

CMA Inter

(July 2023)

Financial Accounting

Mega Revision

(Part 1)

Revision - Part 1

S. No.	Chapters
1	Final Accounts
2	Single Entry
3	NPO
4	Admission, Retirement and Death of Partner
5	Dissolution and Insolvency
6	Hire Purchase
7	Insurance Claim (Loss of Stock and Loss of Profit)
8	Departmental Accounts
9	Branch Accounts

Final Accounts

Q 1 What is Final Accounts?

Sol: Final destination of the accounting process.

It Includes Trading A/c, Profit & Loss A/c, Profit & Loss Appropriation A/c and Balance Sheet.

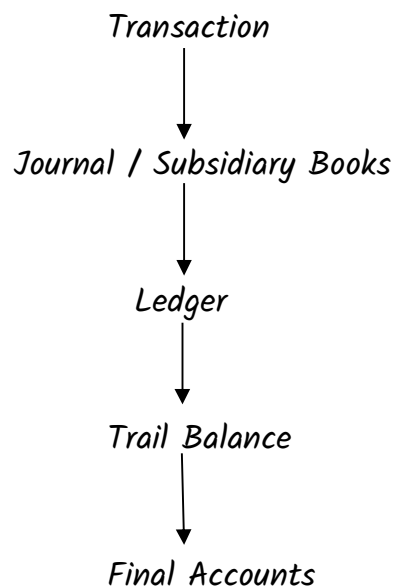
Q 2 Why to do Final Accounts?

Sol: To ascertain the Profit or Loss in an Accounting period and to know the Financial Position of the Business as on a date.

Q 3 How to do Final Accounts?

Sol:

Accounting Process



Final Accounts is prepared on the basis of Trial Balance and Adjustment Entries (Entries which have not already been reflected in Trial Balance i.e. which have not passed through the double entry system)

Steps to prepare Final Accounts:

- Step 1** *Prepare the format of Trading and Profit & Loss Account*
- Step 2** *Read the adjustments and mark the Items in Trial Balance which will be effected.*
- Step 3** *Pick up the items from Trial Balance serially and drop at the correct place in Final Accounts (At any one place in Final Accounts. Marked items to be placed in the internal column)*

Correct place in Final Accounts means:

Items to pick from Trial Balance	Place at
<i>Opening Stock, Purchases and Direct Expenses</i>	<i>Trading Account Dr Side</i>
<i>Sales</i>	<i>Trading Account Credit Side</i>
<i>All Other Expenses</i>	<i>P/L A/c Dr Side</i>
<i>All Other Income</i>	<i>P/L A/c Cr Side</i>
<i>All Assets</i>	<i>Balance Sheet Asset Side</i>
<i>Capital and All Liabilities</i>	<i>Balance Sheet Liability Side</i>
<i>Some items to be deducted from other specific items:</i>	
<i>Purchase Return / Return Outward</i>	<i>Deduct from Purchases</i>
<i>Sales Return / Return Inward</i>	<i>Deduct from Sales</i>
<i>Drawings</i>	<i>Deduct from Capital</i>

- Step 4** Analyse adjustments and give the **Debit and Credit effect** of each Adjustment entry in the Final Accounts (Refer Separate Summary sheet for Effect of Various Adjustments). (For Adjustments, Debit and Credit, both the effect is to be given).
- Step 5** Transfer Gross Profit / Gross Loss from Trading A/c to Profit & Loss A/c, Net Profit / Net Loss from Profit & Loss A/c to Capital and Close the Final Accounts.

Refer list of Adjustment entries in a separate sheet.

3. Goods worth Rs. 19,000 were purchased on 24th March 2013 and sold on 29th March 2013 for Rs.23,750. Sales were recorded correctly, but purchase invoice was missed out.

4. Purchase returns of Rs. 1,500 were routed through sales return. Party's A/c was correctly posted.

5. Expenses include Rs. 3,750 related to the period after 31st March 2013.

6. Purchase book was over-cast by Rs. 1,000. Posting to suppliers' A/c is correct.

7. Salaries include Rs. 10,000 towards renovation of Proprietor's residence.

8. Sales included Rs. 30,000 as goods sold cash on behalf of Mr. Thakurlal who allowed 15% commission on such sales for which effect is to be given.

If Suspense is given in the sum of Final Accounts, it means some rectification entries needs to be passed to remove the suspense.

Eg. *Suspense given in Trial Balance - Rs. 39400 Credit balance*

A new machinery was purchase for Rs. 50,000 but the amount was wrongly posted to Furniture Account as Rs. 5,000.

Cash received from Debtors Rs. 5,600 was omitted to be posted in the ledger.

Note: *When Suspense is given, look for Single Sided Errors i.e those errors due to which Trial Balance must not have matched.*

Points to Remember:

1. *Adjusted Purchases* – It means, Closing Stock is already deducted from Purchases. Closing Stock is reflected in the Trial Balance. Since Closing Stock is part of Trial Balance, it need to be just picked from Trial Balance and dropped at the correct place in Final Accounts. It being Asset, will be only shown in the Asset Side of the Balance Sheet and not in the Credit side of Trading A/c.
2. *Provision for Doubtful Debts* also called *Reserve for Doubtful debts*. *Provision for Discount on Debtors* also called *Reserve for Discount on Debtors*.
3. Even if *Advertisement Expense* is useful for generating revenue for multiple years, full amount is to be treated as expense in P/L A/c in the 1st year itself and not to be treated as *Deferred Revenue Expenditure*. (AS - 26).
Eg. Advertising will be useful for generating revenue for 5 years. Total Expense Rs. 500000.
Treat full amount of Rs. 5,00,000/- as revenue expenditure.
4. *Intangible Assets* are to be amortised over the life of the asset. (AS - 26)
Eg. Patents Rs. 40000 for 10 years.
5. *Closing stock* valued at cost or NRV whichever is lower.

