000	17,000 71,000 3,000
(vii)	Bills Receivable A/c Bills Payable A/c Meena A/c To Meenu A/c To Suspense A/c (Being B/R drawn recorded in B/P Book, now rectified)	Dr. Dr. Dr.	30,000 3,000 300	30,000 3,300
(viii)	Sales A/c Loss on Sale of Furniture A/c To Furniture A/c (Being the sale of furniture recorded as sales, now rectified)	Dr. Dr.	850 50	900

(b) Determination of Capital balance of Mr. Kanan on 31.3.2018 and on 31.3.2019

	31.3.2018	31.3.2019
Assets	16,65,000	28,40,000
Less: Liabilities	4,13,000	5,80,000
Capital	12,52,000	22,60,000

Determination of Profit by applying the method of the capital comparison.

Capital Balance as on 31.3.2019	22,60,000
Less :Fresh capital introduces(matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (` 32,000 X12)	3,84,000
	25,94,000
Less: Capital Balance as on 1.4.2018	(12,52,000)
Profit	13,42,000
Income declared	9,12,000
Suppressed Income	4,30,000

Suggested Answers Syl2016 June 2019 Paper 5

The Income Tax Officer's contention that Mr. Kanan has not declared his true income is correct. Mr. Kanan's true income is in excess of the disclosed income by ₹ 4,30,000.

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

3. Following is the Trial Balance as on 31st March, 2019 of Bajrang Traders:

Particulars	Debit (₹)	Credit (₹)
Stock on 01.04.2018	1,35,000	
Purchases and Sales	28,50,000	46,25,000
Returns	35,000	22,500
Carriage Inwards	24,000	
Carriage Outwards	33,000	
Wages	1,25,000	
Salaries	3,52,000	
Printing and Stationery	6,500	
Insurance Premium	15,000	
Repairs	11,000	
Discounts Allowed	30,500	
Discounts Received		15,500
Bad Debts	28,000	
Provision for Bad Debts		35,000
Advertisement	38,000	
Interest on Investment		42,000
Drawings	2,10,000	
Investment	8,00,000	
Furniture and Fixtures	3,50,000	
Office Equipments	2,45,000	
Land and Building	15,00,000	
Sundry Debtors and Creditors	6,90,000	4,55,000
Establishment Expenses	35,000	
Capital		31,05,000
Cash at Bank	7,24,000	
Cash in Hand	63,000	
Total	83,00,000	83,00,000

Additional Information:

- (i) Closing Stock of goods amounted to ₹ 1,85,000 and of stationery amounted to ₹ 1,500.
- (ii) Depreciation to be charged on Land and Building @ 10%; On Office Equipments @ 15%; and On Furniture and Fixtures @ 10%.
- (iii) Insurance Premium paid on 1st July, 2018 for one year.
- (iv) Write off further as bad debts ₹ 5,000 and maintain a provision for bad debts of 5% on

debtors.

- (v) Provision made for discount on debtors @ 2%.
- (vi) Goods costing ` 12,500 used for given free samples to customers.
- (vii) Goods costing ` 25,000 were sent on approval basis to a customer for ` 40,000 on 26th March, 2019. This was recorded as actual sales but approval did not receive till 31st March, 2019.
- (viii) Outstanding salaries were for one month.
- (ix) Investment made at 7.50% per annum on 1st May, 2018.

You are required to prepare Trading Account and Profit & Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date. 15

Answer:

3.

**Books of Bajrang Traders
Trading and Profit and Loss Account
For the year ending 31st March, 2019**

Dr.			Cr.	
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		1,35,000	By Sales	46,25,000
			Less: Returns	35,000
			Less: Sent on Approval	40,000
				45,50,000
To Purchases	28,50,000		By Closing Stock	1,85,000
Less: Returns	22,500		Add: Sent on Approval	25,000
Less: Free Samples	12,500	28,15,000		2,10,000
To Wages		1,25,000		
To Carriage Inwards		24,000		
To Gross Profit c/d		16,61,000		
		47,60,000		47,60,000
			By Gross Profit b/d	16,61,000
To Carriage Outwards		33,000	By Discount Received	15,500
To Salaries	3,52,000		By Interest	42,000
Add: Outstanding	32,000	3,84,000	Add: Outstanding	13,000
To Printing & Stationery	6,500			
Less: Closing Stock	1,500	5,000		
To Insurance Premium	15,000			
Less: Prepaid	3,750	11,250		
To Repairs		11,000		
To Discount Allowed		30,500		
To Prov. for Discount on Debtors		12,255		

Suggested Answers Syl2016 June 2019 Paper 5

To Bad Debts Add:	28,000			
Further B.D	5,000			
Add: New Provision	32,250			
Less: Old Provision	(35,000)	30,250		
To Advertisement		38,000		
To Establishment Exp.		35,000		
To Free Samples		12,500		
To Depreciation on				
-Land & Building	1,50,000			
-Office Equipments	36,750			
- Furniture & Fixtures	35,000	2,21,750		
To Net Profit		9,06,995		
		17,31,500		17,31,500

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital on 1.4.18: Add:	31,05,000	Land & Building	15,00,000
Net Profit	9,06,995	Less: Dep.	1,50,000
Less: Drawings	(2,10,000)		
Capital on 31.3.19	38,01,995		
Sundry Creditors	4,55,000	Furniture & Fixtures	3,50,000
		Less: Dep.	35,000
Outstanding Salaries	32,000	Office Equipments	2,45,000
		Less: Dep.	36,750
		Investment	8,00,000
		Stock: Goods(1,85,000+25,000)	2,10,000
		Stationery	1,500
		Sundry Debtors(Trial Balance)	6,90,000
		Less: Goods on Approval	40,000
		Sundry Debtors	6,50,000
		Less: Further B. D.	5,000
		Net Sundry Debtors	6,45,000
		Less: Prov. for B.D.@ 5%	32,250
			6,12,750
		Less: Prov. for Disc.@ 2%.	12,255
		Earned Interest	13,000
		Prepaid Insurance Prem.	3,750
		Cash at Bank	7,24,000
		Cash in Hand	63,000
	42,88,995		42,88,995

Working Notes:

- (i) Prepaid Insurance Premium from 1.4.19 to 30.6.19 = ` 15,000 x 3/12 = ` 3,750.
- (ii) Outstanding Interest on Investment:

Suggested Answers Syl2016 June 2019 Paper 5

Total Interest (1.5.18 to 31.3.19) = ₹ 8,00,000 × 7.50% × 11/12 = ₹ 55,000

Outstanding = ₹ 55,000 – ₹ 42,000 = ₹ 13,000.

4. A, B and C were partners in a firm sharing profits & losses in the ratio of 3 : 1 : 1 agreed upon dissolution of their partnership. They each decide to take over certain assets and liabilities and continue business separately.

Balance Sheet
as on date of dissolution

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	6,000	Cash at Bank	3,200
Loan	1,500	Sundry Assets	17,000
Capitals:		Debtors	24,200
A	27,500	Less: Bad Debts Provision	1,200
B	10,000	Stock	7,800
C	7,000	Furniture	1,000
	44,500		
	52,000		52,000

It is agreed as follows:

- (i) Goodwill is to be ignored.
- (ii) A is to take over all the Fixtures at ₹ 800; Debtors amounting to ₹ 20,000 at ₹ 17,200. The creditors of ₹ 6,000 to be assumed by A at that figure.
- (iii) B is to take over all the stocks at ₹ 7,000 and certain of the sundry assets at ₹ 7,200 (being book value less 10%).
- (iv) C takes over the remaining sundry assets at 90% of book values less ₹ 100 allowances and assumes responsibility for the discharge of the loan, together with accruing interest of ₹ 30 which has not been recorded in the books of the firm.
- (v) The expenses of dissolution were ₹ 270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare Realisation Account, partners' Capital Accounts and Bank Account. 15

Answer:

4. In the books of A, B and C
Realisation Account

Dr.			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets:			By Provision for bad debts		1,200
Sundry Assets	17,000		Capital Account A:		
Debtors	24,200		Fixtures	800	
Stock	7,800		Debtors	17,200	18,000
Fixtures	1,000	50,000	B: Stock	7,000	
To Bank – Expenses		270	Sundry Assets	7,200	14,200

Suggested Answers Syl2016 June 2019 Paper 5

To Capital Account		C: Sundry Assets	8,000
C – Interest on loan	30	By Bank: Collection from Debtors	2,100
		By Loss on realization:	
		A (3/5)	4,080
		B (1/5)	1,360
		C (1/5)	1,360
	50,300		50,300

Capital Account

Dr.

Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Dissolution	18,000	14,200	8,000	By Balance b/d	27,500	10,000	7,000
Assets taken				By Creditors	6,000	---	---
To Dissolution A/c Loss	4,080	1,360	1,360	By Loan (with interest)	---	---	1,530
To Bank – Final payment	11,420	---	---	By Bank			
				By Final Receipts	---	5,560	830
	33,500	15,560	9,360		33,500	15,560	9,360

Bank Account

Dr.

Cr.

Particulars	Amounts (₹)	Particulars	Amounts (₹)
To Balance b/d	3,200	By Dissolution A/c Expenses	270
To Dissolution A/c		By Capital A/c	
Collection from Debtors	2,100	A	11,420
To Capital A/c		B 5,560	
B 5,560		C 830	
C 830	6,390		
	11,690		11,690

Working Notes:

1. Realization of Sundry Assets:

Sundry Assets (Book Value)	17,000
Less: Taken by B [7,200 × (100/90)]	8,000
Remaining at book value	9,000

Taken by C: 90% of Book Value

i.e., (9,000 × (90/100)) = 8,100 – 100 for allowance = 8,000

Suggested Answers Syl2016 June 2019 Paper 5

2. Collection from Debtors:

Debtors (Book Value)	24,200
Less: Taken by (Book Value)	20,000
Remaining at 50% i.e., ` 2,100	4,200

5. (a) Rukmani Stores, Delhi invoiced goods to its Jaipur Branch @ 20% less than the Catalogue price which is cost plus 50% with instructions that cash sales were to be made at invoice price and credit sales at catalogue price and allow discount on prompt payment. The following details related to branch are provided by Rukmani Stores for the year ended 31st March, 2019:

Invoiced Stock: On 01.04.2018	4,50,000
On 31.03.2019	5,10,000
Branch Debtors: On 01.04.2018	3,60,000
Branch Furniture: On 01.04.2018	1,20,000
Cash Sales	13,60,000
Credit Sales	21,50,000
Goods Invoiced to Branch	32,10,000
Goods returned by Branch (Invoice Price)	84,000
Expenses Paid by H.O.: Rent	1,25,000
Salaries	1,80,000
Petty Expenses paid by Branch	11,000
Cash received from Branch Debtors	18,65,000
Remittances by Branch to H.O.	32,00,000
Discount allowed to Branch Debtors	1,85,000
Branch Bad debts	15,800
Goods Returned by Branch Debtors	12,600

It was decided to make provision for discount of ` 42,500 on closing debtors for prompt payment. Depreciate the furniture @ 10% per annum.

You are required to prepare Jaipur Branch Account and Goods Sent to Branch Account in the books of Rukmani Stores.

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(b) The following information related to various debtors for the year ended 31st March, 2019, are supplied by Nakul Limited:

Particulars	A()	B()	C()	D()	E()
Balance on 01.04.2018	25,000 (Dr.)	18,000 (Dr.)	4,500 (Cr.)	39,000 (Dr.)	22,000 (Dr.)
Goods Sold	2,85,000	1,98,000	2,60,000	38,000	2,16,000
Sales Return	5,400	7,200	15,000		7,500
Cash & Cheques Collected	1,86,000	1,52,000	1,95,000	42,000	2,25,000
B/R Received	48,000	41,000	38,000	32,000	—
Discount Allowed	9,000	7,000	8,500	900	11,200

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Bad Debts	—	—	—	16,000	—
B/R Dishonoured	11,000	—	8,500	13,000	—
Interest & Other Charges	600	200	300	900	—

On 31st March, 2019, A and C also stood in Purchase Ledger having credit balances of ₹ 3,600 and ₹ 5,100 respectively.

You are required to prepare Debtors Ledger Adjustment Account in General Ledger. 7

Answer:

5. (a)

Books of Rukmani Stores (H.O.) Jaipur Branch Stock Account

Dr.

Cr.

Date	Particulars		Date	Particulars	
1.4.18	To Balance b/d		1.4.18	By Balance b/d	
	Branch Stock A/c	4,50,000		Stock Reserve	75,000
	Branch Debtors A/c	3,60,000		(Loading on Opening	
	Branch Furniture A/c	1,20,000		Stock)	
1.4.18	To Good Sent to		1.4.18	By Good Sent to	
	Branch A/c	32,10,000		Branch A/c (Loading on	5,35,000
				Goods Sent)	
31.3.19	To Good Sent to		31.3.19	By Good Sent to	
	Branch A/c (Loading	14,000		Branch A/c (Goods	84,000
	on Goods Returned)			Returned)	
31.3.19	To Bank A/c		31.3.19	By Bank A/c	32,00,000
	Rent 1,25,000			(Remittance from	
	Salary <u>1,80,000</u>	3,05,000		Branch)	
31.3.19	To P & L A/c	3,71,100	31.3.19	By Balance c/d	
	(balancing figure)			Branch Stock A/c	5,10,000
31.3.19	To balance c/d			Branch Debtors A/c	4,31,600
	Stock Reserve	85,000		Branch Furniture A/c	1,08,000
	(Loading on Closing			Branch Cash A/c	14,000
	Stock)				
	Provision for Discount	42,500			
		49,57,600			49,57,600

Notes on Jaipur Branch A/c:

- (1) Since in Question, Invoice Price is given therefore Jaipur Branch Stock A/c should be prepared at Invoice Price.
- (2) In this case Debtor method of Branch Accounting is used therefore petty expenses of ₹ 11,000 incurred by Branch itself would not be shown at the debit of Jaipur Branch A/c. These petty expenses are already adjusted in closing balance of Branch cash of ₹ 14,000.
- (3) On similar logic we have correctly not shown Bad Debts and Discount relating to

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Jaipur Branch A/c to the debit of Jaipur Branch A/c since these Bad Debts and Discount are already adjusted in closing balance of Branch Debtors.

Good Sent to Branch Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.18	To Jaipur Branch (Loading on Goods Sent)	5,35,000	1.4.18	By Jaipur Branch A/c (Goods Sent)	32,10,000
31.3.19	To Jaipur Branch A/c (Goods Returned)	84,000	31.3.19	By Jaipur Branch A/c (Loading on Goods Returned)	14,000
31.3.19	To Trading A/c	26,05,000			
		32,24,000			32,24,000

Note on Good Sent to Branch A/c: Since in Question, Invoice Price is given therefore Good Sent to Branch A/c should be prepared at Invoice Price.

Notes :

- (i) Furniture at on 31.03.2019 = ` 1,20,000 × 90% = ` 1,08,000.
- (ii) Cash Balance at Branch on 31.03.2019 = ` 13,60,000 (Cash Sales) + ` 18,65,000 (Collection from Debtors) – ` 32,00,000 (Remittances from Branch) – ` 11,000 (Petty Exp. Paid by Branch) = ` 14,000.
- (iii) Closing Branch Debtors:

Memorandum Branch Debtors Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.18	To Balance b/d	3,60,000	31.3.19	By Return to Branch A/c	12,600
31.3.19	To Sales (Credit)	21,50,000	31.3.19	By Bank A/c (Collection)	18,65,000
			31.3.19	By Discount Allowed A/c	1,85,000
			31.3.19	By Bad Debts A/c	15,800
			31.3.19	By Balance c/d	4,31,600
		25,10,000			25,10,000

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(b)

In General Ledger Debtors Ledger Adjustment Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.18	To Balance b/d	1,04,000	1.4.18	By Balance b/d	4,500
31.3.19	To G. L. Adj. A/c in D. L.		31.3.19	By G. L. Adj. A/c in D. L.	
	Sales	9,97,000	31.3.19	Sales Return	35,100
	B/R Dishonoured	32,500		Cash & Cheques Collected	8,00,000
	Interest & Other Charges	2,000		B/R Received	1,59,000
31.3.19	To Balance c/d (E's A/c)	5,700		Discount Allowed	36,600
				Bad Debts	16,000
				Transfer from P. L. (3,600 + 5,100)	8,700
				By Balance c/d	81,300
		11,41,200			11,41,200

Working Notes:

- (i) Total Balance on 1.4.18 : 25,000+18,000+39,000+22,000 = ₹ 1,04,000(Dr.) and ₹ 4,500(Cr.)
- (ii) Total Credit Sales = 2,85,000+ 1,98,000+2,60,000+38,000+2,16,000 = ₹ 9,97,000
- (iii) Total Sales Return = 5,400 + 7,200 + 15,000 + 7,500 = ₹ 35,100
- (iv) Total Collection = 1,86,000 + 1,52,000 + 1,95,000 + 42,000 + 2,25,000 = ₹ 8,00,000
- (v) Total B/R Received = 48,000 + 41,000 + 38,000 + 32,000 = ₹ 1,59,000
- (vi) Total Discount Allowed = 9,000 + 7,000 + 8,500 + 900 + 11,200 = ₹ 36,600
- (vii) Total B/R Dishonoured = 11,000 + 8,500 + 13,000 = ₹ 32,500
- (viii) Total Interest & Other Charges = 600 + 200 + 300 + 900 = ₹ 2,000
- (ix) On 31.3.2019, E has Cr. Balance of ₹ 5,700 (22,000 + 2,16,000 -7,500 – 2,25,000 – 11,200)

6. (a) On 31st January, 2019 the premises of Toli Textiles Limited were destroyed by fire. The records of the company revealed the following particulars:

Stock on 01.04.2017	11,35,000
Stock on 31.03.2018	12,64,100
Purchase Less returns, during the year ended 31st March, 2018	65,45,000
Sales Less returns, during the year ended 31st March, 2018	91,00,000
Purchase Less return, from 01.04.2018 to 31.01.2019	56,64,000
Sales Less returns, from 01.04.2018 to 31.01.2019	78,24,000

In valuing stock on 31st March, 2018 ₹ 45,900 had been written off out of certain stock

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which was of a poor selling line, having cost ₹ 1,37,700. A portion of these goods were sold in October, 2018 at a loss ₹ 11,080 on the original cost of ₹ 55,080. The remaining stock of this goods on the date of fire was to be valued at 80% of its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged from fire was ₹ 1,23,800.

You are required to compute the amount of claim to be lodged for loss of stock. The stock was insured for ₹ 12,50,000. 7

(b) The following particulars relate to hire purchase transactions:

- (i) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.
- (ii) The hire purchaser charged depreciation @ 20% on diminishing balance method.
- (iii) Two cars were seized by on hire vendor when second instalment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.
- (iv) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

- (I) Agreed value of two cars taken back by the hire vendor.
- (II) Book value of car left with the hire purchaser.
- (III) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
- (IV) Profit or loss of cars repossessed, when sold by the hire vendor. 8

Answer:

6. (a)

Trading Account for the year ending 31st March, 2018

Dr.		Particulars		Cr.
To Opening Stock	11,35,000	By Sales Less Returns		91,00,000
To Purchases Less Returns	65,45,000	By Closing Stock as valued	12,64,100	
To Gross Profit	27,30,000	Add: Amount Written off	45,900	13,10,000
	1,04,10,000			1,04,10,000

Rate of Gross Profit = ₹ 27,30,000 / ₹ 91,00,000 = 30%

Memorandum Trading Account From 1st April, 2018 to 31st January, 2019

Dr.				Cr.			
Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)	Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)
To Opening Stock	11,72,300	1,37,700	13,10,000	By Sales	77,80,000	44,000	78,24,000
To	56,64,000	---	56,64,000	By Loss	---	11,080	11,080

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Purchases				on Sales			
to Gross Profit (30% on Normal Sales)	23,34,000	---	23,34,000	By Est. Stock (b/f)	13,90,300	82,620	14,72,920
	91,70,300	1,37,700	93,08,000		91,70,300	1,37,700	93,08,000

Working Notes:

(i) Stock on 1.4.18.

Abnormal Items ` 1,37,700; and Normal Items = ` 13,10,000 - ` 1,37,700 = ` 11,72,300

(ii) Sale of Abnormal Items = ` 55,080 - ` 11,080 = ` 44,000

(iii) Sale of Normal Items = ` 78,24,000 - ` 44,000 = ` 77,80,000

Loss of Stock

Stock on the date of fire : Normal Items	13,90,300
Value of Abnormal Items (82,620 × 80%)	66,096
Value of Stock	14,56,396
Less: Stock Salvaged	1,23,800
Loss of Stock	13,32,596

Amount of Claim applying Average Clause:

Amount of Claim = (Insured Amount/ Value of Stock at the date of Fire) × Loss of Stock =
 (` 12,50,000/ ` 14,56,396) × ` 13,32,596 = ` 11,43,745.

(b)

	Particulars	`
(i)	Price of two cars = ` 2,00,000 × 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ` 2,80,000 × (30/100)	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ` 2,00,000 @ 20% for the first year	40,000
	Written down value at the end of first year	1,60,000
	Less: Depreciation on ` 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	128,000
(iii)	Book value of one car as calculated in working note (ii) above	128,000
	Book value of Two cars = ` 1,28,000 × 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000
	Hence, loss on cars taken back = ` 2,56,000 – ` 1,96,000 =	` 60,000
(iv)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which cars were taken back ` 1,96,000	
	Repair ` 10,000	2,06,000
	Loss on resale	36,000

7. (a) An infrastructure company has constructed a mall and entered into agreement with tenants towards license fee (monthly rental) and variable license fee, a percentage on the turnover of the tenant (on an annual basis). Chief Finance Officer wants to account / recognize license fee as income for 12 months during current year under audit and variable license fee as income during next year, since invoice is raised in the subsequent year. Comment whether the treatment desired by the CFO is or not.

6

(b) State briefly the factors to be considered while selecting pre-packaged accounting software.

6

(c) From the following particulars ascertain the value of unsold stock on Consignment. 3

Goods sent (1000 kgs.)	₹ 20,000
Consignor's expenses	₹ 4,000
Consignees non-recurring expenses	₹ 3,000
Sold (800 kgs.)	₹ 40,000
Loss due to natural wastage (100 kgs.)	

Answer:

7. (a) AS 9 on Revenue Recognition, is mainly concerned with the timing of recognition of revenue in the Statement of Profit and Loss of an enterprise. The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction. However, when uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

Further, as per accrual concept of fundamental accounting assumptions given in AS 1 "Disclosure of Accounting Policies", revenue should be recognised as and when it is accrued i.e. recorded in the financial statements of the periods to which they relate.

In the present case, monthly rental towards licence fee and variable licence fee as a percentage on the turnover of the tenant though on annual basis is the income related to common financial year. Therefore, recognising the fee as revenue cannot be deferred simply because the invoice is raised in subsequent period. Hence it should be recognised in the financial year of accrual.

Therefore, the contention of the Chief Financial Officer is not in accordance with AS 9.

(b) Factors to be considered while selecting pre-packaged accounting software

1. Fulfillment of Business Requirements: The purchaser should ensure whether the available software meets all the business requirements.
2. Completeness of Reports: The purchaser should ensure whether the available software can provide all the reports required by business.
3. Ease of Use: The purchaser should ensure whether the available software is easy to operate.
4. Cost: The software should not involve very high installation and running cost.
5. Reputation of the vendor: It should be ensured whether the vendor has good

reputation and good track records or not.

6. Regular updates: It should be ensured whether the vendor is prepared to give updates.

(c) Value of Unsold Stocks

	`
Total cost of goods sent	20,000
Add: Consignor's expenses	4,000
Add: Non-recurring expenses	3,000
Cost of (1,000 Kgs – 100 Kgs) = 900 Kgs	27,000

□ Value of unsold stock (1,000 – 800 – 100) = 100 Kgs. will be = 27,000 × (100 Kgs. / 900 Kgs.) = ` 3,000.

8. Write short notes on *any three* of the following:

5×3=15

- (a) The Accrual concept.
- (b) Provision for Discount on Debtors
- (c) Features of Income and Expenditure Account
- (d) Maximum Possible Loss

Method Answer:

8. (a) **The Accrual Concept:**

The accrual concept is based on recognition of both cash and credit transactions. In case of a cash transaction, owner's equity is instantly affected as cash either is received or paid. In a credit transaction, however, a mere obligation towards or by the business is created. When credit transactions exist (which is generally the case), revenues are not the same as cash receipts and expenses are not same as cash paid during the period. When goods are sold on credit as per normally accepted trade practices, the business gets the legal right to claim the money from the customer. Acquiring such right to claim the consideration for sale of goods or services is called accrual of revenue. The actual collection of money from customer could be at a later date. Similarly, when the business procures goods or services with the agreement that the payment will be made at a future date, it does not mean that the effect of expense should not be recognized. Because an obligation to pay for goods or services is created upon the procurement thereof, the expense effect also must be recognized. Today's accounting systems based on accrual concept are called as Accrual System or Mercantile System of Accounting.

(b) **Provision for Discount On Debtors:**

We know that Cash discount is allowed by the suppliers to customer for prompt settlement of cash. Naturally a provision is created for this purpose. Thus, the provision which is created on Sundry Debtors for allowing discount on receipt of Cash in that accounting period is called Provision for Discount on Debtors. It is needless to say that

if the customer pays their debts before the due dates, they may claim discounts and that is why discount is allowed to debtors for prompt settlement is an usual practice. Where goods are sold on credit, debtors accounts are debited but the amount may not be realized in this same accounting periods. Naturally, a possible aim is to allow discount whether cash is received. The same will happen in the next accounting period. Due to this reason a provision for discount on debtors is made on the basis of past experience at an estimate rate on Sundry Debtors. Care should be taken while calculating discount. Discount should be calculated at a specified rate on of debtors (i.e. after discounting bad debts and provision for bad debts).

(c) Features of Income and Expenditure Account:

1. It follows Nominal Account.
2. All expenses of revenue nature for the particular period are debited to this Account on accrual basis.
3. Similarly all revenue incomes related to the particular period are credited to this account on accrual basis.
4. All Capital Incomes and Expenditures are excluded.
5. Only current year's incomes and expenses are recorded. Amounts related to other periods are deducted. Amounts outstanding for the current year are added.
6. Profit on Sale of Asset is credited. Loss on Sale of Asset is debited. Annual Depreciation on Assets is also debited.
7. If income is more than expenditure, it is called a Surplus, and is added with Capital or General Fund etc. in the Balance Sheet.
8. If expenditure is more than income, it is a deficit, and is deducted from Capital or General Fund etc. in the Balance Sheet.

(d) Maximum Possible Loss Method:

Steps:

- (1) Prepare a statement showing distribution of cash
- (2) Pay off the external Liabilities
- (3) After all the payment is made for the external liabilities, the partners will be paid off.

Total Due of Partners	xxx
Less : Net/Balance of Realisation	(x)
Maximum Loss	<u>xxx</u>
- (4) The maximum loss shall be shared amongst the partners in their profit sharing ratio, as if, there will be no further realisation.
- (5) If any of the partner capitals, after step (4) is negative, that partner shall be treated like an insolvent partner.
- (6) The deficiency of the insolvent partner as per step (5) shall be shared by the other solvent partners (i.e. those partners who has positive capital balances) in their capital contribution ratio as per Garner vs. Murray Rule.
- (7) Repeat the steps (3) to (6) till final realisation.

INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 2019

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Both the sections are to be answered subject to instructions given against each.
[All workings must form part of your answer.]

SECTION - A

1. Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives: 1×10=10
- (i) When stock is valued at cost in one accounting period and at lower of cost and Net realizable value in another accounting period
- (A) Prudence Principle conflicts with Consistency Principle.
 - (B) Matching Principle conflicts with Consistency principle.
 - (C) Consistency Principle conflicts with Accounting Period Assumption.
 - (D) None of the above
- (ii) Materiality Principle is an exception to the
- (A) Consistency principle
 - (B) Full disclosure Principle
 - (C) Accounting Period Assumption
 - (D) Prudence Principle
- (iii) In a Cash Book Debit balance of ` 112 brought forward as credit balance of ` 121, while preparing a Bank Reconciliation Statement taking the balance as per Cash Book as the starting point:
- (A) ` 112 to be added
 - (B) ` 121 to be added
 - (C) ` 233 to be added
 - (D) ` 112 to be subtracted
- (iv) _____represents a potential obligation that could be created depending on the outcome of an event.
- (A) Internal Liability
 - (B) Current Liability
 - (C) Contingent Liability
 - (D) Non-current Liability

Suggested Answers Syl/2016 December 2019 Paper 5

- (v) Opening Debtors, Collection from Debtors and Discount Allowed were ` 3,15,000; ` 18,30,000 and ` 35,000 respectively. If the closing debtors were 20% of credit sales of the period then closing debtors and credit sales would be
- (A) ` 3,51,667 and ` 17,58,333
(B) ` 3,63,333 and ` 18,16,667
(C) ` 3,87,500 and ` 19,37,500
(D) ` 3,10,000 and ` 15,50,000

- (vi) Following information is given:

Opening Stock	2,13,000
Purchase	16,55,000
Sales	21,32,000
Carriage Inwards	32,500
Carriage Outwards	38,600
Return Inwards	38,000

If the rate of gross profit is 25% on cost then value of closing stock will be

- (A) ` 2,57,800
(B) ` 1,94,900
(C) ` 2,25,300
(D) ` 3,30,000
- (vii) Provision for Doubtful Debt on 1st April, 2018 was ` 21,500. During the year 2018 – 19 the Bad-debt and Recovery of Bad-debt were ` 10,500 and ` 2,100 respectively. The Sundry Debtors on 31st March, 2019 were ` 2,25,000. Provision is to be made @ 5% on Debtors. If on 31st March, 2019, there was additional Bad- debt of ` 2,500 then Provision for doubtful-debt will be
- (A) debited to Profit & Loss Account by ` 11,250.
(B) debited to Profit & Loss Account by ` 2,625.
(C) debited to Profit & Loss Account by ` 3,000.
(D) debited to Profit & Loss Account by ` 900.
- (viii) A and B enter into a joint venture sharing profit and losses in the ratio of 3:2. A purchased goods costing ` 2,00,000. B sold 95% goods for ` 2,50,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales. A drew a bill on B for an amount equivalent to 80% of original cost of goods. A got it discounted at ` 1,50,000. What is A's share of profit?
- (A) ` 15,300
(B) ` 21,300
(C) ` 18,900
(D) None of the above
- (ix) Subscription of ` 6,25,000 had been shown in the Income and Expenditure Account prepared for the year ending 31st March, 2019. Additional information is as below:

Suggested Answers Syl/2016 December 2019 Paper 5

	On 31st March, 2018 (₹)	On 31st March, 2019 (₹)
Subscription Outstanding	55,000	72,000
Subscription Received in Advance	31,000	37,000

The amount of subscription received during the year 2018-19 would be

- (A) ₹ 6,36,000
- (B) ₹ 6,02,000
- (C) ₹ 6,14,000
- (D) ₹ 6,48,000

(x) X and Y are partners with the capital of ₹ 50,000 and ₹ 30,000 respectively. Interest Payable on Capital is 10% p.a. If the profits earned by the firm is ₹ 4,800, what will be the Interest on Capital for X and Y?