6. *Direct Expenses means those expenses which are incurred till the goods become saleable or suitable for sale. Eg. Freight Inward, Octroi, Wages, Royalty on production, Gas and Fuel, Power, All factory related expenses etc.*

7. *Adjustments are sometimes given in bracket within Trial Balance itself mainly interest rates of loan taken and Investments. Also dates of Purchase of Investment or Loan taken. Adjustments need to be done accordingly.*

8. *If Wages & Salaries is given, its treated as Wages and hence Direct Expense. If Salaries & Wages is given its treated as Salaries and hence Indirect Expense to be shown in P/L A/c.*

9. *Income Tax of Proprietor, LIC, are personal expenses treated as drawings.*

Suggested Answers_Syl2016_December 2019_Paper 5

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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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

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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	2,10,000
Less: Free Samples	12,500	28,15,000			
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	55,000
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			

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To Bad Debts	28,000			
Add: 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:	31,05,000	Land & Building	15,00,000
Add: 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 × 3/12 = ₹ 3,750.
- (ii) Outstanding Interest on Investment:

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Total Interest (1.5.18 to 31.3.19) = ₹ 8,00,000 x 7.50% x 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

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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

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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	<u>(x)</u>
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.

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- (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.

8

- (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

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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.

7

Answer:

2. (a)

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	AB Ltd. A/c Dr. Discount Received A/c Dr. To CD Ltd. A/c To Discount Given A/c (Being Cheque received from AB Ltd. was endorsed to CD Ltd. However, the cheque was later dishonoured)		3,502 44	3,500 46
	Sales Return A/c Dr. MN Ltd. A/c Dr. To Purchase A/c To PQ Ltd. A/c To Suspense A/c (Being goods returned by PQ Ltd. were wrongly recorded in purchase book and from thereon wrongly posted to MN Ltd.)		230 320	230 230 90
	Bad debts A/c Dr. To Suspense A/c (Being Bad debts written off in Sales Ledger but not yet recorded in General Ledger, now recorded)		505	505
	Repairs A/c Dr. To Purchase A/c To Z Ltd. (Being repair of machinery amounting to ₹750 wrongly entered in Inward book as ₹650)		750	650 100
	Goods - in - Transit A/c Dr. To Trading A/c (Being goods - in - transit were recorded in books)		1,234	1,234
	Machinery A/c Dr. Suspense A/c Dr. To Freight A/c (Being amount paid on Freight on Machinery amounting to ₹ 79 was wrongly debited to Freight A/c as ₹ 97)		79 18	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. 15

Answer:

3.

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

Dr.	₹	Cr.	₹
Receipts		Payments	
To Cash in Hand (Opening)	56,000	By Medical Supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on Investment	63,000	By Misc. expenses	7,000
To Medical Camp collections	87,500	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

Single Entry

Q 1 What is Single Entry System of Accounting?

Sol: Single Entry System is a system in which rules of Double Entry System are not followed completely. The accounts maintained under this system are incomplete and unsystematic. Therefore, it is also known as 'Accounts from Incomplete Records'. Single Entry System is an unscientific method of record keeping, which does not follow the accepted accounting rules.

Q 2 What are the features of Single Entry System?

Sol: Main Features of Single-Entry System are:

- a. Maintenance of books by a sole trader or partnership firm*
- b. Maintenance of cash book*
- c. Only personal accounts are kept*
- d. Collection of information from original documents – Dependency on Source Documents*
- e. Lack of uniformity*
- f. Difficulty in preparation of final accounts*

Q 3 What are the benefits of Single Entry System?

Sol: Main advantages of Single Entry System are:

- a) Quick and easy*
- b) Useful for small business run by individuals*
- c) Economical*
- d) Flexible Method*
- e) Requires only basic accounting knowledge*

Q 4 What are the Weaknesses or Limitations of Single Entry System?

Sol: 1. Principles of Double Entry not followed

- 2. Trial Balance can not be prepared*
- 3. Accurate Profit or Loss can not be ascertained.*
- 4. Accurate Financial Position can not be ascertained.*
- 5. Difficult to detect frauds or errors*
- 6. External agencies like Banks cannot use financial information*
- 7. Business and personal transactions of the proprietor get mixed.*

Q 5 What are the differences between single entry system and double entry system?

Sol:

<i>Double Entry</i>	<i>Single Entry</i>
<i>Both the aspects (debit and credit) of all the transactions are recorded</i>	<ul style="list-style-type: none"> - No record of some transactions. - Some transactions are recorded only in one of their aspects. - Some transactions are recorded in both of their aspects.
<i>Various subsidiary books such as sales book, purchases book etc are maintained.</i>	<i>No such subsidiary books maintained except cash book.</i>
<i>Ledger contains personal, real and nominal accounts</i>	<i>Ledger contains some personal accounts only.</i>
<i>Preparation of trial balance is possible</i>	<i>Preparation of trial balance is not possible</i>
<i>Trading A/c, Profit & Loss A/c and the Balance Sheet are prepared in a scientific manner.</i>	<i>Not possible – only a rough estimate of profit or loss is made and a Statement of Affairs is prepared which resembles a balance sheet in appearance but which does not present an accurate picture of the financial position of the business.</i>

Q 6 What are the steps for preparing Final Accounts under Single Entry System?

Sol: **2 Statements are prepared:**

- a. Statement of Profit and Loss
- b. Statement of Affairs (Just like Balance Sheet)

Step 1: Prepare statement of affairs at the start to calculate Opening Capital

Step 2: Prepare statement of affairs at the end to calculate Closing Capital

Step 3: Prepare statement of profit and loss to ascertain the trading profit.

Statement of Profit and Loss for the year ended.....