- (A) ₹ 5,000 and ₹ 3,000
- (B) ₹ 3,000 and ₹ 1,800
- (C) No interest will be paid to the partners
- (D) None of the above

(b) Match the following:

1x5=5

Column A		Column B	
(i)	Endorsement	(A)	AS 7
(ii)	Amortisation	(B)	AS 10
(iii)	Average Clause	(C)	Depreciation
(iv)	Percentage of Completion	(D)	Bills Receivable
(v)	Recoverable Amount	(E)	Insurance Claim

(c) State with reason whether the following statements are 'True' or 'False' (No Marks shall be awarded without valid reason):

1x5=5

- (i) Prudence is a concept to recognise all losses and not profits.
- (ii) Revenues are matched with expenses in accordance with the matching principle.
- (iii) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.
- (iv) Net Profit is reflected in higher cash balances and net loss is reflected in lower net worth.
- (v) If Partnership Deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.a.

(d) Fill in the blanks:

1x5=5

- (i) _____ method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- (ii) Reserve for Discount on Creditors has a _____ balance.
- (iii) _____ can be made payable to the bearer.
- (iv) The gain from sale of capital assets need not be added to revenue to ascertain the _____ of a business.
- (v) _____ property may be the subject matter of consignment.

Suggested Answers Syl/2016 December 2019 Paper 5

Answer:

1. (a) (i) (A)
(ii) (B)
(iii) (C)
(iv) (C)
(v) (C)
(vi) (C)
(vii) (B)
(viii) (B)
(ix) (C)
(x) (B)

(b)

	Column - A		Column - B
(i)	Endorsement	(D)	Bills Receivable
(ii)	Amortisation	(C)	Depreciation
(iii)	Average Clause	(E)	Insurance Claim
(iv)	Percentage of Completion	(A)	AS 7
(v)	Recoverable Amount	(B)	AS 10

- (c) (i) False : Prudence is a concept to recognise all unrealised losses and not profits.
(ii) False : Expenses are matched with revenues in accordance with the matching principle. Concept of matching requires accrual and periodicity concepts as accrued revenues are matched with accrued expenses of a definite accounting period.
(iii) False : Depreciation is non-cash but operating expense which is to be provided for whether there are profits/losses.
(iv) False : Net profit may not be reflected in higher cash balance because of credit transactions. On the other hand, cash may increase because of fresh loan or fresh capital. Net Worth may also be reduced by withdrawal by the proprietor/partners. So lower net worth may not necessarily reflect net loss.
(v) False : The Partnership Act has not prescribed any Rate of Interest on Loan by firm to Partner.

- (d) (i) Reducing balance
(ii) Debit
(iii) Bills Receivable
(iv) Operating Profit or Loss
(v) Movable

SECTION – B

Answer any five questions from question numbers 2 to 8.

Each question carries 15 marks.

15×5=75

2. (a) A retail trader had not kept proper books of account. From the details given below you are required to prepare the Profit or Loss Account for the year ended 31st March, 2018. 8

	1st April, 2017 (₹)	31st March, 2018 (₹)
Stock-in-Trade	16,700	18,100
Sundry Creditors	15,400	19,200
Sundry Debtors	11,200	10,600
Cash in Hand	250	1,400
Bank Overdraft	19,200	Nil
Bills Receivable	16,000	5,000
Fixtures and Fittings	1,500	1,500
Motor Van	1,900	Nil
Bank Balance	Nil	2,900

Drawings during the year amounted to ₹2,400. Depreciate Fixtures and Fittings by 10%. ₹600 is irrecoverable from Debtors. Provide 5% for Doubtful Debts and ₹200 in respect of Bills Receivable.

- (b) Calculate the amount of sports material to be transferred to Income and Expenditure Account of Kanan Bala Sports Club, Ludhiana, for the year ended 31st March, 2018: 7

Particulars	(₹)
(i) Sports Material sold during the year (Book value ₹50,000)	56,000
(ii) Amount paid to creditors for sports material	91,000
(iii) Cash purchase of sports material	40,000
(iv) Stock of sports material as on 31.03.2017	50,000
(v) Stock of sports material as on 31.03.2018	55,000
(vi) Creditors for sports material as on 31.03.2017	37,000
(vii) Creditors for sports material as on 31.03.2018	45,000

Answer

:

2. (a)

Statement of Affairs as at 1st April 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	15,400	Cash in Hand	250
Bank Overdraft	19,200	Sundry Debtors	11,200
Capital (Balancing Figure)	12,950	Bills Receivable	16,000
		Stock-in-trade	16,700
		Fixtures & Fittings	1,500
		Motor Van	1,900
	47,550		47,550

Statement of Affairs (Before Adjustments) as at 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	19,200	Cash in Hand	1,400
Capital (Balancing Figure)	20,300	Cash at Bank	2,900
		Sundry Debtors	10,600
		Bills Receivable	5,000
		Stock-in-trade	18,100
		Fixtures & Fittings	1,500
	39,500		39,500

Statement of Profit or Loss for the year ended 31st March 2018

Particulars	Amount (₹)
Capital on 31st March 2018	20,300
Add: Drawings during the year	2,400
	22,700
Less : Capital on 1st April 2017	-12,950
Gross Profit made during the year	9,750

Profit & Loss Account for the year ended 31st March 2018

Dr.			Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)
To Depreciation on Fixture & Fittings	150	By Gross Profit	9,750
To Bad Debts	600		
To Provision for Doubtful Debts	500		
To Provision for Bills Receivable	200		
To Net Profit transferred to Capital A/c.	8,300		
	9,750		9,750

(b) Calculation of Sports Materials to be Debited to Income & Expenditure Account

Particulars	Amount (₹)
Payment made for Sports Materials	91,000
Less: Creditors in the Beginning	-37,000
Add: Creditors at the end	<u>45,000</u>
	99,000
Add: Cash Purchases of Sports Materials	<u>40,000</u>
Total Purchase	1,39,000
Less: Sports Materials sold during the year (Book Value)	<u>-50,000</u>
	89,000
Add: Stock of Sports Materials in the beginning	50,000
Less: Stock of Sports Materials at the end	<u>-55,000</u>
Amount to be debited to Income & Expenditure A/c.	<u>84,000</u>
Amount to be credited to Income & Expenditure A/c.	
Profit on Sale of Sports Material	<u>6,000</u>

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3. From the following Trial Balance of Bharat Tushar as on 31st March, 2019, you are required to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date, after making the necessary adjustment as mentioned hereunder: 15

Particulars	Debit Balance (₹)	Credit Balance (₹)
Capital and Drawings	24,000	1,60,000
Furniture and Fixtures	8,000	—
Plant and Machinery	60,000	—
Patents (ten years from 01.04.2018)	40,000	—
Opening Stock	40,000	—
Purchases and Sales	1,70,000	2,64,000
Salaries	14,800	—
Wages	30,000	—
Sundry Debtors and Creditors	20,400	24,000
Land	28,350	—
Loan from Shyam (at 6% from 01.10.2018)	—	20,000
Postage and Fax	3,000	—
Rent, Rates and Taxes	7,200	—
Bad Debts	800	—
Discount	—	1,200
Carriage Inward	400	—
Interest on loan	300	—
Insurance	1,600	—
Travelling expenses	1,000	—
Sundry expenses	600	—
Cash and Bank	33,750	—
Bank Overdraft	—	15,000
Total	4,84,200	4,84,200

Adjustments:

- (a) Closing Stock is valued at ₹ 30,000.
- (b) A new machine was installed on 1st April, 2018 for ₹ 3,000. No entry in this respect was passed in the books. Wages of ₹ 1,000 paid for installing the machine were debited to Wages Account.
- (c) Of the Sundry Debtors, ₹ 200 are bad and are to be written off. You are required to maintain a Provision for Doubtful Debts @ 5% on Debtors and Provision for Discount on Debtors @ 2%.
- (d) Goods costing ₹ 2,000 were given away as free samples for publicity.
- (e) Depreciate Plant and Machinery at 20% per annum and Furniture and Fixture at 10% per annum.
- (f) On 01.04.2018 Machinery of the value of ₹ 10,000 was destroyed by fire and the insurance claim settled at ₹ 8,000 was credited to Machinery Account.
- (g) Goods for ₹ 1,200 were sent to a customer at a profit of 20% on cost on 30th March, 2018 on sale or return basis. This was recorded as actual sales.

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Answer

: 3.

**Trading and Profit and Loss
Account For the year ended 31st
March, 2019**

Dr.			Cr.		
Particulars			Particulars		
To Opening Stock		40,000	By Sales	2,64,000	
To Purchases	1,70,000		Less: Sent for approval.	1,200	2,62,800
Less: Free samples	2,000	1,68,000	By Closing stock	30,000	
To Carriage Inward		400	Add: Sent for approval	1,000	31,000
To Wages	30,000				
Less: Installation	1,000	29,000			
To Gross Profit c/d		56,400			
		2,93,800			2,93,800
To Rent, rates and taxes		7,200	By Gross profit b/d		56,400
To Salaries		14,800	By Discount received		1,200
To Postage and fax		3,000			
To Sundry expenses		600			
To Travelling expenses		1,000			
To Interest on loan	300				
Add: Accrued interest	300	600			
To Sales Promotion Exp.		2,000			
To Insurance		1,600			
To Loss of machinery by fire		2,000			
To Bad debts	800				
Add: Written off	200				
Add: Provision	950	1,950			
To Provision for Discount on debtors		361			
To Depreciation:					
Plant and machinery	12,400				
Furniture and fixtures	800				
Patents	4,000	17,200			
To Net Profit t/f to Capital a/c		5,289			
		57,600			57,600

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Balance Sheet as at 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account:			Land		28,350
Opening Balance	1,60,000		Plant and machinery	60,000	
Add: Net Profit	5,289		Add: Purchased	3,000	
Less: Drawings	24,000	1,41,289	Add: installation charges	1,000	
Loans from Shyam @6%	20,000		Less: Loss by fire	2,000	
Add: Accrued interest	300	20,300		62,000	
Sundry Creditors		24,000	Less: Depreciation	12,400	49,600
Creditor for machinery		3,000	Patents	40,000	
Bank Overdraft		15,000	Less: Depreciation	4,000	36,000
			Furniture & Fixtures	8,000	
			Less: Depreciation	800	7,200
			Closing Stock	30,000	
			Add: with Customers	1,000	31,000
			Debtors	20,400	
			Less: Sent on approval	1,200	
			Less: Bad debts w/o	200	
				19,000	
			Less: Provision doubtful debts @ 5%	950	
				18,050	
			Less: Provision for discount @ 2%	361	17,689
			Cash & bank		33,750
		2,03,589			2,03,589

4. The Balance Sheet of X and Y who shares profits and losses in the ratio of 3 : 2, at 31st March, 2019 was as follows:

Liabilities	\`	Assets	\`
Creditors	36,000	Cash at Bank	20,000
Workmen's Compensation Fund	24,000	Debtors	1,30,000
Employees' Provident Fund	20,000	Less: Provision	<u>10,000</u>
General Reserve	40,000	Stock	60,000
X's Capital	1,68,000	Investments	1,00,000
Y's Capital	1,12,000	Patents	20,000
		Goodwill	80,000
	4,00,000		4,00,000

They decided to admit Z on that date for 1/4th share on the following terms:

- (a) New Profit sharing ratio will be 6 : 9 : 5. Z is to bring in capital equal to 1/4th of the total capital of the new firm.
- (b) Goodwill of the firm is to be valued at 4 years' purchase of the average super profits of the last three years. Average profits of the last three years are ` 70,000,

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while the normal profits that can be earned with the capital employed are ` 30,000. No Goodwill is to appear in the books. Z brings in ` 24,000 cash out of his share of Goodwill.

- (c) Patents to be written down to ` 3,000 and Stock is undervalued by ` 2,000. 20% of General Reserve to be transferred to Provision for Doubtful Debts. ` 9,000 included in Sundry Creditors be written back as no longer payable.
- (d) Out of the amount of insurance which was debited entirely to P&L A/c, ` 10,000 be carried forward as an Unexpired Insurance. Unaccounted Accrued Income of ` 2,000 to be provided for. A debtor whose dues of ` 10,000 were written off as Bad Debts paid 80% in full settlement. A claim of ` 6,000 on account of workmen's compensation to be provided for.
- (e) The market value of investments was ` 90,000. Half of the investments were to be taken over by old partners in their old profit sharing ratio.

Prepare Revaluation Account, Capital Accounts of the Partners and the Balance Sheet of new firm. 15

Answer

: 4.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Patents	17,000	By Sundry Creditors	9,000
To Investments	10,000	By Prepaid Insurance	10,000
To Profit on Revaluation t/f to:		By Bad Debts Recovered	8,000
X's Capital A/c	2,400	By Stock	2,000
Y's Capital A/c	1,600	By Accrued Income	2,000
	31,000		31,000

Partners Capital Accounts

Dr.				Cr.			
Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Goodwill A/c	48,000	32,000	—	By Balance b/d	1,68,000	1,12,000	—
To Investments A/c	27,000	18,000	—	By General Reserve A/c	19,200	12,800	—
To X's Capital A/c	—	8,000	40,000	By Revaluation A/c	2,400	1,600	—
To Balance c/d	1,73,400	75,600	83,000	By Workmen's Com.	10,800	7,200	
				By, Bank A/c (Premium for Goodwill)	----	---	24,000
				By Z's Current A/c			16,000
				By Y's Capital A/c	8,000	—	—
				By, Z's Capital A/c	40,000		
				By Bank A/c	—	—	83,000
	2,48,400	1,33,600	1,23,000		2,48,400	1,33,600	1,23,000

Balance Sheet of New Firm as at 31st March, 2019

Dr.			Cr.	
	Liabilities	Amounts (₹)	Assets	Amounts (₹)
	Creditors	27,000	Cash at Bank	1,35,000
	Employees' Provident Fund	20,000	Debtors	1,30,000
	Workmen's Compensation Claim	6,000	Less: Provision	18,000
	X's Capital A/c	1,73,400	Stock	62,000
	Y's Capital A/c	75,600	Investments	45,000
	Z's Capital A/c	83,000	Patents	3,000
			Prepaid Insurance	10,000
			Accrued Income	2,000
			Z's Current A/c	16,000
		3,85,000		3,85,000

Working Notes:

- X's sacrifice = $\frac{3}{5} - \frac{6}{20} = \frac{6}{20}$, Y's gain = $\frac{2}{5} - \frac{9}{20} = \frac{1}{20}$
- Firm's Goodwill = Super Profits $\times 4 = (\text{₹ } 70,000 - \text{₹ } 30,000) \times 4 = \text{₹ } 1,60,000$
- Z's Share of Goodwill = $\text{₹ } 1,60,000 \times \frac{1}{4} = \text{₹ } 40,000$
- Y's Share of Goodwill = $\text{₹ } 1,60,000 \times \frac{1}{20} = \text{₹ } 8,000$
- Z's New Capital = $(\text{₹ } 1,73,400 + \text{₹ } 75,600) \times \frac{1}{3} = \text{₹ } 83,000$

Cash at Bank Account

Dr.			Cr.	
	Particulars	Amounts (₹)	Particulars	Amounts (₹)
	To Balance b/d	20,000	By Balance c/d	1,35,000
	To Z's Capital A/c	83,000		
	To Bad Debts Recovered	8,000		
	To Premium for Goodwill	24,000		
		1,35,000		1,35,000

5. (a) A firm has two departments-Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018:

	Sawmill (₹)	Furniture (₹)
Opening Stock on 1st January, 2018	1,50,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	—
Selling expenses	10,000	3,000
Wages	30,000	10,000
Closing Stock on 31st December, 2018	1,00,000	30,000

The value of stocks in the Furniture Department consist of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15% on sales

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in 2017. General expenses of the business as a whole came to ` 55,000. The firm adopts FIFO method for assigning costs to inventories.

- (b) On 02.06.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the record saved:

Stock at cost on 01.04.2018	1,35,000
Stock at 90% of cost on 31.03.2019	1,62,000
Purchases for the year ended 31.03.2019	6,45,000
Sales for the year ended 31.03.2019	9,00,000
Purchases from 01.04.2019 to 02.06.2019	2,25,000
Sales from 01.04.2019 to 02.06.2019	4,80,000

Sales up to 02.06.2019 includes ` 75,000 (invoice price) being the goods not dispatched to the customers.

Purchases up to 02.06.2019 includes a machinery acquired for ` 15,000.

Purchases up to 02.06.2019 does not include goods worth ` 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ` 1,20,000 and it is subject to average clause.

Ascertain the amount of claim for loss of stock.

7

Answer:

5. (a)

Departmental Trading and Profit and Loss Account

Dr.			Cr.		
Particulars	Sawmill (₹)	Furniture (₹)	Particulars	Sawmill (₹)	Furniture (₹)
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture department	1,50,000	
To Wages	30,000	10,000	By Closing stock	1,00,000	30,000
To Transfer from saw mill		1,50,000			
To Gross profit	<u>2,70,000</u>	<u>37,500</u>			
	<u>14,50,000</u>	<u>2,30,000</u>		<u>14,50,000</u>	<u>2,30,000</u>
To Selling expenses	10,000	3,000	By Gross profit	2,70,000	37,500
To Net Profit	<u>2,60,000</u>	<u>34,500</u>			
	<u>2,70,000</u>	<u>37,500</u>		<u>2,70,000</u>	<u>37,500</u>

General Profit & Loss Account

Dr.		Cr.	
Particulars	Amounts (₹)	Particulars	Amounts (₹)
To General Expenses	55,000	By Net Profit from	
To Stock reserve (WN – 2)	4,500	Saw Mill	2,60,000
To Net Profit	2,37,813	Furniture	34,500
		By Stock reserve (opening WN-1)	2,813
	2,97,313		2,97,313

Working Notes:

- Calculation of Stock Reserve (opening)
 $25,000 \times 75\% \text{ wood} \times 15\% = ₹ 2,813$
- Calculation of closing stock reserve
 Gross profit Rate of Saw Mill of 2018
 $2,70,000 / (12,00,000 + 1,50,000) \times 100 = 20\%$
 $30,000 \times 75\% \times 20\% = ₹ 4,500$

(b)

**In the Books of Mr. Black
Trading Account for the year ended 31.03.2019**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchase	6,45,000	By Closing Stock at Cost	1,80,000
To Gross Profit	3,00,000		
		$\frac{100}{90}$	
		$(1,62,000 \times \frac{100}{90})$	
	10,80,000		10,80,000

**Memorandum Trading Account
for the period from 01.04.2019 to 02.06.2019**

Dr.			Cr.		
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock (at cost)		1,80,000	By Sales	4,80,000	
To Purchase	2,25,000		Less: goods not dispatched	75,000	4,05,000
Add: Goods received but invoice not received	30,000		By Closing Stock (Balancing Figure)		1,50,000
	2,55,000				

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Less: Machinery	15,000	2,40,000			
To Gross Profit (Refer W.N.)		1,35,000			
		5,55,000			5,55,000

Calculation of Insurance Claim:

$$\text{Claim subject to average clause} = \left(\frac{\text{Actual Loss of Stock}}{\text{Value of Stock on the date of fire}} \times \text{Amount of policy} \right)$$

$$= 1,20,000 \times \left(\frac{1,50,000}{1,50,000} \right) = ₹ 1,20,000$$

Working Notes:

$$\text{G. P. Ratio} = \frac{3,00,000}{9,00,000} \times 100 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = ₹ 4,05,000 \times 33 \frac{1}{3} \% = ₹ 1,35,000$$

6. (a) Bharat Enterprise furnishes you the following information for the quarter January to March. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:

- (i) Total sales amounted to ₹ 2,20,000 including sale of old motor car for ₹ 10,000 (book value ₹ 5,000). Total credit sales were 80% higher than the cash sales.
- (ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ₹ 40,000 and credit sales for the period. Debtors were allowed discount of ₹ 10,000.
- (iii) Bills Receivables drawn during the period totaled ₹ 20,000 of which one bill of ₹ 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.
- (iv) A sum of ₹ 3,000 was written off as Bad Debts, ₹ 7,000 was realized against Bad Debts written off in earlier years and provision of ₹ 6,000 was made for doubtful debts.

5

(b) On 1st January, 2015, KC Limited obtained a piece of land on lease from Juggu Limited. The terms were as follows:

- (i) Royalty at ₹ 60 per tonne produced.
- (ii) Minimum Rent ₹ 3,00,000 per annum up to 31st December, 2016, and after that it will be ₹ 4,00,000 per annum.
- (iii) Short workings can be recouped in the next two years only but subject to a maximum of ₹ 60,000 per year.
- (iv) In the event of strike, the minimum rent would be taken pro-rata on the basis of actual working days but in the event of lockout, the lease would enjoy concession in respect of minimum rent for 50% of the period of lockout.

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In addition to the above, KC Limited has been granted a right to receive cash subsidy equal to 50% of the unrecoupable short workings by the Government of India up to the first five years of the lease.

The sales and closing stock up to 2018-19 were as follows:

	2014-15	2015-16	2016-17	2017-18	2018-19
Sales (in Tonnes)	600	3100	5550	4300	7400
Closing Stock (in Tonnes)	150	460	630	150	650

During the year 2017-18, a period of strike was for three months and during 2018-19, KC Limited was being locked out for 73 days.

Show the necessary Ledger Accounts in the books of KC Limited, when the books are closed on 31st March in every year. 10

Answer:

6. (a)

Debtors Ledger Adjustment Account in the General ledger

Dr.			Cr.		
Date	Particular		Date	Particulars	
Jan. 1	To Balance b/d	40,000	Jan - Mar	By General Ledger Adj. A/c:	
Jan - Mar	To General Ledger Adj A/c:			Collection from Debtors-bank [60% of (40,000 + 1,35,000)]	1,05,000
	Sales	1,35,000		Discount allowed	10,000
	Bills Receivables dishonoured	5,000		Bills Receivables	20,000
				Bad debts (` 2,500 + 3,000)	5,500
			31 st March	By Balance c/d	39,500
		1,80,000			1,80,000

Note: No entries are to be made:

(a) For ` 7,000 realised against bad debts written off in earlier years, and

(b) For provision of ` 6,000 made for doubtful debts.

Working Notes: Credit Sales = (2,20,000 – 10,000) - (2,10,000 x 100/280) = ` 1,35,000

(b)

Analytical Table

Year	Minimum Rent	Actual Royalty	S.W.(-) or E.W.(+)	S.W. Recouped	S.W. Transferred to P/L A/c	Subsidy	Actual Payment	Closing Bal. Of S.W.
2014-15	75,000	45,000	(-) 30,000	---	---	---	75,000	30,000
2015-16	3,00,000	2,04,600	(-) 95,400	---	---	---	3,00,000	1,25,400
2016-17	3,25,000	3,43,200	(+)18,200	18,200	5,900	5,900	3,25,000	95,400
2017-18	3,00,000	2,29,200	(-) 70,800	---	47,700	47,700	3,00,000	70,800

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2018-19	3,60,000	4,74,000	(+),1,14,000	60,000	---	---	4,14,000	10,800
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Working Notes:

(ii) Minimum Rent:

for 2014-15 = $3,00,000 \times 3/12 = ₹ 75,000$; for 2015 -16 = $3,00,000$;

for 2016-17= $(3,00,000 \times 9/12) + (4,00,000 \times 3/12) = ₹ 3,25,000$; for

2017-18 (Strike) = $4,00,000 \times 9/12 = ₹ 3,00,000$;

for 2018-19 (Lockout) = $4,00,000 - (4,00,000 \times 50\% \times 73/365)$

= $4,00,000 - 40,000 = ₹ 3,60,000$.

(ii)

Production and Actual Royalty:

	2014-15	2015-16	2016-17	2017-18	2018-19
Sales(in Tonnes)	600	3100	5550	4300	7400
Add: Closing Stock (tonnes)	150	460	630	150	650
	750	3560	6180	4450	8050
Less: Opening Stock(tonnes)	---	150	460	630	150
Production in tonnes	750	3410	5720	3820	7900
Actual Royalty (₹) @ `60	45,000	2,04,600	3,43,200	2,29,200	4,74,000

Ledger of KC Limited Royalty Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.15	To Juggu Limited	45,000	31.3.15	By Statement of P/L	45,000
31.3.16	To Juggu Limited	2,04,600	31.3.16	By Statement of P/L	2,04,600
31.3.17	To Juggu Limited	3,43,200	31.3.17	By Statement of P/L	3,43,200
31.3.18	To Juggu Limited	2,29,200	31.3.18	By Statement of P/L	2,29,200
31.3.19	To Juggu Limited	4,74,000	31.3.19	By Statement of P/L	4,74,000

Short-workings Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.15	To Juggu Limited	30,000	31.3.15	By Balance c/d	30,000
1.4.15	To Balance b/d	30,000	31.3.16	By Balance c/d	1,25,400
31.3.16	To Juggu Limited	95,400			
		1,25,400			1,25,400
1.4.16	To Balance b/d	1,25,400	31.3.17	By Juggu Limited	18,200
			31.3.17	By Bank A/c (Subsidy)	5,900
			31.3.17	By Statement of P/L	5,900

Suggested Answers Syl/2016 December 2019 Paper 5

			31.3.17	By Balance c/d	95,400
		1,25,400			1,25,400
1.4.17	To Balance b/d	95,400	31.3.18	By Bank A/c (Subsidy)	47,700
31.3.18	To Juggu Limited	70,800	31.3.18	By Statement of P/L	47,700
			31.3.18	By Balance c/d	70,800
		1,66,200			1,66,200
1.4.18	To Balance b/d	70,800	31.3.19	By Juggu Limited	60,000
			31.3.19	By Balance c/d	10,800
		70,800			70,800

Juggu Limited Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.15	To Bank A/c	75,000	31.3.15	By Royalty A/c	45,000
			31.3.15	By Short-workings A/c	30,000
		75,000			75,000
31.3.16	To Bank A/c	3,00,000	31.3.16	By Royalty A/c	2,04,600
			31.3.16	By Short-workings A/c	95,400
		3,00,000			3,00,000
31.3.17	To Short-workings A/c	18,200	31.3.17	By Royalty A/c	3,43,200
	To Bank A/c	3,25,000			
		3,43,200			3,43,200
31.3.18	To Bank A/c	3,00,000	31.3.18	By Royalty A/c	2,29,200
			31.3.18	By Short-workings A/c	70,800
		3,00,000			3,00,000
31.3.19	To Short-workings	60,000	31.3.19	By Royalty A/c	4,74,000
	To Bank A/c	4,14,000			
		4,74,000			4,74,000

7. (a) Briefly explain the objectives and applicability of Accounting Standard Construction Contracts (AS-7). Describe the basic principles of recognition of revenue and expenses as per AS-7.

8

(b) What do you mean by 'Customised Accounting Software'? Discuss its advantages. 7

Answer:

7. (a) Objective of AS-7 :

Accounting for long-term construction contracts involves question as to when revenue should be recognized and how to measure the revenue in the books of contractor. The primary objective of this AS is the allocation of 'contract revenue' and 'contract cost' to the accounting period in which construction work is performed.

Applicability of AS-7:

This Standard is applicable in accounting for construction contracts in contractor's financial statements. In other words the AS does not apply to customer (Contractee). This would not be applicable for the construction projects undertaken by the enterprise on its own account as a commercial venture in the nature of production activities.

Basic principles of recognition of revenue and expenses:

- Revenue recognized in the period in which work is performed;
- Expenses recognized in the period in which the work to which expenses relate is performed.

Conditions for recognizing the contract revenue:

- Following conditions must be fulfilled for recognizing the contract revenue:
 - (i) Total contract revenue can be measured reliably
 - (ii) It is probable that economic benefits associated with contract will flow to the enterprise / contractor
 - (iii) Total contract cost and cost upto the stage of completion is measured reliably
 - (iv) Contract cost attributable to contract can be clearly identified.

Uncertainty in collection amounts to expenses - When an uncertainty arises about the collectability of an amount already included in contract revenue and already recognized in profit and loss statement, it amounts to expense. This uncollectable amount of which recovery has ceased to be probable is recognized as an expense rather than as an adjustments to contract revenue.

(b) Customised Accounting Software:

A customised accounting software is one which is developed on the basis of specific requirements of the organisation. A feasibility study is first made before the decision to develop a software is made. The life cycle of a customized accounting software begins with the organisation providing the user requirements. Based on the these user requirement the system analyst prepares a requirement specification which is given for approval by the user management. Once the requirement specification is approved, the designing process begins. Development, testing and implementation are the other components of the system development life cycle.