Particulars	Amount (Rs.)	Amount (Rs.)
Closing Capital	XX	
Less: Opening Capital	XX	XX
Add: Drawings		XX
		XX
Less: Further Capital Introduced		XX
Profit / Loss		XX
<u>Less: Adjustments:</u>		
Bad Debts	XX	
Depreciation etc.	XX	XX
Net Profit / Loss for the period		XX
<u>Add: Appropriation Items:</u>		
Interest on Drawings	XX	
<u>Less: Appropriations:</u>		
Commission on Net Profit	XX	
Interest on Partner's Capital	XX	
Partner's Salaries	XX	XX
Divisible Profit		XX

OR

<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
<i>Closing Capital (After All Adjustments)</i>	XX	
<i>Less: Opening Capital</i>	XX	XX
<i>Add: Drawings</i>		XX
		XX
<i>Less: Further Capital Introduced</i>		XX
<i>Divisible Profit</i>		XX

Note: Drawings can be in cash and in kind like Stock, furniture etc. Consider total Drawings including in kind. Also, Interest on drawings should be calculated on the total amount of drawings.

Eg. He withdrew goods of Rs.2,100 and cash of Rs.7,200 for his personal use.
Interest on drawing is to be charged at 10%

Q How to convert Single Entry into Double Entry System and prepare the Final Accounts?

Sol:

- Step 1:** Prepare the format of Trading A/c, Profit & Loss A/c and Balance Sheet.
- Step 2:** Keep putting the figures at the correct place as you find them.
- Step 3:** Prepare necessary ledger accounts and Statements to find missing information. Give Dr and Cr effect of the missing information.

(Most common ledgers required to be prepared are Cash Book or Cash/Bank A/c, Debtors, A/c, Creditors A/c, Bills Receivable A/c, Bills Payable A/c, Opening Balance Sheet, Fixed Assets A/c, Capital A/c).

Name of the Ledger	Balancing figure (Generally)
Cash A/c / Bank A/c	Opening / Closing Balance, Cash Sales, Cash Purchases, Receipts from Debtors, Payment to Creditors
Bills Receivable A/c	Opening / Closing Balance, New BR or BR Dishonoured
Debtors A/c	Opening / Closing Balance, Credit Sales or Receipts from Debtors
Bills Payable A/c	Opening / Closing Balance, New BP or BP Dishonoured
Creditors A/c	Opening / Closing Balance, Credit Purchases or Payments to Creditors
Fixed Asset A/c	Opening / Closing Balance, Depreciation.
Capital A/c	Opening Capital
Opening Balance Sheet	Opening Capital

Points to remember:

1. *Total Purchases = Cash Purchases + Credit Purchases*
2. *Total Sales = Cash Sales + Credit Sales*
3. *Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses - Closing Stock*
4. *Cost of Goods Sold = Sales - Gross Profit*

Suggested Answers_Syl2016_December 2019_Paper 5

SECTION – B

Answer any five questions from question numbers 2 to 8.

Each question carries 15 marks.

15×5=75

Single Entry

Dec-19

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

Suggested Answers_Syl2016_December 2019_Paper 5

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>

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)

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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

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.

7

- (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

Suggested Answer_Syl16_Dec2018_Paper_5

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

Suggested Answer_Syl16_Dec2018_Paper_5

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	4,000				
	<u>1,24,000</u>				
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			
		<u>2,14,000</u>			<u>2,14,000</u>

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
		<u>2,76,000</u>			<u>2,76,000</u>

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

Suggested Answer_Syl16_Dec2018_Paper_5

		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

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.

15

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

(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	1,00,000	
To Goods Sent to Branch	2,50,000		Credit	3,00,000	4,00,000
Less: Returns to H.O.	10,000		By Closing Stock	60,000	
	2,40,000		Less: Loading	15,000	45,000
Less: Loading ($\frac{1}{4} \times 2,40,000$)	60,000		($\frac{1}{4} \times 60,000$)		
$[\frac{1}{3} \text{ on CP} = \frac{1}{4} \text{ on SP}]$		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.

Suggested Answer_Syl16_Dec2017_Paper 5

		(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	₹	₹	Particulars	Cr.	₹
	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

Suggested Answer_Syl16_Dec2017_Paper 5

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.	Cash (₹)	Bank (₹)	Cr.	Cash (₹)	Bank (₹)
Particulars			Particulars		
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

Suggested Answer_Syl16_Dec2017_Paper 5

(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 disclose 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.

Suggested Answers_Syllabus 2016_Jun2017_Paper 5

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) $(43,57,500 \times 100/105)$	41.50
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:

	₹		₹
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.

15

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

Non-Profit Organisations

Q 1 What is the meaning of Non-Profit Organisation?

Sol: Organisations that are not established for making profit but to provide some service given to members who make subscriptions to avail them.

These organisations get their funds in the form of contributions by way of entrance fees, life membership fees, annual subscriptions, donations, grants, legacies etc.

Examples of Non Profit Organisations are Gymkhana / sports clubs; Educational institutions; Public hospitals; Libraries; Cultural clubs like Rotary or Lions club; Religious institutions; Charitable trusts.

Q 2 Why there's a need to study Final Accounts of NPO separately?

Sol: There are 2 main reasons for this:

- a. Nature of NPO is unique and certain items of revenue and expenses need special understanding (Like Donations, Entrance Fees, Subscriptions, Grants Received, Tournament Expenses, Prizes etc.)*
- b. Final Accounts prepared by Non-Profit Organisations is slightly different from the Profit making organisations. NPOs prepare the following as part of their Financial Statements:*
 - i. Receipts and Payments Account*
 - ii. Income & Expenditure Account*
 - iii. Balance Sheet*

Some Special items of Incomes and Expenses in an NPO:

<i>Incomes</i>		<i>Expenses</i>	
<i>Revenue Income</i>	<i>Capital Receipts</i>	<i>Revenue Expenses</i>	<i>Capital Expenses</i>
<i>Donation</i>	<i>Specific Donation</i>	<i>Upkeep of Grounds</i>	<i>Fixed Assets</i>
<i>Admission Fees</i>	<i>Legacy</i>	<i>Tournament Expenses</i>	
<i>Entrance Fees</i>	<i>Admission Fees</i>	<i>Prizes</i>	
<i>Subscriptions</i>	<i>Entrance Fees</i>	<i>Honorarium</i>	
<i>Grants Received</i>	<i>Endowments</i>	<i>Examination Expenses</i>	
	<i>Specific Grant</i>		
<i>Fair Receipts</i>	<i>received</i>	<i>Fair Expenses</i>	
<i>Variety Show receipt</i>	<i>Any Specific Fund</i>	<i>Variety Show Expenses</i>	
<i>Bar Receipts</i>	<i>Life Membership Fees</i>	<i>Bar Purchases</i>	
<i>Sale of news papers</i>		<i>News papers</i>	
<i>Sale of periodicals</i>		<i>Periodicals</i>	
<i>Certificate Fees</i>		<i>Certificate Fees</i>	
<i>Hire Charges</i>		<i>Hire Charges</i>	
		<i>Locker Rent</i>	
<i>Sale of Tickets</i>		<i>Sports Expenses</i>	
		<i>Programme Expenses</i>	
		<i>Allowances</i>	
		<i>Consultancy</i>	
		<i>Audit fees</i>	
		<i>Any material</i>	
		<i>consumed</i>	
		<i>Stationery consumed</i>	

<i>Receipts and Payments Account for the year ended..</i>			
<i>Receipts</i>	<i>Amount</i>	<i>Payments</i>	<i>Amount</i>
<i>To Balance b/d(Opening Balance):</i>		<i>By Balance b/d (Opening Balance)(in case of Bank Overdraft)</i>	XXX
<i>Cash in Hand</i>	XXX	<i>By Salaries</i>	XXX
<i>Cash at Banks</i>	XXX	<i>By Rent</i>	XXX
<i>To Subscriptions:</i>		<i>By Postage Expenses</i>	XXX
<i>For Previous Year</i> XXX		<i>By Newspapers and Magazines, etc.</i>	XXX
<i>For Current Year</i> XXX		<i>By Repairs</i>	XXX
<i>For Next Year</i> <u>XXX</u>	XXX	<i>By Audit Fee</i>	XXX
<i>To General Donations</i>	XXX	<i>By Maintenance Expenses</i>	XXX
<i>To Entrance/Admission Fees</i>	XXX	<i>By Insurance</i>	XXX
<i>To General Grants</i>	XXX	<i>By Secretary's Honorarium</i>	XXX
<i>To Sale of Newspaper, Grass, etc.</i>	XXX	<i>By Honorarium</i>	XXX
<i>To Sale of Old Used Sports Material</i>	XXX	<i>By Municipal Tax</i>	XXX
<i>To Interest on Investments</i>	XXX	<i>By Prize Distributed</i>	XXX
<i>To Income from Concerts/Lectures</i>	XXX	<i>By Office Expenses</i>	XXX
<i>To Dividends</i>	XXX	<i>By Expenses on Show</i>	XXX
<i>To Rent Received</i>	XXX	<i>By Miscellaneous Payments</i>	XXX
<i>To Interest Received</i>	XXX	<i>By Purchase of Fixed Assets (e.g., Furniture)</i>	XXX
<i>To Miscellaneous Receipts</i>	XXX	<i>By Sports Equipment</i>	XXX
<i>To Life Membership Fees</i>	XXX	<i>By Investments</i>	XXX
<i>To Subscriptions for Specific Purpose</i>	XXX	<i>By Books</i>	XXX
<i>To Donation for Specific Purpose</i>	XXX	<i>By Loan (Repayment)</i>	XXX
<i>To Legacies</i>	XXX	<i>By Building</i>	XXX
<i>To Endowment Fund</i>	XXX	<i>By Balance c/d (Closing Balance):</i>	
<i>To Sale of Fixed Assets</i>	XXX	<i>Cash in Hand</i>	XXX
<i>To Receipts on Account of Special Fund,i.e.,Match Fund, Prize Fund, etc.</i>	XXX	<i>Cash at Bank*</i>	XXX
<i>To Balance c/d (Bank Overdraft)*</i>	XXX		

	XXXX		XXXX
Income and Expenditure Account for the period ended...			
Dr			Cr
Expenditure	Amount	Income	Amount
To Salaries XX		By Subscriptions	
Add: Outstanding at the end <u>XX</u>		Add: Outstanding at the end XX	
XX		Advance in the beginning <u>XX</u>	
Less: Outstanding at beginning <u>XX</u>	XX	XX	
To Rent		Less: Outstanding at beginning <u>XX</u>	
To Insurance Premium XX		XX	
Less: Prepaid <u>XX</u>	XX	Less: Advance at the end <u>XX</u>	XX
To Audit Fees	XX	By Entrance Fees	XX
To Printing and Stationery	XX	By Donations	XX
To Honorarium	XX	By Sale of Old Newspapers	XX
To Telephone Expenses	XX	By Hall Rent	XX
To Repairs	XX	By Sundry Receipts	XX
To Depreciation	XX	By Deficit	XX
To Sports Material Used	XX	(excess of expenditure over income)*	
To Surplus	XX		
(excess of income over expenditure)*			
	XXX		XXX

Difference between Receipts and Payments A/c and Income & Expenditure A/c:

Basis of Difference	Receipts and Payments Accounts	Income and Expenditure Account
1. Nature	It is a summary of the Cash Book.	It is similar to Profit and Loss Account of a Business Enterprise.
2. Basis of Accounting	It is prepared on Cash Basis of Accounting.	It is prepared on Accrual Basis of Accounting.
3. Nature of Account	It is a real account.	It is a nominal account.
4. Balance	It starts with the opening balance of cash and bank. Balance at the end represents cash and bank balance at the end.	It has no opening balance. Balance at the end means either surplus or deficit.
5. Sides	Debit side of the account records cash receipts and credit side records cash payments.	Debit side of this account records expenses and losses and credit side records incomes and gains.
6. Capital and Revenue Items	It records receipts and payments of items of both capital and revenue nature.	It records income and expenditure of revenues items only.
7. Non-cash items	It does not record non-cash items like depreciation.	It records non-cash items like depreciation.