Advantages of a Customised Accounting Package:

1. The functional areas which are not covered in pre-packaged software gets computerised.
2. The input screens can be tailor made to match the input documents for ease of data entry.
3. It provides many MIS reports as per the specification of the organisation.
4. It facilitates the use of Bar-code scanners as input devices suitable for the specific needs of an individual organisation.
5. It can suitably match with the organisational structure of the company.

8. Write short notes on any three of the following: 5×3=15
- (a) Users of Accounting information
 - (b) Objective and necessity for providing Depreciation
 - (c) Applicability of Section 37 of the Indian Partnership Act, 1932
 - (d) Difference between Sale and Consignment

Answer:

8. (a) **Users of Accounting Information**

Accounting provides information both to internal users and the external users. The internal users are all the organizational participants, at all levels of management (i.e. top, middle and lower). Generally top: level management requires information for planning, middle level management which requires information for controlling the operations. For internal use, the information is usually provided in the form of reports, for instance Cash Budget Reports, Production Reports, Idle Time Reports, Feedback Reports, whether to retain or replace an equipment decision reports, project appraisal report, and the like.

There are also the external users (e.g. Banks, Creditors). They do not have direct access to all the record 'of an enterprise, they have to rely on financial statements as the source of information. External users are basically, interested in the solvency and profitability of an enterprise.

(b) **Objective and Necessity for Providing Depreciation**

Eric Kohler defined depreciation as "the lost usefulness, expired utility, the diminution in service yield." Its measurement and charging are necessary for cost recovery. It is treated as a part of the expired cost for an asset. For determination of revenue, that part or cost should be matched against revenue. The objects or necessities of charging depreciation are:

- (i) **Correct calculation of cost of production:** Depreciation is an allocated cost of a fixed asset. It is to be calculated and charged correctly against the revenue of an accounting period. It must be correctly included within the cost of production.
- (ii) **Correct calculation of profits:** Costs incurred for earning revenues must be charged properly for correct calculation of profits. The consumed cost of assets (depreciation) has to be provided for correct matching of revenues with expenses.
- (iii) **Correct disclosure of fixed assets at reasonable value:** Unless depreciation is charged, the depreciable asset cannot be correctly valued and presented in the Balance Sheet. Depreciation is charged so that the Balance Sheet exhibits a true and fair view of the affairs of the business.
- (iv) **Provision of replacement cost:** Depreciation is a non-cash expense. But net profit, is calculated after charging it. Through annual' depreciation cash resources are saved and accumulated to provide replacement cost at the end of the useful life of an asset.
- (v) **Maintenance of capital:** A significant portion of capital has to be invested for

purchasing fixed assets. The values of such assets are gradually reduced due to their regular use and passage of time. Depreciation on the assets is treated as an expired cost and it is matched against revenue. It is charged against profits. If it is not charged the profits will remain inflated. This will cause capital erosion.

(vi) Compliance with technical and legal requirements: Depreciation has to be charged to comply with the relevant provisions of the Companies Act and Income Tax Act.

(c) Applicability of Section 37 of the Indian Partnership Act 1932:

In case of retirement, the retiring partner or in case of death, the executor of the deceased partner, if the dues are not settled, then such retired partner or the executor is entitled to the following:

Maximum of : Interest @ 6% p.a. on the amount due to them (i.e. if the amount is unsettled, like, rate of interest on loan to be allowed to the retired partner or the executor is not mentioned)

Or

The share of profit earned for the amount due to the partner

Conditions:

- (a) The surviving partners/continuing partners continue to carry on the business of the firm.
- (b) The business is carried on without any final settlement of accounts between the continuing partners and the outgoing partners or his estate.
- (c) There is no contract to the contrary of the options contained in Section 37 i.e. share in the profits or interest @ 6% p.a. on the unsettled capital.

(d) Difference between Sale and Consignment

- 1 In sale the property in goods is transferred to the buyer immediately whereas in consignment the property is transferred to the buyer only when goods are sold by the consignee. The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.
- 2 In sale, the risk attaching to the goods passes with ownership to the buyer. In case of a consignment, the risk attaching to the goods does not pass to the consignee who acts as a mere agent. If there is any damage or loss to the goods it is borne by the consignor provided the consignee has taken reasonable care of the goods and the damage or loss is not due to his negligence.
- 3 The relationship of consignor and consignee is that of a principal, and an agent as in a contract of agency whereas the relationship of buyer and seller is governed by the Sale of Goods Act.
- 4 Unsold goods on consignment are the property of the consignor and may be returned if not saleable in the market whereas goods sold on sale basis are normally not returnable unless there is some defect in them.

SUGGESTED ANSWERS TO QUESTIONS

INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

DECEMBER - 2021

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

Section : A MCQ

20X1=20 Marks

Q.1 In hire purchase System, cash price plus interest is known as_____

- Ans
1. Hire purchase charges.
 2. Capital value of asset.
 3. Hire purchase price of assets.
 4. Book value of asset

Q.2 Depreciation is calculated from the date of__.

- Ans
1. Assets put to use.
 2. Purchase of assets.
 3. Assets installed.
 4. Receipts of assets at business premises

Q.3 Debit balance in the cash book is equivalent to.

- Ans
1. Overdraft as per cash book.
 2. None of these.
 3. Credit balance as per Passbook.
 4. Overdraft as per passbook

Q.4 Main elements of the accounting equation are:

- Ans
1. Cash, stock and debtors.
 2. Bank balance, Investments and bills receivable.
 3. Assets, liabilities and capital.
 4. Capital, creditors and bills payable.

Q.5 A Bill of Exchange cannot be

- Ans
1. Endorsed.
 2. Crossed.
 3. None of these.
 4. Accepted.

Q.6 Spent amount on unsuccessful promotion policy is __

- Ans
1. Capital expenditure
 2. Expenses.
 3. Revenue expenditure
 4. Deferred revenue expenditure.

Q.7 Convention of Conservatism takes into account:

- Ans**
1. All future profits and not losses.
 2. Neither profits nor losses of the future.
 - ✓ 3. All future losses and not profits.
 4. All future profits and losses.

Q.8 Balance Sheet is prepared with the balances of which of the following?

- Ans**
1. All balances in the Ledger.
 2. Balances of real accounts.
 3. Balances of personal accounts.
 - ✓ 4. Balances of personal and real accounts.

Q.9 Which of these terms/concepts are not relevant to a joint venture?

- Ans**
1. Co venturers.
 2. Temporary partnership.
 - ✓ 3. Principal and agent relationship.
 4. Sharing profit and loss of joint ventures.

Q.10 Excess of minimum rent over royalty payable is known as___.

- Ans**
1. Minimum royalty payable.
 2. Deficiency of actual royalty.
 3. Excess working.
 - ✓ 4. Short working.

Q.11 Sold goods worth list price of rupees 8000 at 10% trade discount and 2% cash discount. 25% received at the time of transaction only. The amount posted to the discount account will be:

- Ans**
1. Rupees 144 on credit side.
 - ✓ 2. Rupees 36 on debit side
 3. Rupees 144 on debit side.
 4. Rupees 40 on credit side

Q.12 Revenue from ___s recognised as per AS-9

- Ans**
1. Construction contract.
 2. Lease agreement
 3. Insurance contract.
 - ✓ 4. Rendering the services.

Q.13 Bills payable honoured during the year, will be debited to.

- Ans**
1. None of these.
 2. Creditors account
 - ✓ 3. Bills payable account.
 4. Cash account

Q.14 Which of the following is not an essential feature of a partnership firm?

- Ans**
1. Mutual agency.
 2. Existence of business.
 3. Association of two or more people.
 - ✓ 4. Compulsory registration

Q.15 Sacrificing ratio is.

- Ans**
1. New Profit sharing ratio - old profit sharing ratio.
 2. Equal to old profit sharing ratio
 3. Equal
 - ✓ 4. Old profit sharing ratio - new profit sharing ratio.

Q.16 Which of the following statements is not correct?

- Ans**
1. Bad debts can be less than the amount of provision for doubtful debts.
 2. Bad debts can be more than the amount of provision for doubtful debts.
 - ✓ 3. Provision for doubtful debts account is the amount payable to debtors.
 4. Provision for doubtful debts is shown in the balance sheet.

Q.17 Errors are:

- Ans**
1. Frauds
 2. Undetected mistake.
 3. Intentional mistake.
 - ✓ 4. Unintentional mistake.

Q.18 Choose the correct statement.

- Ans**
1. Financial statements need not take into consideration any statutory requirement.
 2. Only credit transactions are recorded in books of accounts.
 3. Financial statements prepared by two different accountants will always show identical results.
 - ✓ 4. Financial accounts, of an enterprise, are treated as evidence in the Court of Law.

Q.19 Which of the following are not the advantages of pre packaged accounting software?

- Ans**
- ✓ 1. Report generated.
 2. Simple backup procedure.
 3. Easy to use.
 4. Easy to install.

Q.20 Which of these is/are one of the methods of stock taking?

- Ans**
1. Periodic inventory
 2. Perpetual inventory.
 - ✓ 3. Both.
 4. None

Q.1 State when the title of goods are transferred to the hirer.

Answer : Title of goods are transferred only when the agreed sum (Higher purchase price) is paid by the hirer)

Q.2 What is a depreciable cost?

Answer : Depreciable cost= cost of asset- Scrap value.

Q.3 „T“ Form presentation of financial statements is known as “Horizontal” form or „Vertical” form.

Answer : Horizontal form.

Q.4 Name the side on which increase in capital is recorded.

Answer : Credit side

Q.5 Under which accounting concept provision is made for doubtful debts.

Answer : Prudent concept.

Q.6 Define ground rent.

Answer : Fixed rent payable in addition to minimum rent.

Q.7 In the single entry system, which two methods are used to ascertain profit or loss?

**Answer : I) Statement of affairs method.
II) Conversion method.**

Q.8 Why is the capital of the owner shown on the liability side of the balancesheet?

Answer : Due to separate entity concept.

Q.9 Define branch as per section 2(14) of the Companies Act 2013.

Answer : Any establishment described as a branch by the company.

Q.10 X and Y were Partners sharing profit/losses as 3:2. They admit Z as a new partner, giving him 1/5th share of future profits. What should be the new profit sharing ratio?

Answer : 12:8:5

Q.11 Decline in the value of coal mines due to extraction is termed as _

Answer : Depletion

Q.12 X draws a bill on Y. Y accepts the same. Can Y endorse the bill to Z?

Answer : No, Y cannot endorse the bill to Z because Y is drawee only. X, the drawer can do so.

Q.13 What is a biological asset as per (AS-10)

Answer : Biological assets is a living animal or plant.

Q.14 What type of account is a revaluation account?

Answer : Nominal account.

Q.15 What is the traditional function of accounting?

Answer : Recording of financial transactions.

Q.16 Under loss of profit insurance, what is meant by gross profit?

Answer : Gross profit means net profit plus insured standing charges.

Q.17 Should a transaction be first recorded in a journal or Ledger. Why?

Answer : Transactions are first recorded in a journal because it is a book of original entry.

Q.18 On which basis of accounting outstanding expenses are not recorded?

Answer : Cash basis of accounting.

Q.19 Name the error committed by violating the rules of accounting.

Answer : Error of principle.

Q.20 Define merchandise.

Answer : Merchandise means goods for resale.

- Q.1 Which transactions will:** (4 Marks)
- Decrease the assets and decrease the capital.
 - Increase the assets and increase the liabilities.
 - Increase the assets and decrease another asset.
 - Decrease the assets and decrease the liabilities.

Answer :

- Drawing or expenses.
- Purchase of an asset on credit.
- Purchase or sale of an asset in cash.
- Payment of liability.

- Q.2 When you proceed to reconcile the bank account starting with „credit“ cash book Balance, how is the following dealt with and why?** (4 Marks)
- Cheque issued but not presented for payment.
 - Cheque deposited but not yet credited.
 - Bank charges charged by the bank not recorded in the cash book.
 - Interest allowed by the bank is not recorded in the cash book

Answer :

- Cheques issued but not yet presented for payment are deducted because the bank shows lower overdrawn balance.
- Cheques deposited but not cleared are added because the bank shows a higher overdrawn balance.
- Bank charges are added because the bank shows a higher overdrawn balance.
- Interest allowed is deducted because the bank shows lower overdrawn balance.

- Q.3 What journal entry will be passed in the books of a drawer and drawee at the time of dishonour of Bill of exchange in the following cases?** (4 Marks)
- If Bill of Rupees 10,000 was discounted from the bank and the noting charges paid by the bank was rupees 100.
 - If B/R of Rupees 10,000 was endorsed in favour of C. Noting charges paid by C Rupees 100.
 - If B/R is retained with a drawer and noting charges was Rupees 100

Answer :

Date	Particulars	In the books drawer.	
		DR Rs.	CR Rs.
i)	Drawee A/c DR To bank A/c (Bill dishonoured and noting charges paid by bank)	10100	10100
ii)	Drawee A/c DR To C A/c (Bill dishonoured and noting charges paid by C)	10100	10100
iii)	Drawee A/c DR To B/R A/c To cash A/c (Bill dishonoured and noting charges paid)	10100	10000 100
	In the books of drawee In case of (i), (ii) and (iii) B/P A/c DR Noting charges A/c DR To drawer (Bill dishonoured and noting charges payable)	10000 100	10100

Q.1 Calculate

(4 Marks)

i) Gross profit, ii) Cost of goods sold and iii) Closing stock from the following particulars.

Opening stock. Rs.20,000

Cash sales Rs.60,000

Credit sales Rs.40,000

Purchase Rs.70,000

Rate of gross profit on cost. $33\frac{1}{3}\%$

Answer: **Gross Profit = Rs. 25,000**
 Cost of Goods sold = Rs. 75,000
 Closing Stock = Rs. 15,000

Q.2 From the following particulars calculate operating profit.

(2 Marks)

Net profit. Rs.1,00,000

Rent received. Rs.10,000

Gain on the sale of machines. Rs.15,000

Interest on loan paid. Rs.18,000 Donation
 paid. Rs.4000

Answer:
 Operating Profit = Rs. 97,000

Q.3 The partners of a firm distributed the profits for the year ended 31/3/2021. Rs.90,000 in the ratio of 3:2:1 without providing for the following adjustments.

(6 Marks)

- i) A and B were entitled to a salary of Rs.1500 each per annum.
 - ii) B was entitled to a Commission of Rs.4500.
 - iii) B&C had guaranteed a minimum profit of rupees 35,000 P.a to A.
 - iv) Profits were to be shared in the ratio of 3:3:2
- Pass the necessary journal entries for the above adjustments in the Books of the Firm.

Answer**Journal Entry**

	Dr	Cr
A's Capital a/c Dr	Rs.8,500	
To B's Capital a/c		Rs. 4,500
To C's Capital a/c		Rs. 4,000
(being adjustments made for omissions)		

Q.1 A acquired on 1st January 2020 a machine under hire purchase agreement, which provides for 5 half yearly instalments of rupees 6000 each. The first instalment is due on 1st July 2020. Assuming that the applicable rate of interest is 10% per annum, Calculate the cash price of the machine. All working should form part of the answer.

(6 Marks)

Answer:

Cash Purchase price of Machine – Rs. 25,977

Q.2 A fire engulfed the premises of a business of M/s Pritam on the morning of 1st July, 2020. The building, equipment and stock were destroyed and the salvage recorded the following:

(6 Marks)

Building: Rs 4000.

Equipment: Rs 2500.

Stock: Rs.20,000

The following other information was obtained from the records saved from the period from 1st January to 30th June 2020.

Sales Rs 11,50,000

Sales returns. Rs 40,000

Purchases Rs 9,50,000

Purchases returns Rs 12,500

Cartage inward Rs 17,500

Wages Rs 7,500

Stock in hand on 31st December 2019. Rs 1,50,000

Building valued on 31st December 2019. Rs 3,75,000

Equipment valued on 31st December 2019. Rs 75,000

Depreciation provided till 31st December 2019 on:

→ Building Rs 1,25,000

→ Equipment Rs.22,500

No depreciation has been provided after December 31st, 2019. The latest rate of depreciation is 5% P.a on building and 15% P.a on equipment by straight line method. Normally business makes a profit of 25% on net sales.

You are required to compute as on 30-6-2020

- i) Amount of gross profit.
- ii) Amount of closing stock.
- iii) Amount of stock destroyed by fire.
- iv) Statement of claim.
 - a) Stock b) Building c) Equipment.

Answer:

Gross Profit – Rs. 2,77,500

Closing Stock – Rs. 2,80,000

Stock destroyed by Fire - Rs. 2,80,000

Statement of claim

Stock - Rs. 2,60,000

Building - Rs. 2,36,625

Equipments - Rs. 44,375 = Rs. 5,41,000

Q.1 Ruma Ltd purchased a plant on 1st April 2015 for rupees 240,000. It bought another plant on 1st July 2016 for rupees 160,000. On 1st January 2018 Plant bought on 1st April 2015 was sold for Rupees 160,000 and a fresh plant was purchased on the same date. Payment of this plant will be made as under.

(6 Marks)

1st January 2018 rupees 40,000.

1st January 2019 rupees 48,000.

1st January 2020 rupees 44,000.

Payments made in 2019 and 2020 include interest of rupees 8000 and Rupees 4000, respectively. Depreciation is charged at 10% P.a on the diminishing balance method.

From the above particulars, Find out.

i) Cost of plant bought on January 1st, 2018.

ii) Loss on sale of plants.

iii) Closing balance of plant 2 and plant 3 as on 31-3-2018

Answer:

(i)	Cost of Plant-	Rs. 1,20,000
(ii)	Loss on sale of Plant-	Rs. 19,820
(iii)	Closing balance of Plant:	
	Plant 2-	Rs. 1,33,200
	Plant 3-	Rs. 1,17,000

Q.2

X Ltd has three department, A,B and C. From the particulars given below compute:

(6 Marks)

i) The values of stock as on 31st December 2020, and

ii) The departmental result showing the actual amount of gross profit.

	A Rs.	B Rs.	C Rs.
Stock(on 1.1.2020)	24,000.	36,000.	12,000.
Purchases	1,46,000	1,24,000	48,000
Actual sales.	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	33 $\frac{1}{3}$ %

During the year ended 31st December 2020, certain items were sold at discount, and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A Rs.	B Rs.	C Rs.
Sales at normal price.	10,000.	3,000	1,000
Sales at actual price.	7,500	2,400	600

Answer:

Calculation of Departmental Result		Deptt. A	B	C
Gross Profit	Rs.	32,500	39,400	24,600
Value of Stock (31/12/2020)	Rs.	2,500	600	400

Q.1 Why is goodwill considered an „Intangible asset“ but not a „fictitious asset“ ?

(2 Marks)

Answer:

Goodwill cannot be seen or touched. It can only be felt. Hence it is treated an intangible asset. But it is not a fictitious asset because fictitious do not have a value. Whereas Goodwill has value and it can be purchased or sold with any other asset.

Q.2 X&Y are partners. They decided to dissolve their firm. Pass necessary entries assuming that various assets and external liabilities have been transferred to the Realisation account.

(5 Marks)

- i) X's loan(partner) was appearing on the liability side of the balance sheet at rupees 30,000. He accepted an unrecorded asset of rupees 50,000 in full settlement of his account.
- ii) Runa, a creditor, to whom rupees 30,000 were due to be paid, accepted an unrecorded computer of rupees 20,000 at a discount of 10%, and the balance was paid to him in cash.
- iii) Suman, an unrecorded creditor of rupees 45,000, accepted an unrecorded motorcar of rupees 30,000 at 35,000, and the balance was paid to him in cash.
- iv) There was a contingent liability in respect of bills discounted but not matured rupees 30,000.
- v) Furniture of rupees 15,000 and goodwill of rupees 20,000 were appearing in the balance sheet but no other information was provided regarding these two items.

Answer:

- i) Debit X's loan account and credit realisation account by rupees 30,000
- ii) Debit realisation account and credit bank account by rupees 12,000
- iii) Debit realisation account and credit bank account by rupees 10,000
- iv) No entry.
- v) No entry.

Q.3 State your views in line with provision of AS-1 and give reasons for your answer in respect of the following:

(5 Marks)

- i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
- iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
- iv) Any change in accounting policy which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
- v) There is no single list of accounting policies which are applicable to all circumstances.

Answer:

- i) False, As per AS1 "disclosure of accounting policies", Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- ii) False, As per AS1 if the fundamental accounting assumptions, VIZ going concern, consistency and accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- iii) True, to ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of a financial statement and they should be disclosed at one place.
- iv) False, Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- v) True, As per AS1, There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

Q.1 Write short notes on Source documents

(3 Marks)

Answer:

Source documents:

Vouchers are the documentary evidence of the transactions so happened. Source documents at the basis on which transactions are recorded in subsidiary books, i.e source documents are the evidence and proof of transactions.

Q.2 Write short notes on Error of principle.

(3 Marks)

Answer:

Error of principle: Entering revenue expenses as capital expense or vice versa or entering revenue receipt as capital receipt or vice versa.

Q.3 Write short notes on Overriding Commission.

(3 Marks)

Answer:

Overriding Commission: it is an extra commission allowed over and above, the normal Commission is generally offered for the following reasons:

- i) When, the agent is required to put in hard work in introducing a new product in the market.
- ii) Where he is entrusted with the work of supervising the performance of other agents in a particular area.
- iii) For effecting sales at prices higher than the price fixed by the consignor.

Q.4 Write short notes on Transfer entries in the context of self balancing Ledger.

(3 Marks)

Answer:

Transfer entries: Sometimes a person may be treated both as debtor as well as a creditor to the firm. Under the circumstances, the lower of the amount payable to and receivable from such person is to be set off. The so called set off amount is to be deducted both from the debtors as well as from the creditors. This is known as transfer entry.

Q.5 Write short notes on Components of computer systems.

(3 Marks)

Answer:

Components of computer system: A computer system is made up of a number of electronic components. These components are known as hardware. The names of the components are as follows:

- i) Keyboard.
- ii) Monitor.
- iii) CPU.
- iv) Magnetic recorder

Keyboard and monitor put together are known as terminals.

Section D - Case Study Question

Q.1 Alpana enterprises maintain their books of accounts under a single entry system. The balance sheet on 31st March 2018 was as follows. 1+2+2+1+4+1+1=12 Marks

Liabilities.	Amount.(Rs)	Assets.	Amount (Rs)
Capital A/c.	6,75,000.	Furniture's and fixtures.	1,50,000
Trade creditors.	7,57,500.	Stock.	9,15,000
Outstanding expenses.	67,500.	Trade debtors.	3,12,000
		Prepaid insurance.	3,000
		Cash in hand and at the bank.	1,20,000
	=15,00,000		=15,00,000

The following was a summary of cash and bank book for the year ended 31st March 2019:

Receipts.	Amount (Rs)	Payment.	Amount (Rs)
Cash in hand and at the bank on 1st April 2018.	1,20,000	Payment to trade creditors.	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid.	9,31,050
Received from trade debtors.	27,75,000	Drawings.	3,60,000
	=1,39,65,000	Cash in hand and at the bank on 31st March 2019.	1,90,950
			=1,39,65,000

Additional information:

- a) Discount allowed to trade debtors and received from trade creditors amounted to rupees 54,000 and rupees 42,500, respectively (For the years ended 31st March 2019.)
- b) Annual fire insurance premium of Rupees 9000 was paid every year on 1st August for the renewal of the policy.
- c) Furniture and fixtures were subject to depreciation @15% P.a on diminishing balance method.
- d) The following are the balances as on 31st March 2019.
 Stock: Rs.9,75,000
 Trade Debtors: Rs.3,43,000
 Outstanding expenses. Rs.55,200
- e) Gross profit ratio of 10 % on sales is maintained throughout the year.

From the above particulars, find out:

- i) Amount of credit sales.
- ii) Amount of credit purchase.
- iii) Amount of closing balance of creditors as on 31-3-19
- iv) Amount of gross profit for the year ended 31-3-19
- v) Amount of Sundry expenses to be charged to the profit and loss account for the year ended 31-3-19.
- vi) Amount of net profit for the year ended 31-3-19.
- vii) Amount of closing capital as on 31-03-19.

Answer:

i) Credit Sale	-	Rs. 28,60,000
ii) Credit Purchase	-	Rs. 1,25,97,000
iii) Closing balance of Creditors	-	Rs. 8,29,000
iv) Gross Profit	-	Rs. 13,93,000
v) Sundry Expenses	-	Rs. 9,18,750
vi) Net Profit	-	Rs. 4,40,250
vii) Closing Capital (31-3-19)	-	Rs. 755,250

INTERMEDIATE EXAMINATION

December 2022

P-5(FAC)
Syllabus 2016

Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Both the sections are to be answered subject to instructions given against each.

[All workings must form part of your answer.]

Wherever necessary, Suitable assumptions may be made and clearly indicated in answer by the candidate.

Section-A

1. Answer the following questions:

- (a) Choose the most appropriate one from the given following alternatives: $1 \times 10 = 10$
- (i) Select the correct statement:
- (A) Keeping systematic recording of business transaction is not the function of Financial Accounting.
 - (B) Accounting is concerned with monetary transactions.
 - (C) Accounting is concerned with past as well as future events.
 - (D) Business and Businessmen are the same identity from accounting point of view.
- (ii) Going concern concept is not followed
- (A) by Bank
 - (B) by Cooperative Societies
 - (C) Joint Venture Accounting
 - (D) Depreciation Accounting
- (iii) Rectification of which type of errors requires opening of Suspense Account
- (A) Errors of Principle
 - (B) Complete Omission
 - (C) Partial Omission
 - (D) Errors of Commission
- (iv) A buyer returning goods on the ground of poor quality sent a note along with the goods stating that no payment would be made in respect of goods returned, the return note is called
- (A) Debit note
 - (B) Credit note
 - (C) Refund note
 - (D) Return note

- (v) Which of these expenses is/are not included in valuation of abnormal loss?
- (A) Godown Rent
 - (B) Freight and Insurance incurred by Consignor
 - (C) Transit Insurance incurred by Consignee
 - (D) Loading and Unloading expenses incurred by Consignor
- (vi) Goods sold by other co-venturer is debited to
- (A) Joint Venture Account
 - (B) Other Co-venturer's Personal Account
 - (C) Joint Bank Account
 - (D) None of the above
- (vii) Sale is recognised as revenue
- (A) when the contract for sale is entered into.
 - (B) at the point of sale or performance of service.
 - (C) after the expiry of credit period allowed to Debtors.
 - (D) after the money collected from the customers.

A and B are partners sharing profits and losses in the ratio of 3 : 2. They admitted C with effect from 1st April, 2021. New profit sharing ratio is agreed at 4 : 3 : 3. An extract of their Balance Sheet as at 31st March, 2021 is as follows:

Liabilities	₹	Assets	₹
Workmen Compensation Reserve	90,000		

Based on the above information you are required to answer the following questions:

- (viii) If there is no other information in respect of Workmen Compensation Reserve:
- (A) Cr. A's Capital A/c with ₹ 60,000 and B's Capital A/c with ₹ 30,000.
 - (B) Cr. A's Capital A/c with ₹ 54,000 and B's Capital A/c with ₹ 36,000.
 - (C) Dr. A's Capital A/c with ₹ 54,000 and B's Capital A/c with ₹ 36,000.
 - (D) Cr. A's Capital A/c with ₹ 36,000 and B's Capital A/c with ₹ 27,000 and C's Capital A/c with ₹ 27,000.
- (ix) If a claim for Workmen Compensation is estimated at ₹ 60,000 :
- (A) Cr. A's Capital A/c with ₹ 20,000 and B's Capital A/c with ₹ 10,000.
 - (B) Dr. A's Capital A/c with ₹ 18,000 and B's Capital A/c with ₹ 12,000.
 - (C) Cr. A's Capital A/c with ₹ 18,000 and B's Capital A/c with ₹ 12,000.
 - (D) Cr. A's Capital A/c with ₹ 12,000 and B's Capital A/c with ₹ 9,000 and C's Capital A/c with ₹ 9,000.

- (x) If a claim for Workmen Compensation is estimated at ₹ 1,50,000 :
- (A) Dr. C's Capital with ₹ 60,000
- (B) Dr. C's Capital A/c with ₹ 18,000
- (C) Dr. Workmen Compensation Reserve A/c with ₹ 90,000 and Revaluation A/c with ₹ 60,000
- (D) Dr. Revaluation A/c with ₹ 60,000

- (b) Match the following in Column-A with appropriate in Column-B: 1×5=5

Column A		Column B	
(i)	Application Softwares	(A)	is not an Operating Software.
(ii)	MS Word	(B)	cannot operate without Operating Software.
(iii)	Printer	(C)	is not an input device.
(iv)	Monitor	(D)	transaction to be entered once.
(v)	Accounting Software requires	(E)	is an output device.

- (c) Fill in the blanks: 1×5=5

- (i) Sale of goods to Rana for cash is debited to _____.
- (ii) A Bill of ₹ 10,000 is renewed. The drawee pays ₹ 3,000 as part payment. The amount of interest charged is ₹ 200. The value of new bill is ₹ _____.
- (iii) Net sales for the year ended 31st March, 2022 is ₹ 9,00,000. If Gross Profit is 25% on cost, Cost of Goods sold will be ₹ _____.
- (iv) Opening Capital is ₹ 1,50,000, Closing Capital ₹ 2,75,000. Drawing ₹ 25,000, Further Capital introduced ₹ 45,000. Gross Profit is ₹ _____.
- (v) Accounting information system processes the data and transforms it into _____.

- (d) State whether the following statements are True or False: 1×5=5

- (i) Debit means an increase in Liability.
- (ii) Cash Memo is a source voucher for purchaser of goods on Credit.
- (iii) Balance of Petty Cash is an expense.
- (iv) Provision for doubtful debts is debited to the Bad Debts Account.
- (v) Capital Receipts and Revenue Receipts need not to be distinguished to determine net profit.

Section-B

Answer any five questions from the remaining seven questions.

Each question carries 15 marks.

15×5=75

2. From the following particulars relating to Pune Branch for the year ending December 31, 2018, prepare Branch Account in the books of Head Office: 15

		₹
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on December 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Goods sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the Branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to Branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Annual Insurance up to March 31, 2019	<u>600</u>	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31, 2018		5,000
Petty Cash spent by Branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.

3. Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

Balances	31.03.2018	31.03.2019
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%	1,60,000	1,00,000
Bank	25,000	?

Other Information	In ₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

- (i) On 01.10.18 they sold machine having Book Value ₹ 40,000 (as on 31.03.2018) at a loss of ₹ 15,000. New machine was purchased on 01.01.2019.

- (ii) Office equipment was sold at its Book Value on 01.04.2018.
(iii) Loan was partly repaid on 31.03.19 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019. 15

4. P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2019 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	1,90,000
P	1,50,000	Stock	1,30,000
Q	1,50,000	Investments	50,000
R	—	Debtors	70,000
S	60,000	Cash	30,000
General reserve	40,000	R	40,000
Trade creditors	80,000		
Bills payable	30,000		
	<u>5,10,000</u>		<u>5,10,000</u>

Following information is given to you:

- (i) A cheque for ₹7,000 received from debtor was not recorded in the books and was misappropriated by R.
(ii) Investments costing ₹8,000 were sold by R at ₹11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.
(iii) A creditor agreed to take over investments of the book value of ₹9,000 at ₹13,000. The rest of the creditors were paid off at a discount of 5%.
(iv) The other assets realized as follows:
 Building 110% of book value
 Stock ₹1,20,000
 Investments The rest of investments were sold at a profit of ₹7,000
 Debtors The rest of the debtors were realized at a discount of 10%
(v) The bills payable were settled at a discount of ₹500.
(vi) The expenses of dissolution amounted to ₹8,000.
(vii) It was found out that realization from R's private assets would only be ₹7,000.

Prepare Realization Account, Cash Account and Partner's Capital Accounts. All workings should part of your answer. 15

5. (a) State your views with reasons whether the following statements are in line with the provisions of AS-1.
- Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
 - If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
 - All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
 - Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
 - There is no single list of accounting policies which are applicable to all circumstances.
- (b) (i) Entity A carried plant and machinery in its books at ₹2,00,000 which were destroyed in a fire. These machines were insured 'New for Old' and were replaced by the insurance company with new machines of fair value ₹20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same.
- (ii) Omega Ltd, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether Omega Ltd. can capitalize the remodelling cost or not as per provisions of AS-10 'Property Plant & Equipment' . 10+(2+3)=15

6. The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2021:

Income and Expenditure Account for the year ended 31st March, 2021

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2020	31-3-2021
	₹	₹
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding Expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sport Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is ₹7,000. Entrance fees capitalized ₹4,000. On 1st April, 2020, there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2021, Cash in hand amounted to ₹850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2021. 15

7. (a) A acquired on 1st January, 2021 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹6,000 each, the first instalment being due on 1st July, 2021. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

(b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹4,00,000. As on 31st March, 2021 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'. Show the treatment of machine in the books of ABC Ltd.

10+5=15

8. Write short notes on any three:

5×3=15

- (a) Advantages of Double Entry System.
- (b) The main objective of Depreciation Policy.
- (c) Distinguish between Hire-Purchase and Instalment Purchase.
- (d) Features of a Bill of Exchange.

SUGGESTED ANSWERS TO QUESTIONS

Section – A

Answer to Question No. 1(a)

1X10=10

- (i) – (B)
- (ii) – (C)
- (iii) – (C)
- (iv) – (A)
- (v) – (A)
- (vi) – (B)
- (vii) – (B)
- (viii) – (B)
- (ix) – (C)
- (x) – (C)

Answer to Question No. 1(b)

1X5=5

- (i) – (B)
- (ii) – (A)
- (iii) – (E)
- (iv) – (C)
- (v) – (D)

Answer to Question No. 1(c)

1X5=5

- (i) Cash
- (ii) Rs. 7,200
- (iii) Rs. 7,20,000
- (iv) Rs. 1,05,000
- (v) Information

Answer to Question No. 1(d)

1X5=5

- (i) False
- (ii) False
- (iii) False
- (iv) False
- (v) False

Section-B

[Answer any FIVE from Question No. 2 to 8]

(15X5=75 Marks)

Answer to Question No. 2

15 Marks

Pune Branch Account Total - Rs. 1,81,600

Answer to Question No. 3

15 Marks

Trading Account Total- Rs. 13,15,000 (Gross Profit Rs. 2,50,000)

Profit and Loss Account Total of Rs. 2,54,500 (Net Profit after tax Rs. 64,800)

Balance sheet Total- Rs. 11,80,800

Answer to Question No. 4

15 Marks

Realization Account Total- Rs. 5,53,700

Cash Account Total- Rs. 4,62,700

Partner"s Capital Accounts Total-

P- Rs. 1,67,516

Q- Rs. 1,67,516

R- Rs. 58,000

S- Rs. 65,840

Answer to Question No. 5(a)

10 Marks

- (i) False; As per AS 1 „Disclosure of Accounting Policies”, certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed at one place.
- (iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

Answer to Question No. 5(b)**2+3=5 Marks**

- (i) Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer.
- (ii) The expenditure in remodeling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodeling can be measured reliably, therefore, it should be capitalized in line with AS 10.

Answer to Question No. 6**15 Marks**

Receipts and Payments Account Total - Rs. 80,550

Answer to Question No. 7(a)**10 Marks**

Cash Value of the Machine- Rs. 25,977

Answer to Question No. 7(b)**5 Marks**

ABC Ltd. should charge the amount of Rs. 4,00,000 to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2021.

Write short notes on any three

(5X3=15 marks)

Answer to Question No. 8(a)**5 Marks**

- It helps the trade know about his debtors and creditors from to time
- It helps the trader to prepare the final accounts to reflect the true trading results at the end of period
- It provides a Balance Sheet on a particular date to know the true value of assets, liabilities and capital
- It helps the trader who can have a comparative study of working results and financial position over a number of years
- It helps to find out and prevent errors and frauds
- It provides ready-made information to be sent to Sales tax and Income Tax Authorities
- It provides good guidance on which management take new decisions to increase the profit and correct losses into profit

Answer to Question No. 8(b)**5 Marks**

The main objectives of depreciation policy are given below.

- Description is the allocation of the cost of the asset over its effective life and being „tax shield“ is deductible expense while calculating taxable income of the concern. Diminishing balance method of calculating depreciation results in greater tax saving in a balanced firm is compared to straight line method.

- To keep intact the capital invested in depreciable assets and to make provision for the replacement, modernization and expansion on most favourable terms. It is process of allocation and helps the management to retain this amount of profit in business for replacing asset. Otherwise this profit would have gone to the Government in the form of tax.
- To match the cost with revenue, depreciation is necessary to measure the cost incurred during a given period. Thus, know correct net income and financial condition for external reporting.
- Depreciation helps to measure managerial performance. But, charging it on historical cost or replacement cost basis is again a controversial issue and will affect the managerial decisions to be taken by the top management. Differences in costs because of charge of depreciation under different methods, tend to mislead management in selecting their operational alternative for more profitable for the firm as a whole.
- Withdraw of asset before the end of its useful life is not up to standard to cope with the increasing competition in the market but due to the external factor of technological improvements in the existing asset is referred to obsolescence. In such atmosphere the asset is depreciated quickly otherwise profit and loss account will be over burdened with the amount of loss on account of obsolescence in the year in which the asset obsoletes.
- Serving consistently to follow a particular method of depreciation otherwise would make the financial statements unreliable to the stakeholders. It means convention of consistency.
- Depreciation makes to retain funds for replacement asset at the end of its working life
- Apportioning total cost of the asset over its useful life is achieved by charging depreciation; and investing such amount of depreciation the public may not misled and correct investment decision may be made.

Answer to Question No. 8(c)

5 Marks

Distinguish between Hire Purchase and Instalment Purchase

Factor	Hire Purchase System	Installment Purchase System
Transfer of Ownership	Ownership in the goods sold passes to the buyer only on payment of the last installment	Ownership in the goods passes to the buyer immediately at the time of sale
Recovery of Goods	If the buyer fails to pay any installment, the seller can recover the goods back from buyer	The seller cannot recover the goods but he can sue for recovery of price and damages
Forfeiture of installments paid	If the buyer default in payment, the seller can forfeit money paid by the buyer so far	Money paid by the buyer will be taken as a payment towards part of selling price and the seller can sue only for the balance
Accounting Entries	In the books of purchaser, vendor is debited with full purchase price once contract signed. Amount due, if any, is shown separately as a liability of the purchaser and not a deduction from the asset	In the books of vendor, the purchaser is credited with full price. Purchased goods become property of the buyer and shown in his Balance Sheet at cost less depreciation

Answer to Question No. 8(d)

5 Marks

As per Section 5 of the Negotiable Instruments Act, a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person, to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument. The essential of bill of exchange are as:

- There are three parties the “Maker” is termed as the „Drawer” in Bill of Exchange. He is the creditor. The person liable to pay the money is called the „Drawee”. The person entitled to get the money is termed as the „Payee”. It should be noted that drawer himself can also be the payee. It must be drawn on a specific person
- The bill drawer being the creditor, orders the drawee to pay a certain of sum money.
- A Time Bill of Exchange can be made payable to the bearer.
- It is an instrument in writing and unconditional
- It must be in writing, dated, stamped and signed by Drawer
- It must be payable in demand or after a definite period of time, and for a certain amount of money

CMA HUSTLERS

INTERMEDIATE EXAMINATION

June 2023

P-6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
Where considered necessary, suitable assumptions may be made and
clearly indicated in the answer.*

Answer Question No. 1 and any five from Question Nos. 2, 3, 4, 5, 6, 7 and 8.

Section-A

1. (a) Choose the correct alternative.

1×12=12

- (i) Which of the following is not a qualitative characteristics of accounting information?
- (A) Reliability
 - (B) Materiality
 - (C) Comparability
 - (D) Understandability
- (ii) IND-AS are
- (A) rule based accounting standard.
 - (B) principle based accounting standard.
 - (C) partially rule based and partially principle based accounting standard.
 - (D) None of the above
- (iii) An increase in which of the following Account will be recorded on the debit side?
- (A) Rent Received Account
 - (B) Building Account
 - (C) Bills Payable Account
 - (D) Capital Account
- (iv) Trade Discount allowed is deducted from the gross sales. Sale is recorded in the Books of Account at
- (A) gross sales and trade discount separately
 - (B) net sales invoice
 - (C) None of the above
 - (D) Any of (A) or (B)

- (v) Rebate is calculated for the period between date of
- (A) payment and maturity date.
 - (B) drawing and payment of bill.
 - (C) drawing and maturity date
 - (D) None of the above
- (vi) Which of the following is not an error of Principle?
- (A) purchase of machinery debited to purchase Account
 - (B) sale of old furniture credited to Sales Account
 - (C) repairs on the overhauling of existing machinery debited to Machinery Account.
 - (D) cash received from Rana posted to Jana.
- (vii) Income tax paid by a sole trader is shown
- (A) on the debit side of the Trading Account.
 - (B) on the debit side of Profit & Loss Account.
 - (C) as deduction from Capital in the Balance Sheet.
 - (D) as addition to Capital in the Balance Sheet.
- (viii) A lease which is generally not cancelable and cover full economic life of the asset is known as _____.
- (A) Sale and lease back
 - (B) Operating lease
 - (C) Finance lease
 - (D) Economic lease
- (ix) A charitable Institution has 250 members with an annual subscription of ₹ 5,000 each. The subscription received during 2020-21 were ₹ 11,25,000, which include ₹ 65,000 and ₹ 25,000 for the year 2019-20 and 2021-22 respectively. Amount of outstanding subscription for the year 2020-21 will be
- (A) ₹ 90,000
 - (B) ₹ 1,25,000
 - (C) ₹ 2,15,000
 - (D) ₹ 1,90,000
- (x) X and Y are partners with a capital of ₹ 50,000 and ₹ 30,000 respectively. Interest payable on capital is 10% per annum. If the profits earned by the firm is ₹ 4,800, what will be the interest on capital for X and Y?
- (A) ₹ 5,000, ₹ 3,000
 - (B) ₹ 3,000, ₹ 1,800
 - (C) No interest will be paid to the partners.
 - (D) None of the above

(xi) Which class of account is Consignment Account?

- (A) Personal Account
- (B) Real Account
- (C) Representative Personal Account
- (D) Nominal Account

(xii) Memorandum Joint Venture Account is prepared when

- (A) the separate set of books is maintained for Joint Venture.
- (B) the each co-venturer keeps records of all transactions.
- (C) the each co-venturer keeps records of their own transaction only.
- (D) All of the above cases

(b) State True or false:

1×7=7

- (i) Book Keeping starts where accounting ends.
- (ii) Liabilities = Capital – Assets.
- (iii) Wrong entry in the Pass Book will also be considered while preparing an amended Cash Book.
- (iv) Depreciation is the process of valuation of an asset.
- (v) Under Debtor system of maintaining Branch Account Depreciation does not appear in Branch Account.
- (vi) Cash in Hand represents cash actually held by the business on the Balance Sheet Date.
- (vii) Average clause is applicable in case of under Insurance.

(c) Fill in the blanks:

1×6=6

- (i) Goodwill is an _____ asset.
- (ii) _____ concepts holds that accounting should be free from personal bias. .
- (iii) The excess of expenses over income is called _____ .
- (iv) _____ represents payment made against which services are expected to be received in a very short period.
- (v) _____ account is credited when lessor receive an amount.
- (vi) A branch which does not keep the full system of accounting is known as _____ .

Section-B

2. (a) (i) Briefly explain Expenditure. 1×6
(ii) When an account is said to have a debit balance?
(iii) Explain accounting treatment of normal loss in Branch Account.
(iv) What is Depreciable Cost?
(v) What is meant by 'substance over form' as per AS I?
(vi) If adjusted purchase and Closing Stock are given in the Trial Balance, will you transfer Closing Stock in Trading Account? Comment.

(b) Mr. Rajesh gives the following information for the year ending 31st March, 2023:

	₹
Cash Purchases	15,00,000
Cash Sales	40,00,000
Credit Purchases	3,00,000
Credit Sales	5,00,000
Income Received	80,000
Income received in advance (included ₹ 80,000)	6,000
Income due but not yet received	15,000
Expenses paid	8,50,000
Expenses paid in advance (included in ₹ 8,50,000)	20,000
Expenses not yet paid	45,000

Ascertain the Profit or Loss if he adopts (i) Cash basis of Accounting and (ii) Accrual Basis of Accounting. 2+4

(c) Calculate Closing Stock from the following details: 3

	₹
Opening Stock	20,000
Cash Sales	60,000
Credit Sales	40,000
Purchases	70,000

Rate of Gross Profit on cost $33\frac{1}{3}\%$.

3. (a) Rectify the following errors identified in the books of Sunil. The Trial Balance showed ₹ 250 as debit excess. The difference has been posted to the Suspense Account.
- Total of debit side of Expenses Account has been cast in excess of ₹ 150.
 - Sales Account has been totalled short by ₹ 200.
 - One item of purchase of ₹ 25 has been posted from the Purchases Book to the Ledger as ₹ 350.
 - Sales return of ₹ 200 from a party has not been posted to that account, though the Party's Account has been credited.
 - A cheque of ₹ 600 issued to the Supplier's Account (shown under Sundry Creditors) towards his dues had been wrongly debited to the Purchases Account.
 - Credit sale of ₹ 100 has been credited to the sales and also to the Sundry Debtors Account.

Required: Pass the necessary journal entries for correcting the above and prepare a Suspense Account as it would appear in the ledger. 8

- (b) IND-AS 20 differs from AS-12 with respect to certain matters. Briefly explain those matters. 7

4. Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit and Loss Account for the year ended 31st March, 2023 and Balance Sheet as at that date: 15

Particulars	31st March, 2022 (₹)	31st March, 2023 (₹)
Furniture	1,00,000	1,20,000
Stock-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	1,40,000
Prepaid Expenses	4,000
Sundry Creditors	40,000	?
Unpaid Expenses	12,000	20,000
Cash	22,000	6,000

Receipts and Payments during the year were as follows:

Particulars	₹
Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000
Transportation	40,000
Drawings	1,20,000
Sundry Expenses	1,40,000
Furniture Purchase	20,000

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted ₹ 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors.

5. (a) When you proceed to reconcile the Bank Account starting with 'Debit' Cash Book balance, how is the following dealt with and why? 4
- (i) Cheques issued but not presented for payment.
 - (ii) Cheques deposited but not yet credited.
 - (iii) Bank charges charged by the Bank not recorded in the Cash Book.
 - (iv) Interest allowed by the Bank not recorded in the Cash Book.
- (b) AS-19 should be applied in accounting for all leases. Comment. 3
- (c) Distinguish between Foreign Branch and Domestic Branch. 3
- (d) Entity A purchased an asset on 1st January, 2019 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.
- On 1st January, 2023, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.
- Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis. 5
6. (a) Difference between Bad debts and Provision of Bad debts. 4
- (b) Following is the extract from the Trial Balance of a firm as at 31st March, 2023:

TRIAL BALANCE as at 31st March, 2023

Heads of Accounts	Dr. (₹)	Cr. (₹)
Sundry Debtors	4,10,000	...
Provision for Doubtful Debts	...	20,000
Bad Debts	6,000	...

Additional Information:

- (i) Additional Bad Debts ₹ 10,000.
 - (ii) Maintain Provision for Doubtful Debts @ 10% on Sundry Debtors.
- Pass necessary Journal entries and show relevant accounts (including Final Accounts). 3
- (c) A fire occurred in the premises of a businessman on 31st January, 2023, which destroyed stock. However, stock worth ₹ 5,940 was salvaged. The company's insurance policy covers the following:
- Stock— ₹ 6,00,000; Loss of Profit (including standing charges) — ₹ 3,75,000; and Period of indemnity — 6 months. The summarised Profit and Loss Account for the year ended 31st December, 2022 is as follows: (all figures in ₹)

Dr. Profit and Loss Account for the year ended 31st December, 2022.		Cr	
To Opening Stock	6,18,750	By Sales	30,00,000
To Purchases	27,18,750	By Closing Stock	7,87,500
To Standing charges	2,51,250		
To Variable expenses	1,20,000		
To Net Profit	78,750		
	37,87,500		37,87,500

The transactions for the month of January, 2023 were: (i) Turnover — ₹ 1,50,000; and (ii) Payment to Creditors — ₹ 1,60,020. *Trade Creditors*: 1st January, 2023 — ₹ 2,26,000; 31st January, 2023 — ₹ 2,30,980.

The company's business was disrupted until 30th April, 2023, during which period the reduction in the turnover amounted to ₹ 2,70,000 as compared with the corresponding turnover of same period in the previous year.

You are required to submit the claim for insurance for loss of stock and loss of profit. 8

7. X and Y were in partnership in XY & Co. sharing profits in the proportions of 3 : 2. On 31st March, 2023, they accepted an offer from P. Ltd. to acquire at that date their fixed assets and stock at an agreed price of ₹ 7,20,000. Debtors, creditors and bank overdraft would be collected and discharged by the partnership firm.

The purchase consideration of ₹ 7,20,000 consisted of cash ₹ 3,60,000, Debentures in P. Ltd. (at par) ₹ 1,80,000 and 12,000 Equity Shares of ₹ 10 each in P. Ltd. X will be employed in P. Ltd. but, since Y was retiring X agreed to allow him ₹ 30,000 in compensation, to be adjusted through their Capital Accounts. Y was to receive 1,800 shares in P. Ltd. and the balance due to him in cash. The Balance Sheet of the firm as on 31.03.2023 is in below:

Liabilities	Amount ₹	Assets	Amount ₹
X's Capital Account	1,20,000	Fixed Assets	4,80,000
Loan from X	2,10,000	Stock	45,000
Bank Overdraft	1,50,000	Debtors	75,000
Creditors	1,80,000	Y's Capital Account	60,000
	6,60,000		6,60,000

The sale of the assets to P. Ltd. took place as agreed; the Debtors realised ₹ 60,000 and Creditors were settled for ₹ 1,71,000. The firm then ceased business. You are required to pass necessary journal entries and show:

- Realisation Account
- Bank Account
- Partners' Capital Accounts

8. (a) The conceptual framework is a body of interrelated objectives and fundamentals. Explain. 3

(b) Rajdeep bought 2 cars from Rajesh Motor Pvt. Ltd. on 01.04.2020 on the following terms (for both cars)

	₹
Down Payment	6,00,000
1st Instalment at the end of first year	4,20,000
2nd Instalment at the end of 2nd year	4,90,000
3rd Instalment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a. Rajdeep provides depreciation @ 25% on the diminishing balance.

You are required to calculate the cash price of the cars and the interest paid with each instalment. 3

(c) Explain in short, the relevant Disclosures of Accounting policies as per AS 1. 3

(d) The accounting cycle consists of certain sequential steps. List out those steps. 4

(e) A, B and C were partners in a firm sharing profits in 5 : 3 : 2 ratio. They decided to share the future profits in 2 : 3 : 5. For this purpose the goodwill of the firm was valued at ₹ 2,00,000. There was a credit balance of Profit & Loss Account amounting to ₹ 1,00,000 which they do not want to distribute. Prepare adjustment entry for the treatment of Goodwill and Profit & Loss due to change in the Profit Sharing Ratio. 2

SUGGESTED ANSWERS TO QUESTIONS

SECTION - A

1(a)

- i) (B) Materiality
- ii) (B) Principle based Accounting Standard
- iii) (B) Building account
- iv) (B) Net sale invoice
- v) (A) Payment and maturity date
- vi) (D) Cash received from Rana posted to Jana
- vii) (C) As deduction from capital in the Balance Sheet
- viii) (C) Finance Lease
- ix) (C) Rs. 215,000
- x) (B) Rs. 3000, Rs. 1800
- xi) (D) Nominal Account
- xii) (C) The each co-venture keeps records of their own transactions only.

1 (b)

- i) False
- ii) False
- iii) False
- iv) False
- v) True
- vi) True
- vii) True

1(c)

- i) Intangible
- ii) Verifiable objective
- iii) Loss
- iv) Prepaid
- v) Lease Account
- vi) Dependent Branch

SECTION - B

2 (a)

- (i) Expenditure is the amount spent or liability incurred for acquiring assets, goods or services.
- (ii) An account is said to have a debit balance if the total of the debit side is more than the credit side.
- (iii) Normal loss does not appear in the Branch Account since the closing stock appears at the adjusted figure.
- (iv) Depreciable cost = cost of the asset – scrap value.
- (v) Substance over form means the transactions should be accounted for in accordance with actual happening over the economic reality of the transactions, not by its legal form.
- (vi) No. Closing Stock will not be transferred to Trading Account because it already stands credited to Trading Account as adjusted purchase means opening stock + Purchase (net) – Closing Stock.

2(b)

- (i) Net Profit as per Cash Basis = ` 17,30,000
- (ii) Net Profit as per Accrual Basis = ` 19,14,000

2(c)

Closing Stock = ` 15,000.

3(a)

JOURNAL

Date	Particulars	L.F.	Dr.	Cr.
(i)	Suspense A/c ...Dr. To Expenses A/c (Being the mistake in totalling of Expenses A/c rectified)		150	150
(ii)	Suspense A/c ...Dr. To Sales A/c (Being the mistake in totalling of Sales A/c rectified)		200	200
(iii)	Supplier's A/c ...Dr. To Suspense A/c (Being the mistake in posting from Purchase Book to Ledger rectified)		325	325
(iv)	Sales Return A/c ...Dr. To Suspense A/c (Being the Sales return from a party, not posted to sales return, now rectified)		200	200
(v)	Sundry Creditors A/c ...Dr. To Purchases A/c (Being the payment made to supplier wrongly posted to purchases, now rectified)		600	600
(vi)	Sundry Debtors A/c ...Dr. To Suspense A/c (Being the sales wrongly credited to Customer's A/c, now rectified)		200	200

Suspense A/c Total Rs. 975

Credit Balance Rs. 625

3(b)

Ind AS 20	AS 12
Disclosure required in financial statement with indication on other forms of government assistance received	No specific guidance as does not deal with other forms of government assistance
Government grants in the nature of capital contribution are not recognized	Government grants as capital contribution are specifically recognized
Prohibition of recognition of grants directly to the shareholder's fund	Grants for non-depreciable assets are required to be shown as a capital reserve under shareholder's funds
Recognition of non-monetary grants at fair value	Recognition of non-monetary grants at acquisition cost or nominal value
No option to deduct the amount of grant from the book value of the asset.	Optional to deduct the amount of grant from the book value of the asset.

4.

Gross Profit as per Trading A/c ` 2,14,000

Net Profit as per Profit & Loss A/c ` 56,000

Balance Sheet Total ` 2,76,000

5 (a)

- i) Cheques issued but not yet presented for payment are added because bank shows higher balance.
- ii) Cheques deposited but not cleared are deducted because bank shows lower balance.
- iii) Bank charges are deducted because bank has already debited the account.
- iv) Interest allowed is added because bank has credited the account.

5 (b) AS 19 should be applied in accounting for all leases other than:

- a) Lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights;
- b) Licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and
- c) Lease agreements to use lands.

5 (c) Differences between foreign branch and domestic branch:

Domestic Branch	Foreign Branch
A domestic branch is established and carried out in the same country where its H.O is situated.	A foreign branch is always established and carried out its operations in a country other than the country of its H.O
It can be either dependent or independent.	It's always independent.
H.O and Branch both follow the same currency for recording the transactions and preparing accounts.	Whereas the transactions and accounting for foreign branches happen to be different than its H.O.

5 (d)

Depreciation ₹15,000 for each year.

6 (a) Difference between Bad Debts and Doubtful Debts

Bad Debts	Doubtful Debts
The debts which cannot be realized are known as Bad Debts.	The debts which may or may not become bad are known as Doubtful Debts.
Bad Debts are immediately written off.	Doubtful debts are not written off but provided for.
A bad debt is a known loss.	A doubtful debt is an anticipated loss.
In case of bad debt, the Debtor's Amount is brought down by the amount of bad debt.	In case of doubtful debt, the Debtor's Account remains as it is since, debtor's Account and provision for Doubtful Debts Account are two separate accounts. But provision is made against expected loss.

6 (b)

Date	Particulars	L.F.	Dr.	Cr.
2019 March 31	Bad Debts A/c Dr. To Sundry Debtors A/c (Being the additional bad debts recorded)		10,000	10,000
	Provision for Doubtful Debts A/c Dr. To Bad Debts A/c (Being the Bad Debts transferred to Provision for Doubtful Debts Account)		16,000	16,000
	Profit and Loss A/c Dr. To Provision for Doubtful Debts A/c (Being the amount debited to Profit and Loss Account to maintain Provision for Doubtful Debts @ 10% on sundry debtors)		36,000	36,000

6 (c) Loss of Stock

Claim for Insurance for Loss of Stock ₹ 5,95,680

Claim for Insurance for Loss of Profit ₹ 29,700

JOURNAL

Date	Particulars	L F	DR.	CR.
			Amount (Rs)	Amount (Rs)
31.3.23	Realisation A/C Dr To Fixed Assets A/C To Stock in Trade A/C To Sundry Debtors A/C (different asset transferred)		6,00,000	4,80,000 45,000 75,000
31.3.23	Creditors A/C Dr To Realisation A/C (Sundry Creditors 31.3.23)		1,80,000	1,80,000
31.3.23	P LTD A/C Dr To Realisation A/C (purchase consideration due)		7,20,000	7,20,000
31.3.23	Bank A/C Dr Debentures in P Ltd Dr Shares in P Ltd Dr To P Ltd A/C (Purchase consideration received)		3,60,000 1,80,000 1,80,000	7,20,000
31.3.23	Bank A/C Dr To Realisation A/C		60,000	60,000
31.3.23	Realisation A/C Dr To Bank A/C (Payment to creditors)		1,71,000	1,71,000
31.3.23	Realisation A/C Dr To X capital A/C To Y capital A/C (profit on Realisation transferred)		1,89,000	1,13,400 75,600
31.3.23	Loan from X Dr To X capital (loan balance transferred)		2,10,000	2,10,000
31.3.23	X Capital Dr To Y Capital (Adjustment for compensation)		30,000	30,000
31.3.23	X capital Dr To Shares in P Ltd To Debentures in P Ltd To Bank A/C (Final settlement of X)		4,13,400	153,000 180,000 80,400
31.3.23	Y capital Dr To Shares in P Ltd To Bank A/C (final settlement of Y)		45,600	27,000 18,600

Realisation Account Total ` 9,60,000

Bank Account Total ` 4,20,000

Partners Capital Account Total

X - ` 4,34,400

Y - ` 1,05,600

8(a)**Conceptual framework:**

The conceptual framework is a body of Interrelated objectives and fundamentals. The objectives identify the goals and purposes of financial Reporting and the fundamentals are the underlying concepts that help achieve those objectives. Those concepts provide guidance in selecting transactions, events and circumstances to be accounted for, how they should be recognized and measured, and how they should be summarized and reported. It states the objectives of general purpose financial Reporting and the information provided by it. Conceptual framework also guides on the qualitative characteristics that the financial statements must possess.

Conceptual framework also plays an important role in the development of institutional framework and assists preparers to develop consistent accounting policies when no accounting standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy.

8(b)

Calculation of interest and cash price.

Total cash price = Rs 18,00,000.

Interest Paid

<u>Installment</u>	₹
3rd	50,000
2nd	90,000
1st	120,000

8(c)

As per AS1, the disclosure of Accounting policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place. Any change in the accounting policies which has a material effect in the current periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the Financial Statements is affected by such change should also be disclosed to the extent ascertainable .where such amount is not ascertainable, wholly or in part, the fact should be indicated. If the fundamental accounting assumptions, viz, Going concern, Consistency and Accrual, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact to be disclosed.