Format of Opening Balance Sheet

<i>Liabilities</i>	<i>Amt.</i>	<i>Assets</i>	<i>Amt</i>
<i>Advance Subscription</i>		<i>Fixed Assets</i>	
<i>Outstanding Expenses</i>		<i>Investments</i>	
<i>Capital Fund (Balancing Figure)</i>		<i>Subscription Outstanding</i>	
		<i>Accrued Interest</i>	
		<i>Prepaid Expenses</i>	
		<i>Cash in Hand</i>	
		<i>Cash at Bank</i>	

Format of Closing Balance Sheet:

<i>Liabilities</i>	<i>Amt.</i>	<i>Assets</i>	<i>Amt.</i>
<i>Capital Fund:</i>		<i>Fixed Assets:</i>	
<i>Opening Balance</i>		<i>Opening Balance</i>	
<i>Add: Surplus (or Less: Deficit)</i>		<i>Add: Additions</i>	
<i>Specific Funds (Building Fund, Prize/Match Fund, etc.)</i>		<i>Less: Depreciation</i>	
<i>Opening Balance</i>		<i>Investments</i>	
<i>Add: Donations / Income related to such Funds</i>		<i>Specific Fund Investments</i>	
<i>Less: Expenses related to such Funds</i>		<i>Subscriptions Outstanding</i>	
<i>Subscriptions Received in Advance</i>		<i>Accrued Interest</i>	
<i>Outstanding Expenses (Salary, Rent, Taxes, etc.)</i>		<i>Prepaid Expenses</i>	
		<i>Cash in Hand</i>	
		<i>Cash at Bank</i>	

Accrual Concept

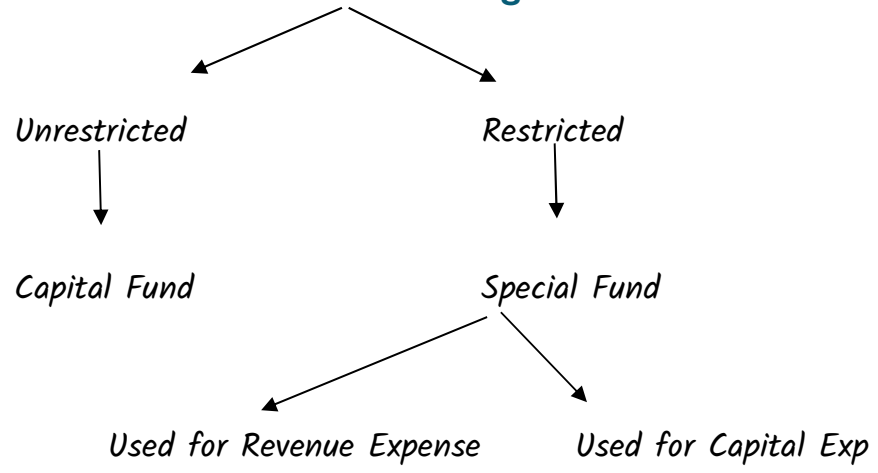
<i>Treatment of Any Expense</i>	<i>Income & Exp. A/c</i>	<i>Balance Sheet</i>
<i>Amount given in Payment (Cr) side of Receipts and Payments A/c</i>	<i>Dr Side</i>	-----
<i>Outstanding / Due / Unpaid of Current Year</i>	+	<i>Liability in Closing BS</i>
<i>Outstanding / Due / Unpaid of Previous Year</i>	-	<i>Liability in Opening BS</i>
<i>Advance / Prepaid / Unexpired of Current Year</i>	-	<i>Asset in Closing BS</i>
<i>Advance / Prepaid / Unexpired of Last Year</i>	+	<i>Asset in Opening BS</i>

<i>Treatment of Any Income</i>	<i>Income & Exp. A/c</i>	<i>Balance Sheet</i>
<i>Amount given in Receipt (Dr) side of Receipts and Payments A/c</i>	<i>Cr Side</i>	-----
<i>Outstanding / Due / Accrued of Current Year</i>	+	<i>Asset in Closing BS</i>
<i>Outstanding / Due / Accrued of Previous Year</i>	-	<i>Asset in Opening BS</i>
<i>Advance / Unearned of Current Year</i>	-	<i>Liability in Closing BS</i>
<i>Advance / Unearned of Previous Year</i>	+	<i>Liability in Opening BS</i>

Cost of Material Consumed

<i>Treatment of Any Consumables</i>	<i>Income & Exp. A/c</i>	<i>Balance Sheet</i>
<i>Amount given in Payment (Cr) side of Receipts and Payments A/c</i>	<i>Dr Side</i>	<i>-----</i>
<i>Outstanding / Due / Unpaid of Current Year</i>	<i>+</i>	<i>Liability in Closing BS</i>
<i>Outstanding / Due / Unpaid of Previous Year</i>	<i>-</i>	<i>Liability in Opening BS</i>
<i>Advance / Prepaid / Unexpired of Current Year</i>	<i>-</i>	<i>Asset in Closing BS</i>
<i>Advance / Prepaid / Unexpired of Last Year</i>	<i>+</i>	<i>Asset in Opening BS</i>
<i>Opening Stock / Stock at the beginning</i>	<i>+</i>	<i>Asset in Opening BS</i>
<i>Closing Stock / Stock at the end</i>	<i>-</i>	<i>Asset in Closing BS</i>

Fund Based Accounting:



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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

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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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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 = $27,000 \times (100 \text{ Kgs.} / 900 \text{ Kgs.}) = ₹ 3,000.$

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

Suggested Answers_Syl2016_June 2019_Paper 5

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	<u>(x)</u>
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.

Suggested Answer_Syl16_Dec2018_Paper_5

		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

Suggested Answer_Syl16_Dec2018_Paper_5

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

Balance Sheet as at 31st march, 2018

(Rs. in 000)

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

Suggested Answer_Syl16_Dec2018_Paper_5

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		8% Govt. Securities	1050
Creditors for Furniture		Out. Int. on Govt. Securities	21
Outstanding Hon. and salaries		Outstanding Subscription	61
Outs. Maintenance of play ground		Prepaid Insurance Premium	3
Outstanding Sundry expenses		Play Ground rent- Outstanding	10
Subscription Received in Advance		Sundry incomes-Outstanding	13
		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.