8(d)**Stages of Accounting Cycle.**

The accounting cycle consists of the following sequential steps:

1. Identifying transactions: The first step in the accounting cycle is to analyze events to determine if they are " transactions ". Transactions are the starting point from which the rest of the accounting cycle follows.
2. Recording transactions in books of original entry: The second step in the accounting cycle is to record the identified transactions in the relevant books of original entry as journal entries.
3. Posting to the Ledger: The next step is to record a summary of the activities in the relevant account in the Ledger (referred to as posting).
4. Drafting of unadjusted Trial Balance: At the end of an accounting period, data from the Ledger Accounts may be taken to draft a Trial Balance. It is prepared for identifying any errors that may have occurred during the initial stages of the accounting cycle. However, this step is not mandatory.
5. Passing of adjustment entry: Identification of necessary adjustment and passing of adjusting entries

make up the fifth step in the cycle.

6. Drafting of Adjusted Trial Balance: Once all adjusting entries are completed, then an adjusted trial balance can be prepared. This happens to be the last step before the preparations of Financial Statements.
7. Closing of books: In this stage of the accounting cycle, the Ledger Accounts are closed and balanced. (also refers to as zeroed out) at the end of every accounting period.
8. Drafting the financial statements: In the last stage of the accounting cycle, the income statement is prepared with the closing balances of the Nominal Accounts, While the balances of real and personal accounts gets reflected in the Balance Sheet. Financial Statements are prepared in the following order: Income statement, Statements of retained earnings, Balance Sheet and statements of cash flows.

8(e)

	Dr.	Cr.
C's Capital A/c	Dr. 90,000	
To A's Capital A/c		90,000

INTERMEDIATE EXAMINATION

December 2023

P-6(FA)

Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Wherever necessary, candidates may make appropriate assumption(s)

and state the same clearly in the answer.

Workings should form part of your answer.

Section – A (Compulsory)

1. You are required to answer all the questions. Each question is followed by 4 answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer. 2×15=30

(i) The construction of a factory building was completed on 1st April, 2023, at a cost of ₹ 56,50,000. A sum of ₹ 45,000 had been incurred for the construction of the temporary huts for storing building materials. Insurance premium of ₹ 56,500 paid on 5th April, 2023. The capital and revenue expenditure would be

- (A) Capital Expenditure ₹ 57,51,500 and Revenue Expenditure ₹ nil
- (B) Capital Expenditure ₹ 56,95,000 and Revenue Expenditure ₹ 56,500
- (C) Capital Expenditure ₹ 56,50,000 and Revenue Expenditure ₹ 1,01,500
- (D) Capital Expenditure ₹ 57,23,250 and Revenue Expenditure ₹ 28,250

(ii) If a receipt of ₹ 21,500 for interest has been recorded in the books as payment of ₹ 12,500 for interest, the profits would show—

- (A) an increase of ₹ 9,000
- (B) an increase of ₹ 34,000
- (C) a decrease of ₹ 9,000
- (D) a decrease of ₹ 34,000

(iii) Shiva received a bill for ₹ 58,550 from Vijay and endorsed it in favour of Makkhu. On the date of maturity, the bill was dishonoured and for it noting charges of ₹ 450 paid by holder. In this case Shiva will debit—

- (A) Vijay by ₹ 58,550
- (B) Vijay by ₹ 58,100
- (C) Vijay by ₹ 59,000
- (D) Noting charges account by ₹ 450

- (iv) Joint Venture with XYZ Account, is opened
- (A) when separate set of books is maintained for joint venture.
 - (B) when not maintaining separate set of books for joint venture but every Co-venturer keeps record his own transactions only.
 - (C) when not maintaining separate set of books for joint venture but every Co-venturer keeps complete record of all the transactions.
 - (D) In all the above situations, (A), (B) and (C).
- (v) On 31st March, 2023, the debtors of a trader are ₹ 6,20,000 before writing off the bad debts of ₹ 15,000. The provision for bad and doubtful debts is 5% on debtors and provision for discount on debtors is 2%. The amount of provision for discount on debtors is
- (A) ₹ 12,400
 - (B) ₹ 12,100
 - (C) ₹ 11,495
 - (D) ₹ 11,780
- (vi) Salaries paid during the year 2022-23 were ₹ 4,70,000. Salaries outstanding on 01.04.2022 were ₹ 65,000 and it was also outstanding for three months on 31.03.2023. The amount of salaries shown in Income and Expenditure Account will be—
- (A) ₹ 5,35,000
 - (B) ₹ 4,00,000
 - (C) ₹ 5,40,000
 - (D) ₹ 4,05,000
- (vii) Profit before interest on loan and manager's commission were ₹ 4,25,250. Interest on loan is ₹ 42,000. If the manager is entitled a commission of 5% on net profit after charging such commission then manager's commission will be—
- (A) ₹ 20,250
 - (B) ₹ 21,262.50
 - (C) ₹ 19,162.50
 - (D) ₹ 18,250

- (viii) At the end of the accounting year, advances from customers are
- (A) debited to Profit and Loss account.
 - (B) credited to Profit and Loss account.
 - (C) shown in the Balance Sheet as assets.
 - (D) shown in Balance Sheet as liabilities.
- (ix) On 31.03.2023 the debtors of a trader are ₹ 7,50,000 before writing off the bad debts of ₹ 25,000. The provision for bad and doubtful debts is 5% on debtors and provision for discount on debtors is 2%. The amount of net debtors shown in the balance sheet as at 31.03.2023, will be—
- (A) ₹ 6,74,250
 - (B) ₹ 6,74,975
 - (C) ₹ 6,98,250
 - (D) ₹ 6,97,500
- (x) Following information is given for the year ending 31.03.2023:
- Salaries outstanding and paid in advance on 01.04.2022 were ₹ 33,000 and ₹ 22,000 respectively.
- Salaries paid during the year 2022-2023 ₹ 3,30,000.
- Salaries paid in advance and outstanding on 31.03.2023 were ₹ 16,500 and ₹ 44,000 respectively.
- The amount of salaries to be shown in Income and Expenditure Account for the year ending 31.03.2023, will be—
- (A) ₹ 3,46,500
 - (B) ₹ 2,91,500
 - (C) ₹ 3,13,500
 - (D) ₹ 3,68,500

- (xi) Opening Stock, Closing Stock, Sales Return and Sales are ₹ 2,80,000; ₹ 3,20,000; ₹ 45,000 and ₹ 24,20,000 respectively. If rate of gross profit is 25% on cost, then gross profit will be—
- (A) ₹ 6,05,000
 - (B) ₹ 4,75,000
 - (C) ₹ 4,84,000
 - (D) ₹ 5,93,750
- (xii) Only items of revenue nature pertaining to the period of accounts are shown in the
- (A) Receipts and Payments Account.
 - (B) Income and Expenditure Account.
 - (C) Both (A) and (B)
 - (D) Balance Sheet.
- (xiii) Excess of Hire-purchase price over the cash price is known as
- (A) Depreciation
 - (B) Penalty
 - (C) Interest
 - (D) Instalment
- (xiv) AS-10 is applicable to which one of the following assets?
- (A) Construction Contracts
 - (B) Live stock
 - (C) Plantation
 - (D) Property, Plant and Equipment

(xv) Goods costing ₹ 2,34,000 are sent to the Branch at a invoice price of ₹ 3,12,000. The loading on invoice price is

- (A) 20%
- (B) 25%
- (C) 33.33%
- (D) 28%

Section – B

Answer *any five* questions out of *seven* questions given. Each question carries 14 marks.

2. (a) On 30th September, 2023, Shri Sachin Chatterji's Cash Book shows that he had an overdraft of ₹ 400 on his current account at the bank. On checking the Cash Book with Bank Statement, you find the following :

- (i) Cheques issued ₹ 1,500 had been entered in the Cash Book but had been presented into Bank ₹ 1,000.
- (ii) Dividend amounting to ₹ 150 had been directly deposited into bank.
- (iii) Bank had credited interest on Bank Deposit of ₹ 170 but the same had been debited in the Cash Book on 6th October, 2023.
- (iv) Bank charge of ₹ 50 shown in the bank statement but the same had not been entered in the Cash Book.
- (v) A cheque is issued to N.K. Chatterjee for ₹ 50 was replaced when out of date. It was entered again in the Cash Book. No other entry being made. Both the cheques were included in the total of unrepresented cheques shown above.
- (vi) The receipt side of the Cash Book had been overcast by ₹ 20.
- (vii) A cheque for ₹ 20 had been entered as a receipt in the Cash Book instead of as a payment.
- (viii) A cheque drawn for ₹ 8 had been incorrectly entered in the Cash Book as ₹ 88.

You are required to prepare—

- (I) Adjusted Cash Book; and
- (II) Bank Reconciliation Statement as on 30.9.2023.

(b) From the following details, prepare an Adjusted Trial Balance as at 31-3-23.

7

	₹		₹
Purchase	65,000	Sundry Creditors	35,000 (A)
Carriage Inward	1,000	Plant and Machinery	10,000 (B)
Wages	6,000	Buildings	5,000 (C)
Salaries	10,000	Furniture	3,000 (D)
Rent, rates and taxes	1,800	Bills Receivable	10,000 (E)
Insurance	1,500	Sundry Debtors	40,000 (F)
Interest paid	1,000	Capital	66,000 (G)
Sales	95,000	Sundry Expenses	5,000 (H)
Cash and Bank	21,500	Opening Stock	21,000 (I)
Bills Payable	5,800		

Notes:

- (i) Salaries and wages due to be paid ₹ 2,000 and ₹ 1,000 respectively.
- (ii) Insurance was paid to the extent of ₹ 300 advance.
- (iii) A sum of ₹ 500 to be written off as bad debt out of sundry debtors and a provision of 5% to be created for doubtful debts.
- (iv) Sundry expenses include ₹ 2,000 spent for the personal purpose of the proprietor.
- (v) Sales for the period include ₹ 500 worth of goods (cost price) taken by the proprietor for personal consumption. He has also taken goods worth ₹ 1,000 (cost price) for personal consumption which has not been recorded in the books.
- (vi) Depreciation to be provided as follows:

Plant and Machinery	10%
Buildings	5%
Furniture	10%

- (vii) Closing Stock ₹ 20,000

3. (a) On 1st July, 2023, G drew a bill for ₹ 80,000 for 3 months on H for mutual accommodation. He accepted the bill of exchange. G had purchased goods worth ₹ 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September, 2023 J purchased goods worth ₹ 90,000 from H. J endorsed the bill of exchange received from G to H and paid ₹ 9,000 in full settlement of the amount due to H.

On 1st October, 2023 H purchased goods worth ₹ 1,00,000 from G. H paid the amount due to G by cheque. Give the necessary Journal entries in the books of H. 7

- (b) Lease Ltd. has initiated a lease for four years in respect of a vehicle costing ₹ 20,00,000 with expected useful life of 5 years. The asset would revert to the company under the lease agreement. The other information available in respect of lease agreement is:

- (i) The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at ₹ 2,50,000.
- (ii) The implicit rate of interest is 10%.
- (iii) The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of asset.

Ascertain in the hand of Lease Ltd.

- (I) The annual lease payment.
- (II) The unearned finance income.

Note: (i) PV of residual value for 4th year @ 10% is 0.683.

(ii) PV factor for 4 years @ 10% is 3.16987. 7

4. Rajesh does not maintain proper books of account. From the following particulars prepare the Trading and Profit and Loss Account for the year ended 31st March, 2023 and the Balance Sheet as on that date: 14

Particulars	31st March, 2022 (₹)	31st March, 2023 (₹)
Debtors	90,000	1,25,000
Stock	49,000	66,000
Furniture	5,000	7,500
Creditors	30,000	22,500

Summary of other transactions is as follows:

Particulars	₹
Cash collected from Debtors	3,04,000
Cash paid to Creditors	2,20,000
Salaries	60,000
Rent	7,500
Office Expenses	9,000
Drawings	15,000
Additional Capital introduced	10,000
Cash Sales	7,500
Cash Purchases	25,000
Discount Received	3,500
Discount Allowed	1,500
Returns Inward	5,000
Returns Outward	4,000
Bad Debt	1,000

He had ₹ 25,000 as Cash Balance in the beginning of the year.

5. A and B were carrying on business as equal partners. The firm's Balance Sheet as on 31st December, 2022 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Fixed Assets :	
A	1,38,000	Leasehold Building	80,000
B	1,52,000	Plant and Machinery	1,80,000
Bank Loan	40,000	Furniture	20,000
Current Liabilities :		Current Assets :	
Sundry Creditors	70,000	Stock	60,000
Bills Payable	10,000	Book Debts	68,000
		Cash at Bank	2,000
	<u>4,10,000</u>		<u>4,10,000</u>

The business was carried on till 30th June, 2023. The partners withdrew in equal amounts half the amount of profits made during the period of six months (from January to June, 2023) after charging depreciation on

Leasehold Building	—	10% per annum
Plant and Machinery	—	10% per annum
Furniture	—	10% per annum

Meanwhile Sundry Creditors were reduced by ₹ 15,000. Bills Payable by ₹ 2,500 and Bank Loan by ₹ 20,000. On 30th June stock was valued at ₹ 7,09,000, Book Debts were ₹ 75,000 and Cash at Bank was ₹ 2,500. On 30th June, 2023 the firm sold the business to a limited company for ₹ 4,00,000 payable in Equity Shares of ₹ 10 each.

The partners decided to take shares in the profit sharing ratio, any difference to be settled in cash.

You are required to prepare :

- (I) Statement of Net Assets as on 30th June, 2023;
- (II) Statement of Profit earned during the period six months ended on 30.6.2023;
- (III) Realisation Account;
- (IV) Capital Accounts of the partners.

14

6. (a) X Ltd. has a retail branch at Puri. Goods are sold at 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Delhi H.O. to branch at Puri at wholesale price. From the following particulars ascertain the profit made at H.O. and branch for the year ended 31st March, 2023.

7

Particulars	H.O. ₹	Branch ₹
Stock on 01.04.2022	7,00,000	—
Purchase	42,00,000	—
Goods sent to Branch (at invoice price)	15,12,000	—
Sales	42,84,000	14,40,000
Stock on 31.03.2023	16,80,000	2,52,000
Expenses	80,000	40,000

Sales at H.O. are made only on wholesale basis and that at branch only to customers at retail price.

Stock at H.O. is valued at invoice price.

- (b) On 1st April, 2023 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Stock at cost 1 Jan. 2022	1,47,000
Stock at cost 31 Dec. 2022	1,59,200
Purchases year ended 31 Dec. 2022	7,96,000
Sales year ended 31st Dec. 2022	9,74,000
Purchases 1.1.2023 to 31.3.2023	3,24,000
Sales 1.1.2023 to 31.3.2023	4,62,400

In valuing the stock for the Balance Sheet at 31st Dec. 2022 ₹ 4,600 had been written off on certain stock which was a poor selling line having the cost ₹ 13,800. A portion of these goods were sold in March, 2023 at a loss of ₹ 500 on original cost of ₹ 6,900. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception gross profit had remained at a uniform rate throughout the year.

The value of stock salvaged was ₹ 11,600. The policy was for ₹ 1,00,000 and was subject to average clause.

Work out the amount of the claim of loss by fire.

7

7. (a) ABC Ltd. is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd.?

7

- (b) ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

- (i) ₹ 20 lakh received for immediate start-up of business without any condition.
- (ii) ₹ 50 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
 - (I) That drugs should be available to the public at 20% cheaper from current market price; and
 - (II) The drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].

(iii) Two acres of land received for set up of plant.

(iv) ₹ 2 lakh received for purchase of machinery of ₹ 10 lakh. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts?

7

8. (a) 'A' and 'B' were partners in a firm and their capitals were ₹ 5,00,000 and ₹ 3,00,000 respectively on 1st April, 2022. Profit for the year ending 31st March, 2023 amounted to ₹ 2,10,000. Drawings of partners were ₹ 1,00,000 and ₹ 60,000 respectively. It was observed that following errors were committed while distributing the profit:
- (i) Manager's commission @ 10% on the profits before charging such commission was omitted.
 - (ii) Closing Inventory was valued at ₹ 70,000 whereas its net realisable value (market value) was ₹ 50,000.
 - (iii) Outstanding salary of employees ₹ 40,000 were not recorded.
 - (iv) 'A' had given a loan of ₹ 1,50,000 to the firm on 1st December, 2022, interest was omitted to be recorded on this loan.
 - (v) Loan was given to 'B' on 1st July, 2022 amounting to ₹ 1,00,000 bearing interest @ 8% p.a. Interest was omitted to be charged by the firm.
 - (vi) Interest on Capital @ 6% p.a. was not allowed and interest on drawings was not charged @ 10% p.a.

On the basis of above information, answer the following questions :

- (I) How much interest should be allowed on A's Loan to the firm? Is it a charge or appropriation of profit?
 - (II) What is the amount of net profit?
 - (III) What is the amount of divisible profit?
 - (IV) What is each partner's share of profit? 4
- (b) Explain the following accounting conventions: 5
- (i) Full Disclosure
 - (ii) Consistency
 - (iii) Materiality
 - (iv) Conservatism
- (c) Explain the methods/criteria for the selection and application of Accounting Policies. 5
-

PAPER-6 : FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

SECTION – A

1.

- (i) (B)
- (ii) (D)
- (iii) (C)
- (iv) (B)
- (v) (C)
- (vi) (C)
- (vii) (D)
- (viii) (D)
- (ix) (B)
- (x) (A)
- (xi) (B)
- (xii) (B)
- (xiii) (C)
- (xiv) (D)
- (xv) (B)

SECTION – B

2. (a)

(I) **In the books of Sachin Chatterjee**
Cash Book (Bank Column)

Dr.

Cr.

Date	Particulars	D	Date	Particulars	D
30.9.23	To Dividend A/c	150	30.9.23	By Balance b/d	400
	To Bank Interest A/c	170		By Bank charges	50
	To Error A/c	80		By Over casting error	20
	To Balance c/d	110		By Party A/c	40
		510			510

(II) **Bank Reconciliation Statement as on 30.9.23**

Particulars	D	D
Overdraft balance as per Amended Cash Book		<u>110</u>
Less: Cheque issued but not presented	500	
Less: Cancelled cheque issued	<u>50</u>	<u>550</u>
Balance as per Pass Book		<u>440</u>

2. (b)

Trial Balance as at 31.3.23

Particulars	Dr.	Cr.
	D	D
Purchases	43500	
Carriage inward	1000	
Wages	7000	
Salaries	12000	
Rent Rates and taxes	1800	
Insurance	1200	
Interest Paid	1000	
Sales		94500
Cash and Bank	21500	
Bills Payable		5800
Sundry creditors		35000
Plant and machinery	9000	
Buildings	4750	
Furniture	2700	
Bills receivable	10000	
Sundry Debtors	39000	
Capital		66000
Sundry expenses	3000	
Opening stock	21000	
Outstanding salaries		2000
Outstanding wages		1000
Drawings	3500	
Prepaid Insurance	300	
Bad-Debts	2450	
Provision for bad debts		1950
Depreciation	1550	
Closing stock	20000	
Total	<u>206250</u>	<u>206250</u>

3. (a)

In the books of H
Journal

Date	Particulars		Dr.	Cr.
			D	D
1.7.2023	G's A/c	Dr.	80000	
	To Bills payable A/c			80000
1.9.2023	J's A/c	Dr.	90000	
	To sales A/c (Sales made to J)			90000
	Bills receivable A/c	Dr.	80000	
	Bank A/c	Dr.	9000	
	Discount A/c	Dr.	1000	
	To J's A/c			90000
	Bills payable A/c	Dr.	80000	
	To Bills receivable A/c			80000
10.1.2023	Purchased A/c	Dr.	100000	
	To G's A/c			100000
	G's A/c	Dr.	20000	
	To bank A/c			20000

3. (b)

(I) The annual lease payment = D 577074

(II) The Unearned Finance Income = D 558296

4.

Trading and Profit and Loss Account For The Year ended 31st March 2023

Dr.		Cr.	
Particulars	D	Particulars	D
To Opening Stock	49,000	By Sales	3,49,000
To Purchase	2,41,000	By Closing Stock	66,000
To Gross Profit c/d	1,25,000		
	4,15,000		4,15,000
To Salaries	60,000	By Gross Profit b/d	1,25,000
To Rent	7,500	By Discount received	3,500
To Office Expenses	9,000		
To Discount allowed	1,500		
To Bad Debts	1,000		
To Net Profit	49,500		
	<u>1,28,500</u>		<u>1,28,500</u>

Balance Sheet As at 31st March 2023

Liabilities	D	Assets	D
Capital	183,500	Cash	10,000
Creditors	25,000	Debtors	1,25,000
		Stock	66,000
		Furniture	7,500
	<u>208,500</u>		<u>208,500</u>

5. (a)(I) Net Asset as on 30th June, 2023 = D 9,70,000

(II) Net Profit earned during the period from 1/1/2023 to 30/6/2023 = D 13,60,000 (III)

Realisation Account

Dr.		Cr.	
To Plant and Machinery	1,71,000	By Bank Loan	20,000
To Leasehold Building	76,000	By Sundry Creditors	55,000
To Furniture	19,000	By Bills Payables	7,500
To Stock	7,09,000	ByLtd. Company	4,00,000
To Sundry debtors	75,000	By Loss on Realisation	
To Cash at Bank	2,500	A's Capital 2,85,000	
		B's Capital <u>2,85,000</u>	5,70,000
	<u>10,52,500</u>		<u>10,52,500</u>

(IV)

Partner's Capital Account

Dr.	A(D)	B(D)		A(D)	Cr. B(D)
To Loss on Realisation	2,85,000	2,85,000	By Balance C/d	1,38,000	1,52,000
To Drawings	3,40,000	3,40,000	By Add/Less	(+) 7,000	(-) 7,000
To Equity Shares in Ltd.Co.	2,00,000	2,00,000	Cash brought in by B to Pay to A to settle the difference		
			By Net Profit for the Period	6,80,000	6,80,000
	8,25,000	8,25,000		8,25,000	8,25,000

6. (a)

Profit made at H.O. = D

21,44,000 Profit made at Branch =

D 1,40,000

6. (b)

Amount of the claim of loss by fire = D 90,008.60 or 90,009

7. (a)

Paragraph 7 of AS 10 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

measure for recognition, i.e., what constitutes an item of property, plant and equipment. Further, paragraph 9 provides that the standard does not prescribe the unit of equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances.

Paragraph 17, inter alia, states that the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

Depreciation

As per paragraph 45 and 47 of AS 10, if these assets have a useful life which is different from the useful life of

the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if

CMA HUSTLERS

these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of these assets should not exceed that of the asset to which it relates.

Presentation

These assets should be presented within the class of asset to which they relate.

7. (b)

ABC Ltd. should recognise the grants in the following manner:

- As per para 6.4 of AS 12, in certain circumstances, a government grant is awarded for the purpose of giving immediate financial support to an enterprise rather than as an incentive to undertake specific expenditure. Such grants may be confined to an individual enterprise and may not be available to a whole class of enterprises. These circumstances may warrant taking the grant

To income in the period in which the enterprise qualifies to receive it, as an Prior Period Items and Changes in Accounting Policies). Therefore, 20 lakhs has been received for immediate start-up of business. This should be recognised in the statement of Profit and Loss immediately as there are no conditions attached to the grant.

- As per para 9.1, grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, they are deducted in reporting the related expense. 50 lakhs should be recognised in profit or loss on a systematic basis over the periods which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd. will comply with the conditions attached to the grant.
- As per para 7.1, government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value. Accordingly, land should be recognised at nominal value in the balance sheet.
- The standard provides the option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per para 8.3 and 8.4 of the standard. Under the first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Accordingly, the grant of 2 lakhs is deducted from the cost of the machinery. Machinery will be recognised in the books at Rs.10 lakhs - Rs.2 lakhs = 8 lakhs and depreciation will be charged on it as follows:

Rs. 8 lakhs/5 years = 1.60 lakhs per year.

Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation depreciation on related assets is charged. Income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

Rs.2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this cases, 40,000 [2 lakhs / 5 years] should be credited to profit and loss each year over the period of 5 years.

8. (a)

- | | | |
|-------|---|------------|
| (i) | Interest | = D 3000 |
| | It is treated as a charge against profits and is debited to a profit and loss account | |
| (ii) | Net profit | = D 137700 |
| (iii) | Divisible profit | = D 97700 |
| (iv) | Each partner's share of profit | = D 48850 |

8. (b)

- (i) According to the Convention of Full Disclosure, all significant information relating to the economic affairs of the entity should be reported in the financial statements in an understandable manner.
- (ii) According to the Convention of Consistency, accounting practices once selected and adopted should be consistently applied year after year.
- (iii) According to the Convention of Materiality, a transaction should be reported in the financial statements on the basis of its materiality. An item is material if it can influence the decision of the user.
- (iv) According to the Convention of Conservatism, anticipated losses should be accounted for while anticipated incomes should not be accounted.

8. (c)

Factors governing the selection and application of accounting policies are:

Prudence: Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of receivables, number of warranty claims that may occur. Prudence means making of estimates, which is required under conditions of uncertainty.

Substance over form: it means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form. Like in hire purchaser if the assets are purchased on hire purchase by the hire purchaser the assets are shown in the books of hire purchaser in spite of the fact that the hire purchaser is not the legal owner of the assets purchased. Under the purchase the purchaser, becomes the owner only on the payment of last instalment. Therefore the legal form the transaction is ignored and the transaction is accounted as per as substance.

Materiality: Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

(a) As to the disclosure of all material items, individually or in aggregate in the context of fair presentation of financial statements as a whole if its omission or misstatement could influence the economic or financial decision of the user relying upon the financial statements.

(b) Depends on the size of the items or errors judged in the particular circumstances of its omissions or misstatements.

(c) Is a cut-off point rather than being a primary qualitative characteristic which information must have.

(d) This is a matter of judgment, varies from one entity to another and over one period to another.

INTERMEDIATE EXAMINATION

June 2024

P-6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
Where necessary, candidate may make appropriate assumptions
and clearly state them in the respective answer.
All working notes must form part of the answer.*

*Answer to Question No. 1 in section A is compulsory, further answer any five
from Question No. 2 to Question No. 8 in section B.*

Section-A

1. Choose the correct option from the four alternatives given: 2×15=30

(i) Select the correct equation:

- (A) Owners Equity = Assets + Liabilities
- (B) Owners Equity + Outside Liabilities = Total Assets
- (C) Assets + Owner Equity = Outside Liabilities
- (D) Outside Equity + Profit = Total Assets

(ii) Cash In Hand A/c may have.

- (A) Only debit balance
- (B) Only credit balance
- (C) Debt or Credit balance
- (D) All of the above

(iii) Fundamental accounting assumptions are

- (A) going concern, consistency and accrual.
- (B) going concern, money measurement and prudence.
- (C) going concern, business entity and accounting period.
- (D) going concern, matching and consistency.

(iv) Choose the correct statement:

- (A) Errors of principle do not affect agreement of trial balance.
- (B) Compensating errors affect trial balance.
- (C) One side error does not affect trial balance.
- (D) Error of casting is an error of principle.

(v) Calculate sales from the following details:

Opening Stock	₹ 4,000
Cost of Goods sold	₹ 30,000
Closing Stock	₹ 2,000
Direct Expenses	₹ 5,000
Gross Profit	₹ 1,500

- (A) ₹ 28,000
(B) ₹ 31,500
(C) ₹ 32,000
(D) ₹ 33,000
- (vi) Mr. P issued Cheques worth ₹ 15,000 in March, 2024, out of which ₹ 10,000 only were presented for payment by 31st March, 2024. While reconciling bank and cash book balance as on 31st March, 2024, how much would be added to balance as per Cash Book to arrive at balance as per Pass Book?
(A) ₹ 15,000
(B) ₹ 10,000
(C) ₹ 5,000
(D) ₹ 7,500
- (vii) A second hand car purchased for ₹ 2,00,000 (excluding initial repair cost of ₹ 50,000) is sold for ₹ 1,00,000 after 2 years. If depreciation is charged at the rate 20% on WDV, profit or loss on sale of car is
(A) Profit ₹ 28,000
(B) Profit ₹ 60,000
(C) Loss ₹ 60,000
(D) Loss ₹ 28,000
- (viii) X drew a bill of exchange on Y for ₹ 20,000 payable after 3 months. On the due date, Y could not make the payment and requested to renew a fresh bill for another 3 months at 12% interest. The amount of fresh bill would be
(A) ₹ 20,600
(B) ₹ 22,400
(C) ₹ 21,200
(D) ₹ 20,300
- (ix) Choose the odd one:
(A) Premium method
(B) Revaluation method
(C) Without raising goodwill account
(D) Revaluation of unrecorded asset

- (x) Operating lease is a _____.
- (A) Revocable Contract
 - (B) Non-Revocable Contract
 - (C) Operating Contract
 - (D) None of the above
- (xi) State which of the following statement is false:
- (A) Salvage of stock means stock saved during accident.
 - (B) Unusual items and defective items are separate under insurance claim.
 - (C) Defective items means goods which cannot fetch the usual rate of gross profit.
 - (D) Average clause is applicable in case of under insurance.
- (xii) A, B and C are three Partners sharing profits and losses in the ratio of 3 : 2 : 1. B retires from the firm .What is the gaining ratio of the remaining partner?
- (A) 3 : 1
 - (B) 1 : 2
 - (C) 2 : 1
 - (D) 1 : 3
- (xiii) Goods are transferred from Department X to department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of department Y is ₹ 18,000 then amount of stock reserve on closing stock will be
- (A) ₹ 6,000
 - (B) ₹ 4,500
 - (C) ₹ 9,000
 - (D) None of the above
- (xiv) Income statement of a Charitable Institution is known as
- (A) Profit and Loss Account
 - (B) Receipts & Payments Account
 - (C) Income & Expenditure A/c
 - (D) Statements of Affairs
- (xv) Contingent Liabilities would appear
- (A) on the Liabilities Side.
 - (B) on the Assets Side.
 - (C) as a note to Balance Sheet.
 - (D) None of the above

SECTION-B

Answer any 5 out of 7 Questions.