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. 15

Answer:

3.

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

Dr.	₹	Cr.	₹
Receipts		Payments	
To Cash in Hand (Opening)	56,000	By Medical Supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on Investment	63,000	By Misc. expenses	7,000
To Medical Camp collections	87,500	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.	₹	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		
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.

15

Suggested Answer_Syl16_Dec2017_Paper 5

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

Suggested Answer_Syl16_Dec2017_Paper 5

	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

Suggested Answer_Syl16_Dec2017_Paper 5

		(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	₹	₹	Particulars	Cr.	₹
	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

Reconstitution of Partnership

Q 1 What is the meaning of Partnership?

Sol: Partnership is the relation between persons and who have agreed to share the profits of a business carried on by all or any of them acting for all.

Main features of Partnership are:

- i) **Two or more persons:** It is an association of two or more persons for a common interest.*
- ii) **Agreement:** The Partnership is an agreement. It may be either oral or in writing.*
- iii) **Lawful Business:** Partnership is formed to carry on a business; so it must follow the law.*
- iv) **Profit Sharing:** Profit or loss of the firm is to share by the partners in an agreed ratio and equally where the ratio is not agreed.*

Q 2 What are the rules applicable in the absence of Partnership Deed?

Sol: In the absence of Deed, provisions of Partnership Act is applicable:

- (i) Profit sharing ratio will be equal*
- (ii) No Interest on Capital and Drawings*
- (iii) No Remuneration or Salary to the partners.*
- (iv) Interest on Loan advanced by the partner @6% p.a.*

Q 3 What is the meaning of Reconstitution of Partnership?

Sol: *Change in agreement. Business continues:*

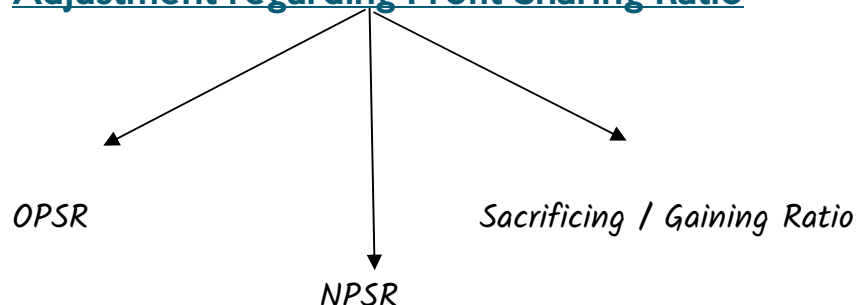
- (i) *Change in Profit Sharing Ratio*
- (ii) *Admission of a Partner*
- (iii) *Retirement of a Partner*
- (iv) *Death of a Partner*

Q 3 What are the adjustments required at the time of Reconstitution of Partnership?

Sol: *Adjustments required are:*

1. *Adjustment regarding Profit Sharing Ratio*
2. *Revaluation of Assets and Liabilities*
3. *Adjustment for Goodwill*
4. *Adjustment for Accumulated Reserves, Profits and Losses*
5. *Adjustment of Capitals*

Adjustment regarding Profit Sharing Ratio



At the time of Admission, Retirement, Death or Change in PSR, we need to know the following 3 aspects of PSR:

- 1. Old Profit Sharing Ratio i.e OPSR - Always given in the Question, or assume it to be equal.*
- 2. New Profit Sharing Ratio i.e NPSR - Either Given **OR** "Old - Sacrifice" **OR** "Old + Gain".*
- 3. (Sacrificing Ratio) / Gaining Ratio - Either Given **OR** "Old - New".*

Examples:

- 1. A and B are partners sharing profit and losses in the ratio of 3 : 2. C is coming as a new partner for 1/5th share of future profit. Calculate new profit sharing and sacrificing ratio.*

2. The profit sharing ratio of Arvind and Gobind is 5:3. Dipak was admitted as a new partner. Arvind sacrificed $\frac{1}{5}$ th of his share and Gobind $\frac{1}{3}$ rd of his share for Dipak. Calculate the new profit sharing and sacrificing ratio.

3. Amir, Bobby and Chetan were the partners in a firm sharing profits and losses equally. Chetan has decided to retire from partnership. New profit sharing ratio of Amir and Bobby would be 2:3.

4. P and Q were partners sharing profits/losses as 4 : 3. R is admitted as a new partner for $\frac{1}{5}^{\text{th}}$ share. P and Q decide to share the balance of profits equally.

5. A, B & C were partners sharing profits/loses as 3 : 2: 1. They admitted D as a new partner giving him $\frac{1}{6}^{\text{th}}$ share of future profits. D acquired $\frac{3}{24}$ th share from A and $\frac{1}{24}$ share from B. Calculate the new Profit Sharing Ratio.

Revaluation of Assets and Liabilities

Revalued Figures to be shown in BS



Revaluation Account

Old Figures to be shown in BS



Memorandum Revaluation Account

Revaluation Account

<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
<i>To Assets</i>		<i>By Assets</i>	
<i>To Liabilities</i>		<i>By Liabilities</i>	
<i>To Partner's Capital</i>		<i>By Partner's Capital</i>	