Each question carries 14 marks.

14×5=70

2. (a) On 31st March, 2023 in the Trial Balance of Singhania Brothers, balance of the Machinery Account appears as ₹ 19,80,000. The firm follows rate of depreciation on machinery @ 15% per annum on Written Down Value Method. On scrutiny, it was found that the Machinery appearing in the books on 01.04.2022 at ₹ 4,50,000 was disposed of on 30th November, 2022 in exchange of new machinery costing ₹ 3,50,000.

You are required to calculate:

- (i) Total depreciation to be charged in the Profit and Loss Account
 - (ii) Profit or loss on exchange of machine
 - (iii) Book value of machinery in Balance Sheet as on 31.03.2023 7
- (b) The Trial Balance of Rajesh Brothers on 31st March, 2023 did not agree. In order to close the books, the accountant placed the difference for ₹ 26,700 (Dr) to Suspense Account for necessary adjustment in the next period. On 25th April, 2023 the following errors, arising in 2022-23 were detected.
- (i) ₹ 4,500 allowed as cash discount to a trade debtor was not debited to the Discount Account.
 - (ii) Credit Sale of ₹ 6,550 was posted to the credit of the customer's account as ₹ 5,650.
 - (iii) Machine purchased on 1st October, 2022 for ₹ 50,000 in cash was posted to the Purchase Account in the ledger. Rate of Depreciation was applicable on machine 15% per annum.
 - (iv) Sales book was overcast by ₹ 10,000 in February 2023.

Give Journal entries to rectify the errors and prepare Suspense Account. 7

3. (a) Kush of Kanpur sent to Jatin of Jaipur, a consignment of 400 electric sewing machines costing each ₹ 24,000 (invoice price ₹ 30,000). Kush paid freight and insurance of ₹ 96,000. Jatin spent ₹ 31,200 for clearance and the selling expenses were ₹ 1,500 per sewing machine as and when the sale was made by Jatin. In transit 10 sewing machines were stolen for which the insurance company paid ₹ 1,85,000 in full settlement to Kush. Jatin sold 210 sewing machines at ₹ 32,000 per sewing machine and 130 sewing machines at ₹ 35,000 per sewing machine. Jatin was entitled to a commission of 5% on total sales value plus one-fourth of the amount by which the gross sale proceeds less total commission thereon exceeded the invoice price. The final amount due was settled.

You are required to show the Consignment Account, Jatin's Account and Loss in Transit account in the book of Kush. 7

(b) Mr. Rana purchases a car on Hire Purchase system on 01.01.2021. The Total cash price of the car is ₹ 4,50,000 payable ₹ 90,000 down and three instalments of ₹ 1,70,000, ₹ 1,50,000 and ₹ 1,08,460 payable at the end of 1st, 2nd and 3rd respectively. Interest is charged at 10% p.a.

You are required to calculate interest paid with each instalment. 7

4. Sohan is a small trader and does not maintain his books on double entry system. The details of his business are available as follows:

Particulars	01.04.2022 (₹)	31.03.2023 (₹)
Cash in Hand	--	1,000
Bank Balance	74,000 (Cr)	40,000 (Dr)
Sundry debtors	5,30,000	8,80,000
Sundry Creditors	1,50,000	1,95,000
Stock	1,70,000	1,90,000
Investments	1,20,000	1,35,000
Plant	2,00,000	2,00,000
Furniture	14,000	14,000

Sohan had withdrawn ₹ 3 lakh during the year, and he introduced fresh capital of ₹ 65,000 on 1st October, 2022. A provision to 5% on Sundry debtors is necessary. Write off depreciation on plant at the rate of 15% per annum and on furniture at the rate of 10% per annum. Interest on opening capital to be allowed at the rate of 10% per annum. The manager is entitled for a commission at the rate of 10% on the net profit after charging such commission.

You are required to ascertain Sohan's profit or loss for the year ended 31st March 2023. 14

5. X, Y and Z were partners sharing profits and losses in the ratio of 3 : 2 : 1. The firm's Balance Sheet on 31st March, 2023 was as follows:

Liabilities	Amount in (₹)	Assets	Amount in (₹)
Creditors	4,25,000	Cash in Hand	17,000
Bills Payable	1,35,000	Cash at Bank	2,48,000
General Reserve	5,10,000	Debtors	8,70,000
Capital A/c		Less : Provision for Bad debt	30,000
X	9,70,000	Bills Receivable	1,65,000
Y	7,40,000	Stock in trade	3,15,000
Z	3,80,000	Investments (Market Value ₹ 4,10,000)	3,75,000
		Furniture	4,20,000
		Land & Building	7,80,000
	31,60,000		31,60,000

Y retired on 1st April, 2023 and it was agreed that he should be paid all his dues in full on that date. For this purpose, goodwill was to be calculated on the basis of 4 years' purchase of super profit method.

Other informations are given below:

- (i) Average capital employed in the business ₹ 26,10,000.
- (ii) Net trading profit of the firm for past 3 years ₹ 6,30,000; ₹ 5,40,000; ₹ 6,75,000.
- (iii) Rate of interest expected from capital having regard to the risk involved —10%.
- (iv) Fair Remuneration to the partners for their services — ₹ 1,20,000 per annum.
- (v) Stock and furniture to be depreciated by 10%.
- (vi) A provision of 5% on debtors to be created for doubtful debts and a provision for liability of ₹ 18,000 to be created against bill discounted.
- (vii) The value of land and building is appreciated by ₹ 2,35,000 and investment is to be taken at its market value.
- (viii) Due to revaluation, the value of assets and liability are not to be altered.
- (ix) In order to meet Y's obligation, X and Z bring in additional capital of ₹ 3,50,000 and ₹ 7,20,000 respectively.
- (x) The Profit or Loss sharing ratio of X and Y in new firm will be 5 : 3.

You are required to:-

- (a) Calculate value of goodwill and show its treatment.
- (b) Calculate profit or loss on revaluation of Assets and Liabilities and show its adjustment among the partners.
- (c) Show the balances of Partners' Capital account after Y's retirement.
- (d) Prepare firm's balance sheet after retirement of Y.

14

6. (a) The Ranu stores of Jaipur has a retail branch at Kota. The goods are invoiced to the branch at selling price which is obtained by adding 50% on cost price. All expenses are paid by head office. The particular are as follows:

Particulars	₹
Balance as on 1st April, 2022	
-Stock at Invoice price	1,20,000
-Debtors	43,200
Goods Sent to Branch (Invoice Price)	18,00,000
Goods returned by Branch (Invoice Price)	24,000
Cash Sales	72,000
Credit Sales	16,32,000
Goods returned by Debtors	12,000
Cash received from Debtors	15,60,000
Discount allowed to Debtors	12,000
Bad Debt	2,400
Branch Expenses paid by Head Office : Rent	19,200
: Salaries	1,01,000
: Misc Expenses	6,000
Balance as on 31st March, 2023	
-Stock at Invoice Price	1,99,200
-Debtors	88,800

You are required to prepare Branch Stock account, Branch Debtors Account, Goods sent to Branch Account, Branch Expenses Account, Branch Adjustment Account, Branch Stock Reserve Account and in the books of Head Office. 7

(b) From the following information ascertain consequential loss claim: 7

1. Financial year ends on 31st March, with sales of ₹ 25,00,000.
2. Date of fire 1st September following.
3. Period of interruption — 1st September to 1st February, next year.
4. Indemnity period — 6 months.
5. Net Profit ₹ 2,75,000 plus insured standing charges ₹ 3,00,000.
6. Uninsured Standing Charges ₹ 50,000.
7. Sum Insured ₹ 6,16,000.
8. Standard Turnover for corresponding months (1st September to 1st February in the year preceding the fire ₹ 7,50,000.
9. Turnover in period of interruption ₹ 2,25,000.
10. Annual Turnover (i.e 12 months preceding the fire) ₹ 28,00,000.
11. Incurred additional expenses amounting to ₹ 50,000 with a saving of insured standing charges ₹ 14,000.
12. Reduced turnover avoided through additional expenses ₹ 1,50,000.
13. Special Circumstances clause stipulated:
 - (i) Increase in turnover (standard and annual) 10%
 - (ii) Increase in rate of gross profit 2%

7. (a) Rukamani Ltd. had made a rights issue of shares in 2022. In the offer document to its members, it had projected a surplus of ₹ 60 crores during the accounting year ended on 31st March, 2023. The draft results for the year prepared on the hitherto followed accounting policies and presented for perusal of the board of directors, showed a deficit of ₹ 15 crores. The board in consultation with the Managing Director decided on the following :

- (i) Value year-end inventory at works cost (₹ 75 crores) instead of the hitherto followed method of valuation of inventory at prime cost (₹ 45 crores).
- (ii) Not to provide for “after sale expenses” during the warranty period. Till the last year, provision at 2% of sale used to be made under the concept of “matching of cost against revenue” and actual expenses used to be charged against the provision. The Board now decided to account for the expenses as and when actually incurred. Sales during the year ₹ 900 crores.
- (iii) Provide for permanent fall in the value of investments, on which fall had taken place over the past 5 years, the provision being ₹ 15 crores.

As Chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2022-2023. 7

(b) What is the objective of Accounting Standard 10? As per AS 10 which are included in bearer plant and which are not? 7

8. (a) State the provisions of Accounting Standard 12, relating to presentation of Government Grants in Financial Statements. 5

(b) On 31st December, 2022, Sundry Debtors and provision for doubtful debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2023, ₹ 3,000 are bad and written off on 30-09-2023. An amount of ₹ 400 was received on account of a Debt which was written off as bad debt last year on 31-12-2023. The debtors left was verified and it was found that Sundry Debtors on 31st December 2023 stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as Bad.

Prepare Bad Debt A/c., Provision for Doubtful Debt A/c, assuming that the same % should be maintained for provision for doubtful debts as it was on 31-12-2022.

Show also Profit & Loss Account (abstract) for the year ended 31-12-2023 and Balance Sheet (abstract) as on that date. 5

(c) What do you mean by piecemeal distribution? Explain it. 4



PAPER - 6 : FINANCIAL ACCOUNTING
SUGGESTED ANSWERS
SECTION – A

1.

- (i) (B)
- (ii) (A)
- (iii) (A)
- (iv) (A)
- (v) (B)
- (vi) (C)
- (vii) (C)
- (viii) (A)
- (ix) (D)
- (x) (A)
- (xi) (B)
- (xii) (A)
- (xiii) (B)
- (xiv) (C)
- (xv) (C)

SECTION - B

2. (a)

- (i) Total depreciation to be charged in the Profit and Loss Account = D 2,92,000
- (ii) Profit or loss on exchange of machine = D 55,000
- (iii) Book value of machinery in Balance Sheet as on 31.03.2023 = D 16,33,000

2. (b)

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		Dr.	Cr.
		(D)	(D)
25.04.23	P & L Adjustment A/c Dr	4,500	
	To Suspense A/c		4,500
25.04.23	Customer's A/c Dr	12,200	
	To Suspense A/c		12,200
25.04.23	Machinery A/c Dr	46,250	
	To P & L Adjustment A/c		46,250
25.04.23	P & L Adjustment A/c Dr	10,000	
	To Suspense A/c		10,000
25.04.23	P & L Adjustment A/c Dr	31,750	
	To Capital A/c		31,750

(All Journal entries to be supported by appropriate narration)

Suspense A/c

Date	Particulars	Amount (D)	Date	Particulars	Amount (D)
01.04.23	To Balance b/d	26,700	25.04.23	By P & L Adjustment A/c	4,500
			25.04.23	By Customer's A/c	12,200
			25.04.23	By P & L Adjustment A/c	10,000
		26,700			26,700

3. (a)

**Books of Kush
Consignment Account**

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Goods Sent on Consignment A/c	96,00,000	By Jatin	1,12,70,000
To Bank A/c (Freight & Insurance)	96,000	By Loss in Transit A/c	2,42,400
To Jatin – Clearance Exp.	31,200	By Consignment Stock a/c	12,16,000
To Jatin – Selling Exp	5,10,000		
To Jatin – (Commission)	6,90,125		
To Profit & Loss A/c	18,01,075		
	1,27,28,400		1,27,28,400

Jatin's Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Consignment A/c	1,12,70,000	By Consignment A/c - Clearance	31,200
		By Consignment A/c – Selling Exp	5,10,000
		By Consignment A/c – Commission	6,90,125
		By Bank A/c	1,00,38,675
	1,12,70,000		1,12,70,000

Loss In Transit Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Consignment A/c	2,42,400	By Bank – Insurance Claim	1,85,000
		By Profit & Loss A/c	57,400
	2,42,400		2,42,400

Alternatively:

**In the Book of Kush
Consignment Account**

Dr		Cr	
Particulars	(D)	Particulars	(D)
To, Goods Sent on Consignment A/c	1,20,00,000	By, Goods sent on Consignment A/c	24,00,000
To, Bank A/c			
- Freight and Insurance	96,000		
To, Jatin A/c		By, Jatin A/c	1,12,70,000
- Clearing Exp.	31,200	By, Loss in Transit A/c (10 Machines)	
To, Jatin A/c			2,42,400
- Selling Exp.	5,10,000		
To, Jatin A/c	6,90,125	By, Consignment Stock A/c	15,16,000
To, Stock Reserve A/c	3,00,000		
To, P/L A/c	18,01,075		
	1,54,28,400		1,54,28,400

3. (b)

Interest paid with each instalment

Year	Opening Balance of Cash Price	Instalment	Payment towards Cash Price	Payment towards Interest	Closing Balance of Cash Price
	D	D	D	D	D
01.01.21	4,50,000	90,000	90,000	0	3,60,000
31.12.21	3,60,000	1,70,000	1,34,000	36,000	2,26,000
31.12.22	2,26,000	1,50,000	1,27,400	22,600	98,600
31.12.23	98,600	1,08,460	98,600	9,860	0

4.

Statement Showing Profit or Loss for the year ended 31st March 2023

Particulars	Amount (D)
Capital at the end of the year as per Statement of Affairs	11,89,600
Add: Drawings During the year 2022-23	3,00,000
Less: Fresh Capital introduced on 01.10.2022	(65,000)
Adjusted Capital	14,24,600
Less: Capital At the beginning of the year as per Statement of Affairs	(8,10,000)
Profit before charging interest and capital and Manager's Commission	6,14,600
Less: Interest on Capital	(81,000)
Profit before charging manager's commission	5,33,600
Less: Manager's Commission	(48,509)
Net Profit	4,85,091

5.

(a) Value of goodwill = D 9,36,000

Treatment of Goodwill			
		Dr.	Cr.
		D	D
X's Capital A/c	Dr	1,17,000	
Z's Capital A/c	Dr	1,95,000	
	To Y's Capital A/c		3,12,000

(b) Profit on revaluation of asset and liability = D 1,65,000

Adjustment of Profit on Revaluation among the Partners:

	Total (D)	X (D)	Y (D)	Z (D)
Profit credited to all partners (3:2:1)	1,65,000	82,500	55,000	27,500
Reverse debited to X and Z (5:3)	(1,65,000)	(1,03,125)	0	(61,875)
Net adjustment		20,625 (Dr)	55,000 (Cr)	34,375 (Dr)

(c) **Balance of partners' capital accounts after Y's retirement**

	X (D)	Z (D)
Partners' capital after Y's retirement	11,18,625	7,64,375

(d) Firm's Balance Sheet after retirement of Y

Liabilities	Amount (D)	Assets	Amount (D)
Capital A/cs		Land & Building	7,80,000
X	11,18,625	Furniture	4,20,000
Z	7,64,375	Stock in trade.	3,15,000
General Reserve	5,10,000	Investments	3,75,000
Creditors	4,25,000	Debtors	8,70,000
Bills Payable	1,35,000	Less: Prov for Bad debt	<u>30,000</u>
		Bills Receivable	1,65,000
		Cash at Bank	41,000
		Cash in Hand	17,000
	29,53,000		29,53,000

6. (a)

Books of Ranu Stores (Head Office)
Branch Stock Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Balance b/d	1,20,000	By Goods Sent to Branch (Returns)	24,000
To Goods Sent to Branch A/c	18,00,000	By Bank/ Cash A/c	72,000
To Branch Debtors A/c (Returns)	12,000	By Branch Debtors A/c	16,32,000
		By Branch Adjustment A/c (Short)	4,800
		By Balance c/d	1,99,200
	19,32,000		19,32,000

Branch Debtors Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Balance b/d	43,200	By Branch Stock A/c	12,000
To Branch Stock A/c	16,32,000	By Bank/ Cash A/c	15,60,000
		By Branch Expenses A/c - discount	12,000
		By Branch Expenses A/c - bad debt	2,400
		By Balance c/d	88,800
	16,75,200		16,75,200

Goods Sent to Branch Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Stock A/c	24,000	By Branch Stock A/c	18,00,000
To Branch Adjustment A/c	5,92,000		
To Trading A/c	11,84,000		
	18,00,000		18,00,000

Branch Expenses Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Debtors A/c (Discount)	12,000	By Branch Adjustment A/c	1,40,600
To Branch Debtors A/c (Bad debts)	2,400		
To Bank / Cash A/c	1,26,200		
	1,40,600		1,40,600

Branch Adjustment Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Expenses A/c	1,40,600	By Stock Reserve A/c (open)	40,000
To Branch Stock A/c (Shortage)	4,800	By Goods Sent to Branch A/c	5,92,000
To Stock Reserve A/c (Closing)	66,400		
To Profit and Loss A/c	4,20,200		
	6,32,000		6,32,000

Branch Stock Reserve Account

Dr		Cr	
Particulars	Amount (D)	Particulars	Amount (D)
To Branch Adjustment A/c	40,000	By Balance b/d	40,000
To Balance c/d	66,400	By Branch Adjustment A/c	66,400
	1,06,400		1,06,400

6. (b)

Total Loss = D 1,73,500

Amount of Net Claim = D 1,38,800

7. (a)

As per AS 1 any change in the accounting policies which has a material effect in the current period or which is reasonable expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statement is affected by such change should also be disclosed to the extent ascertainable. Where such amount is ascertainable, wholly or in part the fact should be indicated. Accordingly, the note of accounting should properly disclose in the change and its effect.

Notes to accounts

- (i) During the year inventory has been valued at factory cost against the practise of valuing it at prime cost as was the practise till last year. This has been done to take cognizance of the more capital-intensive method of production because of heavy capital expenditure during the year. As a result the year-end inventory has been valued at D 75 Crores, in place of D 45 crores, thereby the profit for the year is increased by D 30 crores i.e. D 75 crores – D 45 crores

- (ii) So far, the company has been providing 2% of sales for meeting after selling expenditure during the warranty period. The improved method of production the probability of defect occurring in the product has been reduced considerably. Hence the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred. Due to this change the profit for the year is increased by rupees 18 crores i.e. 2% of rupees 900 crore then would have been the case if the old policy were to be continue.
- (iii) The company has decided to provide D 15 crore for the permanent fall in the value of investment which has taken place over the period of past five years the provision so made has reduced the profit disclosed in the accounts by D 15 crore.

7. (b)

Objective of Accounting Standard (AS) 10

The objective of the standard is to prescribe the accounting treatment for property, plant and equipment. So that user of the financial statements can discern information about investment made by an enterprise in its property, plant and equipment and the change in such investment the principal issue in the accounting for property, plant and equipment are the recognition of the assets the determination of their carrying amount and the depreciation charges and impairment losses to be recognised in relation to them.

Bearer Plant is a plant that.

- (a) Is used in the production or supply of agricultural produce;
- (b) Is expected to be a produce for more than a period of 12 months; and
- (c) Has a remote likelihood of being sold as agricultural produce except for incidental scrap sale?

The following are not bearer plants:

- (i) Plant cultivated to be harvested as a agricultural produce;
- (ii) Plant cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce other than a incidental scrap sale;
- (iii) Annual crops: When bearer plant are no longer used to bear produce they might be cut down and sold as a scrap. Once an item of property, plant and equipment qualifies for recognition as an asset it will be initially measured at cost.

8. (a)

As per AS 12 Provisions relating to presentation of Government Grants in Financial Statements' are as under:

1. Presentation of Grant Related to Specific Fixed Assets:
The primary condition of government grants related to specific fixed asset is that an enterprise qualifying for them should purchase construct or otherwise acquire such assets. Other condition may also be attached restricting the type or location of the assets or the period during which they are to be acquired or held.
2. Two methods of presentation of Grants (or the appropriate portions of grants) related to specific fixed assets are regarded as acceptable alternatives:
 - i. First method: The grant is shown as deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation. Where the whole or virtually the whole of the cost of the assets the asset is shown in the balance sheet at a nominal value.
 - ii. Second method: Grants related to depreciable assets are credited as deferred income which is recognised in the profit and loss statement on systematic and rational basis over the useful life of asset. Such allocation to income is usually made over the period and in the proportions in which depreciation on related asset is charged.

3. Grants related to non-depreciable assets are credited to capital reserve as there is usually no charge to income in respect of such assets, however if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income is suitably disclosed in the balance sheet pending its apportionment to profit and loss account.
4. Presentation of Grants related to Revenue: Grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as Other Income. Alternatively, they are deducted in reporting the related expenses.
5. Presentation of Grants of the nature of Promoters' contribution: Where the Government grants are of the nature of promoter's contribution, and no payment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor consider as deferred income

8. (b)

**In the Book of _____
Bad Debt Account**

Date	Particulars	Amount (D)	Date	Particulars	Amount (D)
30.09.23	To Sundry Debtors	3,000	31.12.23	By Provision for Doubtful Debt A/c	3,800
31.12.23	To X's A/c	800			
		3,800			3,800

Provision for Doubtful Debts A/c

Date	Particulars	Amount (D)	Date	Particulars	Amount (D)
31.12.23	To Bad Debts	3,800	01.01.23	By Balance b/d	5,000
31.12.23	To Balance c/d	3,920	31.12.23	By Profit & Loss A/c	2,720
		7,720			7,720

**Profit & Loss A/c (Extract)
For the year ended 31-12-2023**

Particulars	Amount (D)	Particulars	Amount (D)
To Bad Debts	3,800	By Bad Debts Recovery A/c	400
		By Provision for Bad Debts – Existing	5,000
		Less Provision required	<u>3,920</u>
			1,080

**Balance Sheet (Extract)
As at 31-12-2023**

Liabilities	Amount (D)	Assets	Amount (D)	Amount (D)
		Sundry Debtors	40,000	
		Less Bad Debts	800	
			39,200	
		Less Provision for bad Debts	<u>3,920</u>	35,280

8. (c)

Piecemeal distribution

Till now, the decision was based on the implicit assumption that all assets were realised, and settlement was done on the same date. In fact, on the dissolution of partnership assets are sometimes realised gradually over a period. In such a case, it may be agreeing that the different parties are to be paid in order of preference as and when assets are realised without unnecessary waiting for the final realisation of all the assets.

The Order of payment will be as follows:

1. Realisation expenses
2. For provision for expenses that are to be made
3. Preferential Creditor say Income Tax, or any payment made to the government
4. Secured creditor up to the amount realised from the disposal of assets by which they are secured and for the balance, if any, to be paid to unsecured creditor.
5. Unsecured creditor- In proportion to the amount of debts, if more than one creditor
6. Partners' Loan – if there is more than one partner – in that case, in proportion to the amount of loan.
7. Partners' Capital – the order of payment may be made by any one of the following two methods.
 - a) Surplus Capital Method / Proportionate Capital Method / Highest relative Capital Method
 - b) Maximum possible loss method.

INTERMEDIATE EXAMINATION

December 2024

P-6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
Wherever necessary, candidates may make appropriate assumption(s)
and state the same clearly in the answer.
Workings should form part of your answer.*

Section-A

1. Choose the correct alternative:

2×15=30

- (i) A Company is a going concern if
- (A) its Balance Sheet shows a strong Financial Position.
 - (B) its Income Statement for the current year shows huge Profit.
 - (C) there is no evidence that it will or will have to cease operations within foreseeable future.
 - (D) its a Public Limited company.
- (ii) Which of the following errors/omissions are not part of the Bank reconciliation process?
- (A) Wrong totalling of Bank column of cash book.
 - (B) Wrong totalling of cash column of cash book.
 - (C) Posting wrong amount in Bank column of cash book.
 - (D) Omission to carry forward balance in the Bank column of the cash book.
- (iii) Which of the following is true about financial statements?
- (a) Financial Statements give a summary of Accounts.
 - (b) Financial Statements can be stated as recorded facts.
- Select the correct answer.
- (A) Statement (a) is correct
 - (B) Statement (b) is correct
 - (C) Both (a) and (b) are correct
 - (D) None of the above.
- (iv) X draws a bill on Y for ₹ 1,80,000 for mutual accommodation in the ratio of 2 : 1. X got it discounted for ₹ 1,69,200 and remitted 1/3rd of the proceeds to Y. How much money should be remitted by X to Y at the time of maturity so as to enable Y to honour the bill?
- (A) ₹ 1,20,000
 - (B) ₹ 1,15,200
 - (C) ₹ 1,16,800
 - (D) ₹ 1,20,400

- (v) A firm had a capital balance of ₹ 1,00,000 at the beginning of a year. At the end of the year the firm has total assets of ₹ 1,50,000 and total liabilities of ₹ 70,000. If the total withdrawals during the period is ₹ 30,000, what was the amount of net profit/ net loss for the year?
(A) ₹ 10,000 Profit
(B) ₹ 20,000 Loss
(C) ₹ 50,000 Loss
(D) ₹ 10,000 Loss
- (vi) Depreciation charged to Income Statement ₹ 8,00,000, Depreciation u/s 32 of the Income Tax Act ₹ 20,00,000; unamortised Preliminary Expenditure as per Income Tax records ₹ 1,50,000; Corporate Tax rate is 40%. In this situation, the amount of deferred tax asset / liabilities to be created _____.
It is assumed that there is adequate evidence of future profits sufficiency.
(A) Deferred Tax Assets ₹ 4,20,000
(B) Deferred Tax Liabilities ₹ 4,20,000
(C) Deferred Tax Liabilities ₹ 4,80,000
(D) Deferred Tax Assets ₹ 4,80,000
- (vii) Provision for doubtful debt on 1st April 2023 was ₹ 14,000. During the year 2023-24, the Bad Debts was ₹ 9,500. The Sundry Debtors on 31st March 2024 were ₹ 3,25,000. Provision is to be made @ 5% on debtors. If on 31st March 2024, there was additional bad debts of ₹ 2,500, then provision for doubtful debts will be
(A) Debited to Profit and Loss Account by ₹ 16,125
(B) Debited to Profit and Loss Account by ₹ 14,125
(C) Debited to Profit and Loss Account by ₹ 18,125
(D) Debited to Profit and Loss Account by ₹ 2,000
- (viii) Cost of Machinery is ₹ 60,000. Useful life of the asset is 5 years. Annual Depreciation on Machine under Straight Line Method is ₹ 10,000. The scrap value of the Machine will be
(A) ₹ 60,000
(B) ₹ 10,000
(C) ₹ 50,000
(D) ₹ 70,000
- (ix) A company deals in 3 products X, Y and Z which are neither similar nor interchangeable. At the time of closing of its Accounts for the year 2023-24, historical cost and net realisable values of the items of closing stock are determined as below:

Items	Historical value (₹)	Net Realisable value (₹)
X	20	14
Y	16	16
Z	8	12

What will be the value of closing stock?

- (A) ₹ 44
- (B) ₹ 42
- (C) ₹ 38
- (D) None of the above

(x) In case of a club, the excess of expenditure over Income is called as _____.

- (A) Surplus
- (B) Deficit
- (C) Capital Fund
- (D) Investment in Fixed Assets

(xi) Which of these statements is not true?

- (A) Accumulated Profit and Loss, General Reserve are transferred to old partners capital accounts.
- (B) If assets and liabilities are to be shown in the Balance Sheet at old value, Memorandum Revaluation account is to be opened.
- (C) Profit on Revaluation is transferred to the capital account of old partners in equal ratio.
- (D) A Revaluation Account is a Nominal Account.

(xii) P sends 1,000 bags to Q costing ₹ 400 each at an invoice price of ₹ 500 each. The costs incurred were: P's expenses ₹ 4,000; Q's expenses ₹ 1,000 (non selling) and ₹ 2,000 (selling); 800 bags were sold by Q. What is the value of Consignment Stock at invoice price ?

- (A) ₹ 1,01,000
- (B) ₹ 1,01,800
- (C) ₹ 1,01,400
- (D) ₹ 1,02,000

(xiii) X and Y entered into a joint venture to undertake the public issue of ABC Ltd. The company invited applications for allotment of 2,00,000 shares at ₹ 10 per share. The issue was subscribed to the extent of 90% and the remaining were taken by Y. They agreed to share profit and loss in the ratio of 2 : 3. The shares undertaken by X and Y were subsequently sold at a premium of ₹ 40 per share. How many shares were undertaken by X and Y?

- (A) 20,000
- (B) 25,000
- (C) 18,000
- (D) 30,000

(xiv) Match the following:

	List 1		List 2
(I)	IND AS16	(a)	Qualifying assets will never include biological assets.
(II)	AS 10	(b)	Government grants as capital contribution are specifically recognized.
(III)	AS 12	(c)	No recognition criteria for fixed assets are laid out.
(IV)	IND AS 23	(d)	PPE acquired in exchange of non monetary assets is recognized at fair value.

- (I) (II) (III) (IV)
 (A) (c) (b) (a) (d)
 (B) (d) (b) (c) (a)
 (C) (d) (c) (b) (a)
 (D) (d) (c) (a) (b)

(xv) State which of the following statements is correct.

- (A) Stock Debtors System of maintaining Branch Account is used for independent branch.
 (B) The buyer gets immediate possession but not ownership of the asset under Installment Payment.
 (C) Unusual items and defective items are separate under insurance claims.
 (D) Operation lease is a Revocable contract.