Memorandum Revaluation Account

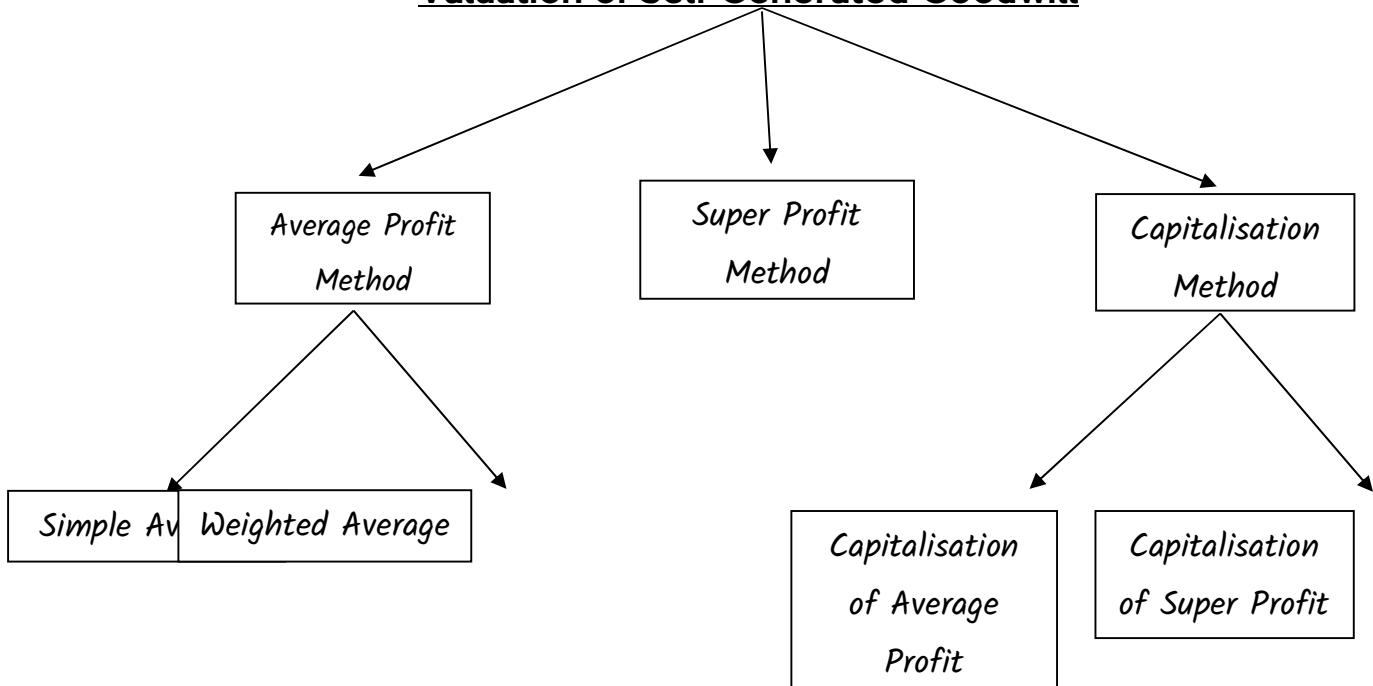
<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
<i>To Assets</i>		<i>By Assets</i>	
<i>To Liabilities</i>		<i>By Liabilities</i>	
<i>To Partner's Capital</i>		<i>By Partner's Capital</i>	
<i>To Assets</i>		<i>By Assets</i>	
<i>To Liabilities</i>		<i>By Liabilities</i>	
<i>To Partner's Capital</i>		<i>By Partner's Capital</i>	

Goodwill:

Sum total of the reputation and other favourable attributes built up by a business.

Goodwill can be a Purchased Goodwill or Self Generated Goodwill. As per AS 26, only Purchased Goodwill can be recorded in the books. However at the time of reconstitution of Partnership (Change in PSR, Admission, Retirement, Death), Valuation of Self Generated Goodwill is done. Accounting for the same is done without recording goodwill in the books (Done through Capital Adjustments)

Valuation of Self Generated Goodwill



Note: Goodwill as per Annuity Method = Annual Super Profit X Present Value of Annuity of Rupee 1.

Accounting Treatment of Goodwill in various cases:

<i>Case</i>	<i>Journal Entry</i>
<i>Existing Goodwill in Balance Sheet</i>	
<i>Gaining Partner pays the goodwill privately</i>	
<i>Gaining Partner brings his share of goodwill in cash or Kind.</i>	
<i>Sacrificing Partners withdraw premium for goodwill or its part</i>	
<i>Gaining Partner not in a position to bring his share of goodwill or a part of it</i>	

Adjustment for Accumulated Reserves, Profits and Losses:

Example

A and B partners sharing profits in the ratio 3:2. C is admitted for 1/6th share.

Balances on the date of Admission:

	Rs.
<i>General Reserve</i>	<i>10000</i>
<i>Workmen Compensation Reserve</i>	<i>16000</i>
<i>Investment Fluctuation Fund</i>	<i>9000</i>
<i>Employees Provident Fund</i>	<i>4000</i>
<i>Investments</i>	<i>25000</i>
<i>Profit and Loss A/c Debit Balance</i>	<i>3000</i>

Workmen Compensation Claim is Rs. 11000

Market value of investments is Rs. 20000

Show the treatment of reserves

When Reserve is to be maintained at the same value in Balance Sheet?

Specific treatments at the time of retirement or death

Retiring Partner or executor of the deceased partner is entitled to the following:

- 1. Balance of his capital and current account at the time of retirement/death.*
- 2. Share of goodwill, undistributed profit or loss, reserves and profit or loss on revaluation of assets and liabilities*
- 3. Salary, commission, interest on capital, if any and all other dues till the date of retirement/death.*
- 4. Any adjustment in drawings and interest thereon.*
- 5. His share of profit/loss made by the firm between the last year ending and the date of his retirement or death.*

Journal Entries at the time of settlement of dues of the Retiring Partner / Executor

Journal Entry

<i>Payment of due amount</i>	
<i>Transfer to Loan A/c</i>	
<i>Interest due on Loan</i>	
<i>Payment of Interest</i>	

Retirement/Death in the middle of the year:

Retiring partner or executor of the deceased partner is entitled to the share of profit till the date of retirement or death. Generally profit is estimated on the basis of average of past profits.

Retiring Partner's Capital A/c will be credited for his share of estimated profit.

If there is change in PSR of existing partners then their capital A/c will be debited in Gaining Ratio. Otherwise, P/L Suspense A/c will be debited.