Section-B

Answer any five out of seven Questions.

14×5=70

2. (a) On comparing the Cash Book of Shivam with the Bank Pass Book for the year ended 31st March, 2024, following discrepancies were noticed:
- Cheques of ₹ 85,000 deposited into the bank on 25th March, cheques amounting to ₹ 25,000 were collected on 5th April.
 - Cheques amounting to ₹ 38,000 drawn on 28th March, of which a cheque for ₹ 8,000 was presented on 3rd April.
 - A cheque for ₹ 4,000 entered in Cash Book but omitted to be banked on 31st March.
 - A bill receivable for ₹ 18,000 previously discounted (discount ₹ 90) with the bank had been dishonoured but advice was received on 3rd April.
 - A cheque of ₹ 20,000 wrongly credited in the Pass Book on 29th March was reversed on 2nd April.
 - Bank had wrongly debited ₹ 15,000 in the account on 31st March and reversed it on 10th April, 2024.

Prepare a Bank Reconciliation Statement as on 31st March, 2024, if the Balance as per Cash Book on 31st March, 2024 was ₹ 1,82,500.

(b) State with reasons whether the following are Capital Expenditure or Revenue Expenditure: 7

- (i) Expenses incurred in connection with obtaining a license for starting the factory were ₹ 10,000.
- (ii) ₹ 1,000 paid for removal of stock to a new site.
- (iii) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get full efficiency.
- (iv) ₹ 2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.
- (v) ₹ 10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.
- (vi) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials.
- (vii) A pair of bullocks of ₹ 50,000 was killed by lightning.

3. (a) Indra drew upon Chandra a bill for ₹ 90,000 on April 1, 2024 for 3 months, for mutual accommodation. Chandra accepted the same immediately on receipt. On April 4, Indra got it discounted at 6% p.a. and remitted 1/3rd of the proceeds to Chandra. At maturity, Indra was not able to send the required sums and asked Chandra to receive a 2 months Promissory Note for ₹ 60,900 which Chandra did. Chandra got the Note discounted for ₹ 60,000 and met his acceptance. Indra became insolvent just before his Promissory Note was due for payment. Only 25% was received from his estate. You are required to pass journal entries in the books of Indra. 7

(b) On 1st April, 2021, Aarvi Limited purchased a machine on hire purchase system, whose cash price was ₹ 12,00,000. The hire purchase price of the machine was ₹ 15,00,000. ₹ 3,00,000 was payable immediately and the balance was to be paid in three equal annual installments. The books are closed on 31st March each year. The company charge depreciation @ 15% per annum on the reducing balance basis.

Calculate interest included in each installment and prepare Machinery Account for three years in the books of Aarvi Limited. 7

4. Rahul does not maintain a proper books of account. However, he maintains a record of his bank transactions and is also to give the following information from which you are requested to prepare his final accounts for the year 2023-24.

Particulars	31.03.2023	31.03.2024
Debtors	₹ 1,02,500	?
Creditors	?	₹ 46,000
Stock	₹ 50,000	₹ 62,500
Bank Balance	?	₹ 50,000
Fixed Assets	₹ 7,500	₹ 9,000

Details of Bank transactions are as follows:

Particulars	Amount in ₹
Received from Debtors	3,40,000
Additional capital introduced	5,000
Sale of Fixed Assets (book value ₹ 2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal Drawings	25,000
Purchase of Fixed Assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60 000.

14

5. Raylink Ltd. agreed to purchase the business of a firm consisting of two brothers, A. Ray and S. Ray as on March 31, 2024. The Balance Sheet of the firm on that date was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Leasehold Premises	1,17,500
A. Ray	1,90,000	Plant & Machinery	70,000
S. Ray	1,45,000	Furniture & Fixtures	17,500
General Reserve	75,000	Stock-in-Trade	1,55,000
Creditors	1,00,000	Debtors	1,37,500
		Cash	12,500
	5,10,000		5,10,000

The company agreed to takeover the liabilities and all the assets, with the exception of cash, the agreed purchase price being ₹ 4,50,000 to be satisfied as to 1/4th in cash and 3/4th by issue of fully paid equity shares of ₹ 10 each at an agreed value of ₹ 12.50 per share.

The company made the following revaluations of the assets taken over when bringing them to books:

Leasehold Premises	₹ 1,55,000	Stock-in-Trade	₹ 1,45,000
Plant & Machinery	₹ 62,500	Debtors	₹ 1,25,000
Furniture & Fixtures	₹ 12,500		

You are required to:

- Pass the necessary journal entries to record the acquisition of the business in the books of the company; and
- Prepare the post-acquisition Balance Sheet of Raylink Ltd.

6+8

6. (a) Adhiraj Ltd., Noida, started a branch in Surat on April 1, 2023 to which goods were sent at 20% above cost. The branch makes both credit and cash sales. It is the policy to meet branch expenses from branch cash, and remit the balance money to Head Office (H.O.). The branch does not maintain double entry books of accounts, and necessary accounts relating to the branch are maintained by the H.O.

Particulars	₹	Particulars	₹
Cost of goods sent to Noida Branch	50,000	Cash remitted to H.O.	43,000
Goods received by branch till March 31 (at IP)	54,000	Cash in hand at branch at the end of the year	2,000
Credit sales for the year	58,000	Cash remitted by H.O. to branch during the year	3,000
Closing Debtors	20,800	Closing stock at branch at IP	6,000
Bad debts	200	Expenses incurred at branch	12,000

Show the Surat Branch Account in the books of the Noida H.O. to determine the profit and loss of the branch for the year ended March 31, 2024. 7

- (b) On 10th December, 2024 a fire occurred in the premises of Chandu. All stock except to the extent of ₹ 28,800 were destroyed. Chandu values the stock at cost less 10 per cent. Stock was insured for ₹ 1,00,000. From the following information, ascertain the amount of claim to be lodged by Chandu:

Particulars	₹
Stock on 1st April, 2023	1,44,000
Purchases less returns during 2023-24	5,60,000
Sales less returns during 2023-24	8,00,000
Stock on 31st March, 2024	90,000
Purchases less returns from 1st April, 2024 to date of fire	5,84,000
Sales less returns from 1st April, 2024 to date of fire	6,40,000

7. (a) (i) In the context of AS 11, what do you mean by 'Integral Foreign Operation'?
State how the following items of integral foreign operation should be translated:
- (I) Salaries & Wages;
 - (II) Depreciation on Furniture; and
 - (III) Machineries carried at fair value.

7. (a) (ii) While clarifying the scope of AS-22 (Accounting for Taxes on Income), explain the meaning of the following terms related to it.
- (I) Accounting income (loss)
 - (II) Taxable income (tax loss)
 - (III) Tax expense (tax saving) 3
7. (b) (i) As per AS-12, explain the treatment of the following:
- (I) A firm acquired a fixed asset for ₹ 850 lakhs on which the Government grant received was 40%.
 - (II) Capital subsidy received from the Central Government for setting up a plant in the notified backward region. Cost of the plant ₹ 900 lakhs, subsidy received ₹ 250 lakhs.
 - (III) ₹ 225 lakhs received from the local authority for providing medical facilities to the employees. 3
7. (b) (ii) List out comparative provisions between AS 11 and IND AS 21. 4
8. (a) Briefly explain merits of IND AS. 5
- (b) Answer the following question:
- (i) Profit is earned on sale of fixed asset . What should be the accounting treatment of this profit?
 - (ii) Why is the full cost of an asset not treated as an expense in the year of its purchase?
 - (iii) Do you think that the convention of conservatism results creation of secret reserves?
 - (iv) Goods worth ₹ 1,00,000 were burnt by fire and a claim of ₹ 70,000 has been accepted by the insurance company. How will it be recorded in the final account?
 - (v) State with the reasons whether the following statement is true or false.
The provision for the discount on Debtors is calculated after deducting the provision for doubtful debts from debtors. 5
- (c) Give entries for the following transactions:
- (i) Realisation expenses ₹ 8000 were paid by Rana a partner.
 - (ii) Realisation expenses ₹ 10,000 paid by the firm on behalf of the Dhana (a partner), he has to bear the realisation expenses.
 - (iii) Realisation expenses ₹ 20,000, out of which 60% to be borne by Mana (a partner) and remaining by the firm.
 - (iv) Realisation expenses ₹ 10,000 to be borne by Kana, a partner, but paid by Dhana, another partner. 4

PAPER - 6: FINANCIAL ACCOUNTING

SUGGESTED ANSWERS

SECTION - A

1.

- (i) (C)
- (ii) (B)
- (iii) (C)
- (iv) (A)
- (v) (A)
- (vi) (B)
- (vii) (B)
- (viii) (B)
- (ix) (C)
- (x) (B)
- (xi) (C)
- (xii) (A)
- (xiii) (A)
- (xiv) (C)
- (xv) (D)

SECTION - B

2. (a)

Bank Reconciliation Statement
as on 31st March 2024

Particulars	Amount (₹)	Amount (₹)
Balance as per Cash Book (Debit)		1,82,500
Add:-		
(i) Cheques issued on 28th March but not yet presented for payment	8,000	
(ii) A cheque wrongly credited by bank	<u>20,000</u>	28,000
		2,10,500
Less :-		
(i) Cheques deposited on 25th March but not yet collected till 31st March	25,000	
(ii) A cheque entered in Cash Book but not yet banked	4,000	
(iii) Discounted Bills Receivable dishonoured but not recorded in Cash Book	18,000	
(iv) Amount wrongly debited by bank	<u>15,000</u>	62,000
Balance as per Pass Book (Credit)		<u>1,48,500</u>

2. (b)

- (i) Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.
- (ii) Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.
- (iii) Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.
- (iv) Revenue Expenditure.
- (v) Revenue Expenditure. [As per As-26]
- (vi) Both are Capital Expenditure
- (vii) Capital loss. Live stock is a fixed asset.

3. (a)

**Books of Indra
Journal Entries**

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
1.4.2024	Bills Receivables A/c To Chandra A/c	Dr.	90,000	90,000
4.4.2024	Bank A/c Discount on Bills A/c To Bills Receivables A/c	Dr. Dr.	88,650 1,350	90,000
4.4.2024	Chandra A/c To Bank A/c To Discount on Bill A/c	Dr.	30,000	29,550 450
4.7.2024	Interest A/c To Chandra A/c	Dr.	900	900
4.7.2024	Chandra A/c. To Bills Payable A/c	Dr.	60,900	60,900
7.9.2024	Bills Payable A/c To Chandra A/c	Dr.	60,900	60,900
7.9.2024	Chandra A/c To Bank A/c To Deficiency A/c	Dr.	60,900	15,225 45,675

Note: Entries to be supported by Narration.

3. (b)

Interest included in each Instalment

Instalment	Interest (₹)
First	1,50,000
Second	1,00,000
Third	50,000
Total	3,00,000

**In the Books of Aarvi Ltd
Machinery Account**

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.21	To Hire Vendor	12,00,000	31.3.22	By Depreciation A/c By Balance c/d	1,80,000 10,20,000
		12,00,000			12,00,000
1.4.22	To Balance b/d	10,20,000	31.3.23	By Depreciation A/c By Balance c/d	1,53,000 8,67,000
		10,20,000			10,20,000
1.4.23	To Balance b/d	8,67,000	31.3.24	By Depreciation A/c By Balance c/d	1,30,050 7,36,950
		8,67,000			8,67,000

4.

In the Books of Rahul
Trading Account and Profit and Loss Account for the year ended 31.3.2024

Dr		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	50,000	By Sales	325,000
To Purchases	272,500	By Closing Stock	62,500
To Gross Profit c/d	65,000		
	<u>3,87,500</u>		<u>3,87,500</u>
To Expenses	49,250	By Gross Profit b/d	65,000
To Depreciation on Fixed Asset	1,000		
To Loss on Fixed Asset	750		
To Net Profit c/d	14,000		
	<u>65,000</u>		<u>65,000</u>

Balance Sheet of Rahul as on 31.03.2024

Particulars		Amount (₹)	Particulars		Amount (₹)
Capital Account :			Fixed Assets		9,000
Opening Balance	169,000		Stock		62,500
Add: Capital introduced	5,000		Debtors		87,500
Add: Net Profit	<u>14,000</u>		Bank		50,000
	188,000				
Less: Drawing	<u>25,000</u>	163,000			
Creditors		46,000			
		<u>209,000</u>			<u>209,000</u>

5.

(a)

Books of Raylink Ltd.

Journal Entries.			Dr.	Cr.
Date	Particulars		Amount (₹)	Amount (₹)
2024 Mar. 31	Leasehold Premises A/c	Dr.	1,55,000	
	Plant & Machinery A/c	Dr.	62,500	
	Furniture & Fixtures A/c	Dr.	12,500	
	Stock-in-Trade A/c	Dr.	1,45,000	
	Debtors A/c	Dr.	1,25,000	
	To Business Purchase A/c			5,00,000
	Business Purchase A/c	Dr.	1,00,000	
	To Creditors A/c			1,00,000
	Business Purchase A/c	Dr.	4,00,000	
	Goodwill A/c	Dr.	50,000	
To M/s A. Ray & S. Ray A/c			4,50,000	
M/s A. Ray & S. Ray A/c	Dr.	4,50,000		
To Bank A/c			1,12,500	
To Equity Share Capital A/c			2,70,000	
To Securities Premium A/c			67,500	

Note: Entries to be supported by Narration.

(b)

Raylink Ltd.
Balance Sheet as at March 31, 2024

Particulars	Note No.	Amount (₹)
I. EQUITY & LIABILITIES		
1. Shareholders' Funds:		
(a) Share Capital: 27,000 Equity Shares of ₹10 each		2,70,000
(b) Reserves and Surplus: Securities Premium		67,500
2. Non-current liabilities		Nil
3. Current liabilities:		
(a) Short-term borrowings: Bank Overdraft		1,12,500
(b) Trade payables: Creditors		1,00,000
Total		5,50,000
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible assets	1	2,30,000
(ii) Intangible asset: Goodwill		50,000
2. Current Assets		
(a) Inventories: Stock-in-Trade		1,45,000
(b) Trade receivables: Debtors		1,25,000
Total		5,50,000

Notes to Accounts:

Date	Particulars	Amount (₹)
1	Tangible assets:	
	Leasehold Premises	1,55,000
	Plant & Machinery	62,500
	Furniture & Fixtures	12,500
		2,30,000

6. (a)

Books of Adhiraj Ltd. (Noida H.O.)
Surat Branch A/c

Dr.	Amount (₹)	Cr.	Amount (₹)
Particulars		Particulars	
To Goods Sent to Branch A/c	60,000	By Goods Sent to Branch A/c	10,000
To Bank A/c	3,000	- Loading	
To Goods-in-Transit A/c	1,000	By Goods-in-Transit A/c	6,000
- Loading			
To Stock Reserve	1,000	By Bank A/c	43,000
		- [Remittance from Branch]	
To General Profit & Loss A/c [Branch NP transferred]	22,800	By Balance c/f:	
		- Branch Debtors	20,800
		- Branch Cash	2,000
		- Branch Stock	6,000
	87,800		87,800

6. (b)

Trading Account for the year ending 31st March, 2024

	Amount (₹)		Amount (₹)
To Opening Stock	1,60,000	By Sales less Returns	8,00,000
To Purchases less Returns	5,60,000	By Closing Stock	1,00,000
To Gross Profit	1,80,000		
	9,00,000		9,00,000

Rate of Gross Profit = $(180,000/800,000) \times 100 = 22.5\%$

**Memorandum Trading Account
for the period from 1st April, 2024 to 10th December, 2024**

	Amount (₹)		Amount (₹)
To Opening Stock	1,00,000	By Sales less Returns	6,40,000
To Purchases less Returns	5,84,000	By Closing Stock	1,88,000
To Gross Profit	1,44,000	(Balancing figure)	
	8,28,000		8,28,000

Loss on Stock destroyed by fire = $(188,000 - 28,800) = ₹ 1,59,200$

Amount of Claim: = ₹ 84,681.

7. (a)

(i) **Integral foreign operation:** A foreign operation which is carried as if it were extensions of the reporting enterprise's activities like dependent branch, sales depot, foreign arm which produces raw materials and transfers it to head office (reporting enterprise) or foreign operation raises finance to help the reporting enterprise. (AS11)

Translation of items of financial statements of integral foreign operation:

- (i) Salaries & Wages: They should be translated using the actual rate prevailing on the date of transaction; however, average rate may also be applied.
- (ii) Depreciation on Furniture: It should be translated using the exchange rate which existed on the date of purchase of the furniture.
- (iii) Machineries carried at fair value: It, being a tangible fixed asset, which is carried at fair value, is to be translated using the exchange rate which existed as on the date of the valuation.

- (ii)
 - a) Accounting income (loss) - is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income, tax expense or adding income tax saving.
 - b) Taxable income (tax loss) - is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.
 - c) Tax expense (tax saving) - is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.

7. (b)

- (i)
 - (a) The total cost of the fixed asset is ₹850 lakhs and the grant are 40% i.e., ₹340 lakhs. In the balance sheet, the asset will be shown at the net amount (₹850 lakhs – ₹340 lakhs) i.e., ₹510 lakhs only. This will be depreciated over the life of the asset.
 - (b) In this case, the subsidy received for setting up a plant in the notified region, should be treated as a capital subsidy. The amount of subsidy i.e., ₹250 lakhs be added to the Capital Reserves and the plant should be shown at ₹900 lakhs.
 - (c) It is a case of revenue grant and should be shown in the profit and loss account. However, if the medical facilities are to be provided over a period of more than one year, it may be treated as deferred income and then taken to Profit and Loss Account on a systematic basis.

(ii)

Comparative Provision between AS 11 and Ind AS 21

Ind AS 21	IND AS 11
<ul style="list-style-type: none">• Forward Exchange contracts are not covered.• Accounting of foreign operations is based on a functional currency approach.• No specific guidance provided <ul style="list-style-type: none">• Presentation currency could be different from the local currency.	<ul style="list-style-type: none">• Forward exchange contracts are included within its scope.• Accounting for foreign operations is based on an integral and non- integral approach.• Options to recognise exchange differences arising on translation of certain long-term monetary items over the period is available.• No such specifications provided.

8. (a)

Merits of Ind-AS:

- (i) Suitable for Indian Conditions: They have been framed in such a way that they are most suitable for Indian conditions.
- (ii) Clear Guidelines for Financial Reporting Ind-AS provide a wide framework in which clear guidelines are given for financial reporting. Under the framework provided by Ind-AS, Assets, Liabilities and Equity are clearly defined.
- (iii) Uniformity in Financial Reporting: The adoption of Ind-AS brings uniformity, comparability and transparency in financial statements. It improves the standard and quality of financial reporting.
- (iv) Helpful to Investors: Investors require high quality, relevant, reliable, transparent and comparable information in financial statements to make economic decisions. The use of Ind-AS meets their requirements.
- (v) Difficult to Commit Fraud and Manipulate the Accounts: There are tough and rigid rules for the preparation and presentation of financial statements under Ind-AS and it is extremely difficult to manipulate the accounts.

8. (b)

- (i) It's a capital profit. Hence it should be transferred to the Capital Reserve.
- (ii) The cost of the asset is spread over its useful life and only the current year's depreciation is treated as expense because of the going concern concept.
- (iii) It is due to the convention of conservatism, profit and loss Account discloses lower profits in comparison to the actual profit and balance sheet will disclose understatement of Assets and overstatement of liabilities. These two effects result in creation of a secret reserve.
- (iv) ₹100,000 will be deducted from Purchases in Trading Account, ₹30,000 will be shown on the Debit side of the profit and loss account and ₹70,000 will be shown on the asset side of Balance Sheet.
- (v) True. Discount will be allowed only to those Debtors who will make Prompt payment. Hence provision for discount is calculated on good Debtors arrived at after deducting the provision for doubtful debt.

8. (c)

Date	Particulars	Debit (₹)	Credit (₹)
1.	Realisation A/C To Rana's Capital	Dr. 8,000	8,000
2.	Dhana's Capital. To Bank A/C	Dr. 10,000	10,000
3.	Realisation Expenses A/C Mona's capital To Bank A/C	Dr. Dr. 8,000 12,000	20,000
4.	Kana's Capital. To Dhana's Capital	Dr. 10,000	10,000

Note: Entries to be supported by Narration.

INTERMEDIATE EXAMINATION

June 2025

P-6(FA)
Syllabus 2022

FINANCIAL ACCOUNTING

Time Allowed: 3 hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
Where necessary, candidate may make appropriate assumptions
and clearly state them in the respective answer.*

All working notes must form part of the answer.

*Answer to Question No. 1 in section A is compulsory, further answer any five
from Question No. 2 to Question No. 8 in section B.*

Section-A

1. Choose the correct option from the four alternatives given: 2×15=30

- (i) Which of the following statements is correct?
- (A) Financial accounts of an enterprise are treated as evidence in the court of law.
 - (B) Financial statements prepared by two different accountants will always show identical results.
 - (C) Financial statements need not take into consideration any statutory requirements.
 - (D) Only credit transactions are recorded in the books of accounts.
- (ii) When the closing stock is shown in the trial balance, then at the end of the accounting year, closing entry for it will be required:
- (A) Closing Stock A/c Dr. To Trading A/c
 - (B) Trading A/c Dr. To Closing Stock A/c
 - (C) Either (A) or (B)
 - (D) Entry not required
- (iii) State which of the following transactions can be classified as foreign currency transactions:
- (A) Buying or selling the goods or services priced in foreign currency.
 - (B) Lending or borrowing when the amount are denominated in a foreign currency.
 - (C) Acquisition or disposition of fixed assets denominated in foreign currency.
 - (D) All of the above

- (iv) Which of the following is not an accounting convention?
- (A) Business entity
 - (B) Disclosure
 - (C) Conservatism
 - (D) Materiality
- (v) The following information is given in the trial balance of Rupa Dresses as on 31st March, 2025:
- Bad Debts – ₹ 12,200
 - Provision for Bad and Doubtful Debts on 1.4.2024 – ₹ 7,500
 - Debtors – ₹ 2,00,000
- If further bad debt is ₹ 1,800 and Rupa Dresses makes a provision for bad and doubtful debts @ 5% on Debtors, the amount of such provision to be shown in Balance Sheet as at 31st March, 2025 will be
- (A) ₹ 9,910
 - (B) ₹ 4,210
 - (C) ₹ 12,000
 - (D) None of the above
- (vi) If capital at the end of the year is ₹ 80,000, capital introduced during the year is ₹ 60,000, drawings for the year are ₹ 40,000, and loss for the year is ₹ 1,20,000, then the capital at the beginning of the year was
- (A) ₹ 1,80,000
 - (B) ₹ 1,60,000
 - (C) ₹ 1,40,000
 - (D) ₹ 20,000
- (vii) State which of the following statements is true.
- (A) A joint venture has a definite life.
 - (B) Financial statements are not comparable.
 - (C) Sales book is a part of ledger.
 - (D) Owners Equity = Assets + Liabilities

- (viii) On January 1, 2025, goods costing ₹ 1,32,000 were consigned by Mr. Rana of Chennai to his agent Mr. Dhana in Amritsar at a proforma invoice price of 20% above cost. Mr. Rana paid freight charges ₹ 4,000. The consignee was paid ₹ 2,000 per annum towards establishment cost. Mr. Dhana paid ₹ 1,000 as godown rent for 3 months ended 31st March 2025. $\frac{3}{4}$ th of goods were sold at $33\frac{1}{3}\%$ profit on cost.

The value of unsold stock (invoice price) as on 31st March, 2025 is

- (A) ₹ 66,000
(B) ₹ 162,400
(C) ₹ 1,54,400
(D) ₹ 40,600
- (ix) Rekha draws a BOE on Reba ₹ 20,000 payable in 3 months. On the due date Reba could not make the payment and Reba got it notified from the notary public on payment of noting charges ₹ 100. Reba requested Rekha to draw a fresh bill for another three months at 12% interest. The amount of fresh bill be
- (A) ₹ 20,700
(B) ₹ 20,703
(C) ₹ 20,600
(D) ₹ 21,000
- (x) State which of the following statements is not true relating to AS 10:
- (A) Excludes the accounting for real estate developers.
(B) No recognition criteria for fixed assets are laid out.
(C) Recognises the revaluation of fixed assets.
(D) Does not deal with jointly owned assets.
- (xi) B & C entered into a joint venture for export of Indian handicraft goods to overseas customers. B sent goods worth ₹ 2,00,000 to C for export to the U.S.A. C exported goods worth ₹ 1,75,000 to U.S.A. for ₹ 2,10,000 and agreed to take away the remaining stock at the same gross profit rate as in the other exports.
- The goods will be valued at
- (A) ₹ 25,000
(B) ₹ 30,000
(C) ₹ 22,500
(D) ₹ 27,500

- (xii) State which of the following statements is true.
- (A) The buyer gets immediate possession but not ownership under installment payment system on signing of contract.
 - (B) A marine insurance policy is taken to cover the claim for loss.
 - (C) For independent branch, incorporation of branch trial balance is required.
 - (D) Short-term lease which is often cancellable is known as Leverage lease.
- (xiii) Assertion (A) and Reason (R):
- Assertion (A): Goodwill is an intangible asset but not a fictitious asset.
Reason (R): Goodwill does not have any physical existence. Fictitious assets are not realisable whereas goodwill can be purchased or sold.
- Choose the correct option:
- (A) Both Assertion and Reason are not correct.
 - (B) Reason is correct but Assertion is not correct.
 - (C) Assertion and Reason both are correct but Reason is not the correct explanation of Assertion.
 - (D) Assertion and Reason both are correct and Reason is the correct explanation of Assertion.
- (xiv) D, E, F are partners in a firm sharing profits in the ratio of 1:1:1. They decided to share profits in the ratio 2:3:5. The goodwill of the firm was valued at ₹ 1,80,000.
- F's Capital Account will be
- (A) credited by ₹ 24,000.
 - (B) credited by ₹ 6,000.
 - (C) credited by ₹ 60,000.
 - (D) debited by ₹ 30,000.
- (xv) Mr. Ranabir is admitted into partnership for $\frac{1}{4}$ share of profit. The total capital of the old partners stood at ₹ 45,000 after adjustments of goodwill, revaluation of fixed assets and liabilities and transfer of reserves.
1. What amount should be brought in by the new partner as his share of capital at the time of admission?
 2. If Mr. Ranabir brings ₹ 20,000 as capital for $\frac{1}{4}$ share of profits and the partners decide to adjust their capital in accordance with their profit-sharing ratio, what should be the total capital of the firm?
- (A) ₹ 15,000 , ₹80,000
 - (B) ₹ 11,250 , ₹ 65,000
 - (C) ₹ 12,250 , ₹ 56,000
 - (D) ₹ 10,000 , ₹ 60,000

SECTION-B

Answer any 5 out of 7 Questions.

Each question carries 14 marks.

14×5=70

2. (a) (i) As per AS-10, the amount of depreciation charged to the Statement of Profit and Loss depends on certain factors. List out those factors with brief explanation.
- (ii) ABC Ltd. purchased a motor vehicle costing ₹ 70 lakh on 1st April, 2024. The major components of the motor vehicle consist of Main Body costing ₹ 20 lakh, Seating Arrangement and Furnishing costing ₹ 30 lakh, and Engine costing ₹ 20 lakh. The expected useful life of these components is: Main Body– 5 years, Seating Unit – 6 years and Engine – 10 years. Compute the depreciation for the year ending 31st March, 2025. 7
- (b) (i) State briefly the difference between Purchase Day Book and Purchase Account.
- (ii) Rectify the following errors:
1. Credit sales to Barun ₹ 7,000 were recorded as ₹ 7,200.
 2. Credit purchase from Raman ₹ 9,000 was recorded as ₹ 9,900.
 3. Goods returned to Chaya ₹ 4,000 were recorded as ₹ 4,040.
 4. Goods returned from Paresh ₹ 1,000 were recorded as ₹ 1,400. 7
3. (a) On 30th March, 2025, fire occurred in the premises of M/S Rajesh & Co. The concern had taken an insurance policy of ₹ 1,20,000 subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March, 2025:
- (i) Stock as per Balance Sheet at 31st December, 2024: ₹ 1,91,200
 - (ii) Purchases (including purchase of machinery costing ₹ 60,000): ₹ 3,40,000
 - (iii) Wages (including ₹ 6,000 for installation of machinery): ₹ 1,00,000
 - (iv) Sales (including goods sold on approval basis amounting to ₹ 99,000): ₹ 5,50,000 (No approval has been received in respect of 2/3rd of the goods sold on approval.)
 - (v) Average rate of gross profit is 20% of sales
 - (vi) Value of salvaged goods: ₹ 24,600
- You are required to compute the amount of the claim to be lodged to the insurance company. 7
- (b) Sumon Ltd. invoices goods to its branch at cost plus $33\frac{1}{3}\%$. From the following particulars, prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account in the books of the Head Office :

- Stock at commencement at Branch (Invoice Price): ₹ 3,60,000
- Stock at close at Branch (Invoice Price): ₹ 2,88,000
- Goods sent to Branch during the year (at invoice price, including goods invoiced at ₹ 48,000 but not yet received by Branch before closing of the year): ₹ 24,00,000
- Return of goods to Head Office (Invoice Price): ₹ 1,20,000
- Credit Sales at Branch: ₹ 1,20,000
- Invoice value of goods pilfered: ₹ 24,000
- Normal loss at Branch (at Invoice Price): ₹ 36,000
- Cash Sales at Branch: ₹ 21,60,000

Sumon Ltd. closes its book on 31.03.2025.

7

4. The following information relates to the business of ABC Enterprises. Prepare a Trading and Profit & Loss Account for the year ended 31st March, 2025 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on

	1.04.24	31.03.25
Furniture	₹ 60,000	₹ 63,500
Stock	₹ 80,000	₹ 70,000
Sundry Debtors	₹ 160,000	?
Sundry Creditors	₹ 110,000	₹ 150,000
Prepaid Expenses	₹ 6,000	₹ 7,000
Outstanding Expenses	₹ 20,000	₹ 18,000
Cash in hand and Bank Balance	₹ 12,000	₹ 26,250

(b) Cash transactions during the year:

- (i) Collection from Debtors after allowing discount of ₹15,000 amounted to ₹5,85,000.
- (ii) Collection on discounting Bills of Exchange, after deduction of discount ₹ 1,250 by bank totalled ₹ 61,250.
- (iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement.
- (iv) Freight Inward paid: ₹ 30,000.
- (v) Drawings: ₹ 70,000.
- (vi) Payment for Office Furniture: ₹ 10,000.
- (vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October 2024 and payment made thereof.

(viii) Expenses including salaries paid: ₹95,000.

(ix) Miscellaneous Receipts: ₹5,000.

(c) Additional Information:

- Bills drawn ₹ 1,00,000, of these ₹ 20,000 endorsed to creditors and an endorsed bill of exchange of ₹ 4,000 was dishonoured.
- Goods worth ₹9,000 used as advertising material.
- Gross Profit is always 20% on Sales.
- Cash Book difference treated as Drawing/Capital introduced.
- Provide 2% for Doubtful Debts on closing Debtors.

14

5. A and B are partners in a firm sharing profits and losses in the ratio of 3:2. Their financial position as at 31st March, 2025 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash in Hand	30,000
A's Capital	24,000	Sundry Debtors	
		(₹ 46,000 – Prov. ₹2,000)	44,000
B's Capital	60,000	Stock-in-Trade	21,500
		Fixtures and Fittings	500
		Profit and loss	8,000
Total	1,04,000	Total	1,04,000

On 1st April, 2025, C is admitted under the following terms:

- (a) New profit-sharing ratio A:B:C = 5:3:2.
- (b) Goodwill is valued at ₹ 16,000; C brings in cash for goodwill (half retained in business).
- (c) ₹ 4,000 bad debts are to be written off; Provision for Bad Debts to be raised to 10%.
- (d) Stock-in-trade is revalued at ₹ 28,000.
- (e) Fixtures and fittings are to be reduced to ₹ 300.
- (f) C is to bring cash to make his capital equal to 1/5th of combined adjusted capitals of A and B.

Prepare: Revaluation Account, Partners' Capital Accounts, and New Balance Sheet of the firm as on 1st April, 2025.

14

6. (a) Ram of Patna consigns goods to Shyam of Delhi for sale at invoice price or above.

Terms are:

- Commission to Shyam: 5% on Invoice Price + 25% on any surplus realized.
- Ram draws a bill on Shyam at 90 days sight for 80% of invoice price as security money.

- Shyam remits balance proceeds after sales, deducting commission by sight draft.

Details:

- Goods costing ₹ 20,900 (including freight) invoiced at ₹28,400.
- Sales made by Shyam: ₹ 26,760.
- Unsold goods (invoice price): ₹ 6,920 (original cost including freight ₹ 5,220).
- Sight draft received up to 31st December: ₹ 6,280 (others in transit). Prepare Consignment Account, Shyam Accounts in Ram's books. 7

- (b) Y purchased a machine under the hire purchase system. As per the agreement, ₹ 40,000 was to be paid on signing the contract. The balance was to be paid in four instalments of ₹ 25,000 each plus interest. The cash price was ₹ 1,40,000. Interest is chargeable on outstanding balance at 20% per annum. Find interest for each year and the instalment amount. 7

7. (a) What is the basic difference between Accounting Standards (AS) and Indian Accounting Standards (Ind AS)? 7

- (b) List out the comparative provisions between Ind AS 23 and AS 16. 7

8. (a) (i) Explain, in short, the relevant disclosure of Accounting Policies as per AS 1.
(ii) Kanan Ltd. has provided the following information:

Particulars	₹
Depreciation as per Accounting Records	2,50,000
Depreciation as per Tax Records	5,50,000
Unamortised Preliminary expenses as per Tax Records	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax Assets / Liability should be recognised as transition adjustment where the tax rate is 50%? 5

- (b) (i) "Profit and Loss is a Point Statement, whereas a Balance Sheet is a Period Statement." Do you agree? Give reasons.

- (ii) From the following particulars, compute how the subscription item will appear in the Income and Expenditure Account for the year 2024-25?

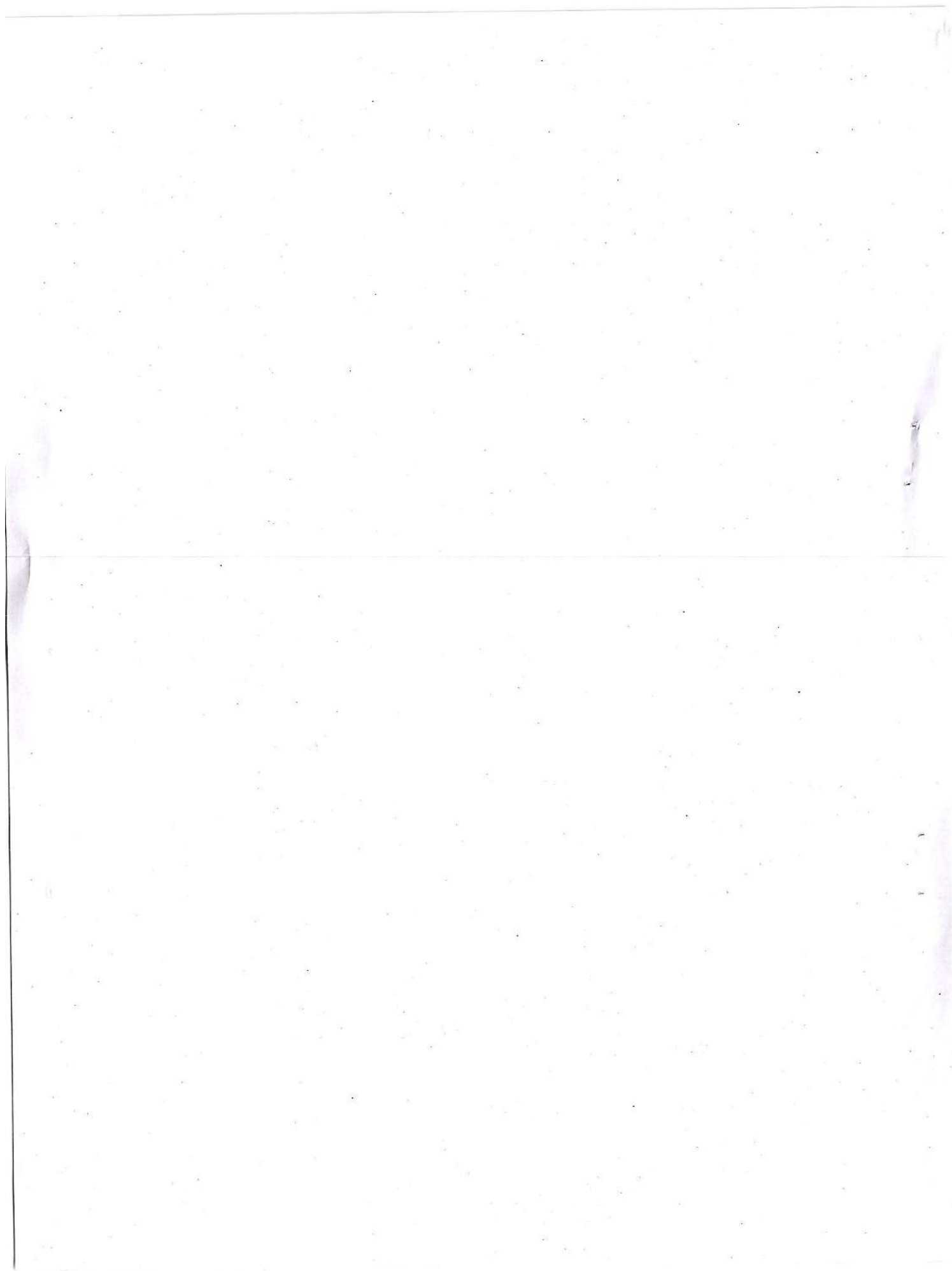
	₹
Subscription received during the year 2024-25	4,000
Subscription outstanding on 31-3-25	180
Subscription outstanding on 1-4-2024	400
Subscription received in advance on 31-3-24	100
Subscription received in advance on 31-3-2025	80

- (c) A and B were partners sharing profits in the ratio of 5:3. On 1st April, 2023, the firm was dissolved. Assets (other than cash) and liabilities were transferred to Realisation Account.

Information:

- (a) Creditor for ₹ 1,80,000 accepted Debtors of ₹ 1,50,000 at 4% discount; balance paid by cheque.
- (b) Another creditor for ₹ 1,20,000 took over Stock (Book Value ₹ 50,000) at ₹ 40,000 and Investments of ₹ 76,000.
- (c) Another creditor for ₹ 3,00,000 accepted Land & Building at ₹ 5,00,000 and paid balance to the firm by cheque.
- (d) Loss on dissolution was ₹ 24,000.

Pass necessary Journal Entries in the books of the Firm.



PAPER – 6 : FINANCIAL ACCOUNTING
SUGGESTED ANSWERS
SECTION - A

1.

- (i) (A)
- (ii) (D)
- (iii) (D)
- (iv) (A)
- (v) (A)
- (vi) (A)
- (vii) (A)
- (viii) (D)
- (ix) (B)
- (x) (D)
- (xi) (B)
- (xii) (C)
- (xiii) (D)
- (xiv) (D)
- (xv) (A)

SECTION - B

2. (a)

(i) As per AS-10, the amount of depreciation to be charged to statement of profit and loss account will depends upon the following factors:

- I) cost of the asset
- II) Estimated useful life of the asset
- III) Estimated Residual (scrap) value of the asset.
- IV) Depreciation Method.

- i. The cost of the fixed asset is determined after adding all expenses incurred for bringing the asset to usable condition.
- ii. Estimated useful life of the asset is estimated in terms of years it can be effectively utilized for business operations.
- iii. Estimated sales value of the asset at the end of the useful life is treated as estimated residual value of the asset.
- iv. The method chosen (Straight Line Method, Written Down Value Method, etc.) affects the annual depreciation charge. It should reflect the pattern in which the asset's future economic benefits are expected to be consumed.

(ii)

Depreciation as per competent Accounting

Depreciation for component body	D 4,00,000	(20,00,000 /5)
Depreciation for component seating arrangement	D 5,00,000	(30,00,000/6)
Depreciation for Component Engine	D 2,00,000	(20,00,000/10)
Depreciation on Motor vehicle for the year	D 11,00,000	

2. (b)

(i) **Difference between Purchase Day Book and Purchase Account**

- Purchase Day Book simply records only credit Purchases of goods, whereas both cash and credit Purchases of goods are posted in Purchase Account.
- Purchase Day Book is a part of Journal, whereas Purchase Account is a part of General Ledger.
- Purchase Day Book is not divided into debit and credit sides, whereas Purchase Account is divided into two sides (debit and credit side)

(ii) **JOURNAL ENTRIES**

			Dr.	Cr.
	Particulars		D	D
a	Sales Account To Barun Account (credit sales recorded as D 7200 instead of D 7,000)	Dr	200	200
b	Raman Account To Purchase Account (credit purchase recorded as D 9,900 instead of D 9,000)	Dr	900	900
c	Purchase Return Account To Chaya Account (Purchase Return recorded as D 4,040 instead of D 4,000)	Dr	40	40
d	Paresh Account To Sales Return Account (Sales Return recorded as D 1400 instead of D 1,000)	Dr	400	400

3. (a)

Computation of Claim for loss of Stock

	D
Stock in the Premises on the day of fire 30 th March,2025	125,200
Less: value of Salvage Stock	24,600
Loss of Stock	<u>1,00,600</u>
Amount of Claim = $\frac{\text{Insured Value}}{\text{Total Cost on the date of fire}} \times \text{loss of Stock}$	
$\frac{120,000}{125,200} \times 100,600 = 96,422$ (approx.)	96,422

Working Notes:

1. Calculation of goods with customers. Since no approval for sale has been received for the goods of **D** 99,000) hence, these (2/3rd of **D** 99,000 = **D** 66,000) should be valued at cost i.e. **D** 52,800.
2. Calculation of Actual Sales
Total Sales – Sale of Goods on approval (2/3rd of goods sold on approval i.e. 2/3 x 99,000)
= **D** 5,50,000 – **D** 66,000 = **D** 4,84,000.

3. Calculation of closing stock as on 30.03.2025

**Memorandum Trading Account for
(from 1st January 2025 to 30th March 2025)**

Particulars	D	Particulars	D
To Opening Stock	1,91,200	By Sales	4,84,000
To Purchases	2,80,000	By Goods with customers for approval	52,800
To wages	94,000	By Closing Stock	125,200
To Gross Profit	96,800		
	6,62,000		6,62,000

Alternative Presentation:

Computation of Claim for loss of Stock

	D
Value of stock in the premises as on 30 th March	1,25,200
Less: Value of salvage stock	<u>24,600</u>
Loss of Stock	<u>1,00,600</u>
Amount of Claim = $\frac{\text{Insured Value}}{\text{Total Cost on the date of fire}} \times \text{loss of Stock}$	
$\frac{120,000}{125,200} \times 100,600 = 96,422 \text{ (approx.)}$	96,422

Working Notes:

- I. Calculation of goods with customers. Since no approval for sale has been received for the goods of 99,000) hence, these should be valued at cost i.e. D 52,800. [66000 - 20% of 66,000] (2/3rd of 99,000 = D 66000)
- II. Calculation of Actual Sales
Total Sales - Sale of Goods on approval (2/3rd. of goods sold on approval i.e. 2/3 x 99,000)
= D 5,50,000 - D 66,000 = D 4,84,000.
- III. Calculation of closing stock as on 31.03.2025

**Memorandum Trading Account for
(from 1st January 2025 to 30th March 2025)**

Particulars	D	Particulars	D
To Opening Stock	1,91,200	By Sales	4,84,000
To Purchases	2,80,000	By Closing Stock	1,78,000
To wages	94,000		
To Gross Profit (20% on Sales)	96,800		
	6,62,000		6,62,000

Value of stock from the above Trading account D 1,78,000 - Goods Sold and approval yet to be received D 52,800 = Value of stock in the premises as on 30th March D 1,25,200.

3. (b)

**In the Books of the Head office
Branch Stock Account**

Dr		Cr	
Particulars	D	Particulars	D
To Balance b/d	3,60,000	By Bank Account (cash sales)	21,60,000
To Goods Sent to Branch	24,00,000	By Branch Debtors Account (credit sales)	1,20,000
To Branch Adjustment Account (balancing figure, Surplus)	36,000	By Goods Sent to Branch Account (Return to Head Office)	6,000
		By Branch Adjustment Account (24,000 × 25/100)	18,000
		By Branch Profit and Loss Account (cost of goods pilfered)	36,000
		By Branch Adjustment Account (invoice price of Normal loss)	2,88,000
		By Balance c/d In hand In transit	48,000
	27,96,000		27,96,000

* Alternatively, combined Posting for D 24,000 may be passed through goods pilfered Account.

** Alternatively, it may first be transferred to a Normal loss account which may Ultimately be closed by transfer to Branch Adjustment Account. The final amount of net profit will however remain the same

*** It has been considered that the Surplus may be due to sale of goods by branch at a price higher than the invoice price.

Branch Stock Adjustment Account

Dr.		Cr.	
Particulars	D	Particulars	D
To Branch Stock Account	6,000	By Stock Reserve Account	90,000
To Branch Stock Account	36,000	By Goods Sent to Branch Account	5,70,000
To Stock Reserve Account	84,000	By Branch Stock Account	36,000
To Gross Profit	5,70,000		
	6,96,000		6,96,000

Branch Profit and Loss Account

Dr.		Cr.	
Particulars	D	Particulars	D
To Branch Stock Account	18,000	By Branch Adjustment Account	5,70,000
To Net Profit	5,52,000		
	5,70,000		5,70,000

4.

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March 2025

Dr.

Cr.

Particulars	D	D	Particulars	D	D
To Opening Inventory		80,000	By Sales		6,08,750
To Purchases	4,56,000		By Closing Stock		70,000
Less: Advertising	<u>9,000</u>	4,47,000			
To Freight Inward		30,000			
To Gross Profit c/d		<u>1,21,750</u>			
		<u>678,750</u>			<u>6,78,750</u>
To Sundry Expenses		92,000	By Gross Profit		1,21,750
To Advertisement		9,000	By Interest on Investment		600
To Discount Allowed			(20,000 × 6/100 × ½)		
Debtors	15,000		By Discount Received		8,000
Bills Receivable	<u>1,250</u>	16,250	By Miscellaneous Income		5,000
To Depreciation on Furniture		6,500			
To provision for doubtful debt		1,455			
To Net Profit		10,145			
		<u>1,35,350</u>			<u>1,35,350</u>

Balance Sheet as on 31.03.2025

Liabilities	Amount	Amount	Assets	Amount	Amount
	D	D		D	D
Capital	1,88,000		Furniture	60,000	
Less: Drawings	<u>91,000</u>		Addition during the year	<u>10,000</u>	
	97,000			70,000	
Add: Net Profit	<u>10,145</u>	1,07,145	Less: Depreciation	<u>6,500</u>	63,500
			(balancing figure)		
Sundry Creditors		1,50,000	Investment		19,000
Outstanding Expenses		18,000	Accrued Interest		600
			Inventory		70,000
			Sundry Debtors	72,750	
			Less: Provision	<u>1,455</u>	71,295
			Bills Receivable		17,500
			Cash in hand and Bank		26,250
			Prepaid expenses		<u>7,000</u>
		<u>2,75,145</u>			<u>2,75,145</u>

Working Notes:

I)

Capital as on 01.04.2024
Balance Sheet as on 31.03.2024

Liabilities	D	Assets	D
Capital (Balancing Figure)	1,88,000	Furniture	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding Expenses	20,000	Sundry Debtors	1,60,000
		Cash in hand at Bank	12,000
		Prepaid expenses	<u>6,000</u>
	<u>3,18,000</u>		<u>3,18,000</u>

II)

Purchases made during the year:

Dr.		Sundry Creditors Account		Cr.	
Particulars	D	Particulars	D		
To cash and Bank	3,92,000	By Balance b/d	1,10,000		
To Discount Received	8,000	By Sundry Debtors	4,000		
To Bills Receivables	20,000	By Purchases Account	4,56,000		
To Balance c/d	<u>1,50,000</u>				
	<u>5,70,000</u>				<u>5,70,000</u>

III)

Sales made during the year:

Particulars	D	D
Opening Inventory		80,000
Purchases	4,56,000	
Less: for advertising	<u>9,000</u>	4,47,000
		<u>30,000</u>
Freight Inward		5,57,000
Less: closing Inventory		<u>70,000</u>
		4,87,000
Cost of goods sold		
Add: gross profit (25% on cost)		<u>121,750</u>
Sales.		<u>6,08,750</u>

IV)

Debtors on 31st March 2025

Dr.		Sundry Debtors Account		Cr.	
Particulars	D	Particulars	D		
To Balance b/d	160,000	By Cash and Bank Account	5,85,000		
To Sales Account	608,750	By Discount Allowed Account	15,000		
To Sundry Creditors Account (Bills Dishonoured)	4,000	By Bills Receivable Account	1,00,000		
		By Balance c/d (Balancing Figure)	72,750		
	<u>7,72,750</u>				<u>7,72,750</u>

V)

Additional drawings by Proprietor

Dr.		Cash and Bank Account		Cr.	
Particulars	D	Particulars	D		
To Balance b/d	12,000	By Freight Inward			30,000
To Sundry Debtors Account	5,85,000	By Furniture Account			10,000
To Bills Receivables Account	61,250	By Investment Account			19,000
To Miscellaneous Income Account	5,000	By Expenses Account			95,000
		By Creditors Account			392,000
		By Drawings	70,000		
		Add: Cash Short	<u>21,000</u>		91,000
		By Balance c/d			<u>26,250</u>
	<u>6,63,250</u>				<u>6,63,250</u>

VI)

Amount of Expenses debited to Profit and Loss Account

Dr.		Sundry Expenses Account		Cr.	
Particulars	D	Particulars	D		
To prepaid Expenses Account	6,000	By Outstanding Expenses Account			20,000
To Bank Account	95,000	By Profit and Loss Account			92,000
To outstanding Expenses Account	18,000	By Prepaid Expenses Account			<u>7,000</u>
	<u>119,000</u>				<u>1,19,000</u>

VII)

Bills Receivable as on 31.03.2025

Dr.		Bills Receivable Account		Cr.	
Particulars	D	Particulars	D		
To Debtors	1,00,000	By Creditors Account			20,000
		By Bank Account			61,250
		By Discount on Bills Receivable Account			1,250
		By Balance c/d (Balancing Figure)			<u>17,500</u>
	<u>1,00,000</u>				<u>1,00,000</u>

Note: All Sales and Purchases are assumed to be on credit.

5.

Books of A, B and C

Dr.		Revaluation Account		Cr.	
01.4.2024		D	01.04. 2024	D	
To Sundry Debtors Account		4,000	By Stock in Trade Account		6,500
To provision for doubtful debt Account		2,200			
To Furniture and Fixtures Account		200			
To Profit on Revaluation Account					
A -	60				
B -	<u>40</u>	100			
		6,500			6,500

Capital Account

Dr.				Cr.			
	A	B	C		A	B	C
01.4.2024	₹	₹	₹	01.4.2024	₹	₹	₹
To Profit and Loss Account	4800	3200		By Balance b/f	24,000	60,000	
To cash Account	800	800		By Revaluation A/C	60	40	
To Balance c/d.	20,060	57,640	15,540	By Cash A/C (premium for goodwill)	1600	1600	
				By Cash (note-2)	-	-	15,540
	25,660	61,640	15,540		25,660	61,640	15540

Balance Sheet as on 01.04.2025

Liabilities	D	D	Assets	D	D
Capital Account			Fixtures and fittings		300
A	20,060		Stock in Trade		28,000
B	57,640		Sundry Debtors	42,000	
C	<u>15,540</u>	93,240	Less: Provision	4,200	37,800
Sundry Creditors		<u>20,000</u>	Cash (Note3)		<u>47,140</u>
		<u>1,13,240</u>			<u>113,240</u>

Workings:

- Premium for goodwill paid by C: $\frac{1}{5} \times 16,000 = \text{D } 3,200$
Old ratio of A and B 3:2
New ratio between A, B and C 5:3:2; Therefore, A and B sacrifice in the ratio of 1:1
- Combined adjusted capitals of A and B is = $20,060 + 57,640 = \text{D } 77,700$.
Cs capital contribution will be = $(77,700 \times \frac{1}{5}) = \text{D } 15,540$
- Balance of Cash in hand may be ascertained by preparing cash Account

Cash Account

Dr.			Cr.
Particulars	D	Particulars	D
To Balance b/f	30,000	By A' s Capital Account	800
A's Capital	1600	By B's Capital Account	800
B' Capital	1600	By Balance	47,140
C's Capital	<u>15,540</u>		
	<u>48,740</u>		<u>48,740</u>

6. (a)

**In the Books of Ram
Consignment to Delhi Account**

Dr.			Cr.
Particulars	D	Particulars	D
To Goods Sent on Consignment Account	28,400	By Goods Sent on Consignment Account	7,500
To Shyam Account- commission	2,394	- Loading D (28,400 - 20,900)	
To Stock Reserve Account (D 6,920- D 5,220)	1,700	By Shyam Account - sales Proceeds	26,760
To Profit and Loss Account (Profit on Consignment transferred)	8,686	By Stock on Consignment Account	6,920
	<u>41,180</u>		<u>41,180</u>

Shyam Account

Dr.			Cr.
Particulars	D	Particulars	D
To Consignment to Delhi Account	26,760	By Bills Receivable Account (80% of invoice price)	22,720
To Balance c/d	5,536	By Consignment to Delhi Account - Commission	2,394
		By Draft Account	6,280
		By Draft in Transit Account	902
	<u>32,296</u>		<u>32,296</u>

Goods Sent on Consignment Account

Dr.			Cr.
Particulars	D	Particulars	D
To Consignment to Delhi Account	7,500	By Consignment to Delhi Account	28,400
To Trading Account (Balancing Figure)	20,900		
	<u>28,400</u>		<u>28,400</u>

Workings:

	₹
Calculation of commission	
Invoice value of goods	28,400
Less: unsold stock	<u>6,920</u>
	<u>21,480</u>
Invoice value of goods sold	
Total Sales Proceeds	26,760
Less: Invoice value of goods sold	<u>21,480</u>
Surplus Price	<u>5,280</u>
Commission @5% on D 21,480	1,074
Add: @ 25% on D 5,280	<u>1,320</u>
Total commission	<u>2,394</u>

	L	L
Sales made by Shyam (given in Q)	26,760	
Security Money on Closing Stock (80% of Rs 6,920)	<u>5,536</u>	32,296
Less		
Bills drawn on Goods sent (80% of Invoice Price)	22,720	
Commission Account (worked out)	2,394	
Draft Received	<u>6,280</u>	<u>31,394</u>
Balance		902

6. (b)

Table showing calculation of Interest (fig. in D)

Payment date (1)	Total cash price (2)	Interest Paid (3)	Cash price paid (4)	Instalment paid (5=3+4)
Down Payment	140,000 <u>- 40,000</u> 1,00,000		40,000	40,000
1st instalments	<u>- 25,000</u> 75,000	$1,00,000 \times 20\% = 20,000$	25,000	45,000
2nd instalment	<u>-25,000</u> 50,000	$75,000 \times 20\% = 15,000$	25,000	40,000
3rd instalment	<u>-25,000</u> - 25,000	$50,000 \times 20\% = 10,000$	25,000	35,000
4th Instalment	<u>-25,000</u>	$25,000 \times 20\% = 5,000$	25,000	30,000
	Nil	50,000	140,000	190,000

7. (a)

Major difference between Accounting standards and IND AS are: -

Accounting standards were based on international accounting standard, whereas IND AS are based on IFRS.

Accounting standards are rule based whereas IND AS are principle based.

Accounting standards are drafted in technical language whereas IND AS are drafted in simple language.

Accounting standards follow historical cost whereas IND AS follow on the fair value of fixed assets.

Accounting standards are not reliable to international investors where IND AS are reliable by international investors.

Accounting standards do not ensure uniformity in financial reporting whereas IND AS ensure uniformity in financial reporting.

Accounting standards require multiple reporting for Companies located in different countries whereas such reporting does not require under IND AS.

7. (b)

Comparative provision under IND AS 23 and AS 16 are the following: -

Qualifying asset will never include biological Assets under IND AS 23 but maybe included under AS 16.

Specific explanation on the understanding of a substantial period is not required under IND AS 23 but the same is provided under AS 16.

Inventories which are produced in large quantities can be considered as qualifying assets under IND AS 23 whereas if the condition of substantial period is satisfied then in that case the Inventories may be considered as qualifying assets under AS 16.

Interest Cost which is capitalised or not capitalised during the period should be disclosed separately under IND AS 23 but if such cost is capitalised during the period and in that case disclosure requirement under AS 16 is necessary.

Borrowing cost in hyperinflation is addressed under IND AS 23 but the inflation in interest rate is not addressed under AS 16.

Weighted average capitalisation rate on borrowing would be disclosed in Notes to accounts under IND AS 23 but no specific guidance is not provided under AS 16.

In the consolidated financial statement weighted average capitalisation rate on total borrowing of holding and subsidiary is to be considered under IND AS 23 but no such specified guidance is provided under AS 16.

8. (a) (i)

- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed in one place.
- In the case of a change in accounting policy which has a material effect in the current period or later period the amount by which any item in the financial statement is affected by such change should be disclosed to the extent ascertainable Where the such amount is not ascertainable wholly or in part the fact should be indicated.
- If fundamental accounting assumption is not followed the fact should be disclosed and If the fundamental Accounting Assumption are followed in financial statements, specific disclosure is not required.

8. (a) (ii)

Table showing calculation of deferred tax asset/Liability.

Particulars	Amount	Time Difference	Deferred Tax	Amount @50%
	D			D
Excess Depreciation as per tax records (D 5,50,000 - D 2,50,000)	300,000	Timing	Deferred Tax Liability	150,000
Unamortised Preliminary Expenses as per tax records	40,000	Timing	Deferred Tax Assets	(20000)
Net Deferred Tax Liability				130,000

Net Deferred Tax Liability amounting to D 1,30,000 should be recognised as transition adjustment.

8. (b)

- (i) The statement is false. All profit and loss accounts are a period statement because it depicts the result of operation of the whole period. Balance sheet is a point statement because it reflects the financial position of an enterprise at a specified point of time.

(ii) Substitution received during the year 2024-25	D	4,000
Add: Subscription outstanding on 31.03.2025		<u>180</u>
		4,180
Less: Subscription outstanding on 01.04.2024		<u>400</u>
		3,780
Add: Subscription received in advance on 31.03.2024		<u>100</u>
		3,880
Less: Subscription Received in Advance on 31.03.2025		<u>80</u>
		<u>3,800</u>

Subscription income for 2024-25 transfer to income and expenditure for D 3,800.

8. (c)

In the Books of the Firm

Journal Entries

	Dr.	Cr.
a. Realisation A/c. (D 180,000 - D 150,000 less 4% thereof)Dr.	36,000	
To Bank A/c.		36,000
(Amount paid to creditors by cheque)		
b. No entry required (See Note)		
c. Bank A/c (D 500,000 – D 300,000).....Dr.	200,000	
To Realisation A/c.		200,000
(Amount received from Creditor for land and Building taken over after adjusting amount due to him)		
d. A's Capital A/c.....Dr.	15,000	
B's Capital A/c.....Dr.	9,000	
To Realisation A/c.		24,000
(Loss on Realisation transferred)		

Note: No entry is required for Debtors taken over.

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