Section 37 of Indian Partnership Act, 1932:

Retiring partner or the executor of the deceased partner, is entitled to the following if any contrary is not agreed:

Maximum of:

i. Interest @ 6% p.a. on the amount due

OR

ii. Share of profit earned from the amount due

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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

Suggested Answers_Syl2016_December 2019_Paper 5

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:

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

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

Suggested Answer_Syl16_Dec2018_Paper_5

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		8% Govt. Securities	1050
Creditors for Furniture		Out. Int. on Govt. Securities	21
Outstanding Hon. and salaries		Outstanding Subscription	61
Outs. Maintenance of play ground		Prepaid Insurance Premium	3
Outstanding Sundry expenses		Play Ground rent- Outstanding	10
Subscription Received in Advance		Sundry incomes-Outstanding	13
		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.

Suggested Answer_Syl16_Dec2018_Paper_5

(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

Suggested Answer_Syl16_Dec2018_Paper_5

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	356.066
1.12.18	To Bank A/c	316.268	1.12.18	By 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.

(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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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.

15

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

Suggested Answers_Syl2016_June2018_Paper 5

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	---	12,000
Q	---	12,000	---	12,000
	84,000	84,000	24,000	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 × 7/2 = 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 × 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? 1×4=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 Answer_Syl16_Dec2017_Paper 5

(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 disclose 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.

Suggested Answer_Syl16_Dec2017_Paper 5

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.

7

Suggested Answer_Syl16_Dec2017_Paper 5

(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.

8

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

Suggested Answers_Syllabus 2016_Jun2017_Paper 5

(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

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

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
			Land and Building	75,000
		3,65,000		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.	Particulars	₹	Cr.	₹
	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		

Suggested Answers_Syllabus 2016_Jun2017_Paper 5

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

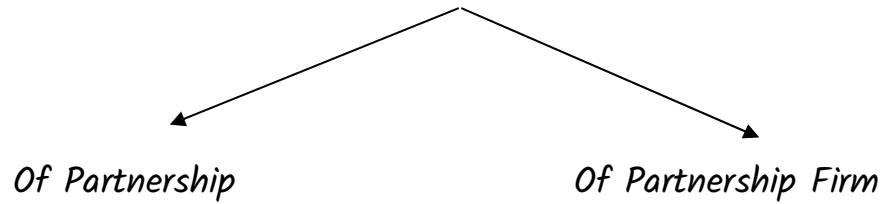
9

- (b) The following information is available in the books of N.R. & Sons, for the year ending 31st March 2017:

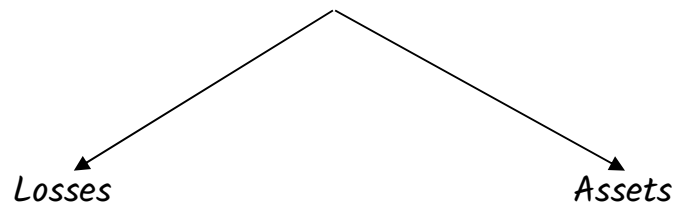
- (i) Total Sales amounted to ₹ 24,43,000 including the sale of old machinery for ₹ 25,000 (book value is ₹ 43,000). The total cash sales were 70% less than total credit sales.
- (ii) Cash collection from Debtors amounted to 70% of the aggregated of the opening Debtors and Credit sales for the period. 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.

Dissolution of Firm and Insolvency

Dissolution



Settlement of Accounts on Dissolution – Section 48



Insolvency of a Partner

If a partner becomes insolvent and fails to pay his debit balance of Capital A/c either wholly or in part, the unrecoverable portion is a loss to be borne by the solvent partners.

Decision in Garner vs. Murray Case

Loss arising due to the insolvency of a partner must be distinguished from an ordinary loss (including realization loss).

Unless otherwise agreed, the decision in Garner vs. Murray requires –

- i. That the solvent partners should bring in cash equal to their respective shares of the loss on realization;*
- ii. That the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capitals.*

Criticism of the decision of Garner vs. Murray

- 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;*
- iii. In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on realization; and*

If any solvent partner possess more private asset but contributes less capital, as per Garner vs. Murray decision, he will 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.

Insolvency of All the Partners

In this case, Outside liabilities cannot be paid in full. So, it should not be transferred to Realisation A/c. Outside liabilities will have to bear the deficiency.

Piecemeal Distribution:

Assets are sometimes realized gradually over a period of time. In such a case it may be agreed that different parties are to be paid in order of preference as and when assets are realized.

Order of Payment in Piecemeal Distribution:

- 1 **Realisation Expenses**
- 2 **For provision for expenses that are to be made**
- 3 **Preferential creditors (say, Income Tax or any payment made to the Government)**
- 4 **Secured creditors – upto the amount realized from the disposal of assets by which they are secured and for the balance, if any, to be paid to unsecured creditors.**
- 5 **Unsecured creditors – 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**

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_Syl2016_June 2019_Paper 5

Total Interest (1.5.18 to 31.3.19) = ₹ 8,00,000 x 7.50% x 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.

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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	6,800
		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. 8

(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	18,000	4,500	39,000	22,000
	(Dr.)	(Dr.)	(Cr.)	(Dr.)	(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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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 = $27,000 \times (100 \text{ Kgs.} / 900 \text{ Kgs.}) = ₹ 3,000.$

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

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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	<u>(x)</u>
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.

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- cost per good unit
2. Cost of Good units = Total Cost/(Total Qty - Normal Loss Qty) = $(5000 \times \text{Rs.}1,900)/(5000 - 250) = \text{Rs.} 2,000$
 3. Abnormal Loss Qty = Total Loss - Normal Loss = 300 MT - 5% of 5,000 MT = 50 MT
 4. **Cost of Abnormal Loss** = 50MT \times 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 \times 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.
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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.

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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.

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Answer:

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

Dr.			Cr.	
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		13,27,200	By Sales	49,17,000
To Purchases	34,82,700		By Stock on 22 nd January, 2015 – Balancing figure	7,76,300
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 22 nd 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	₹	Particulars	₹
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

Suggested Answer_Syl16_Dec2017_Paper 5

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

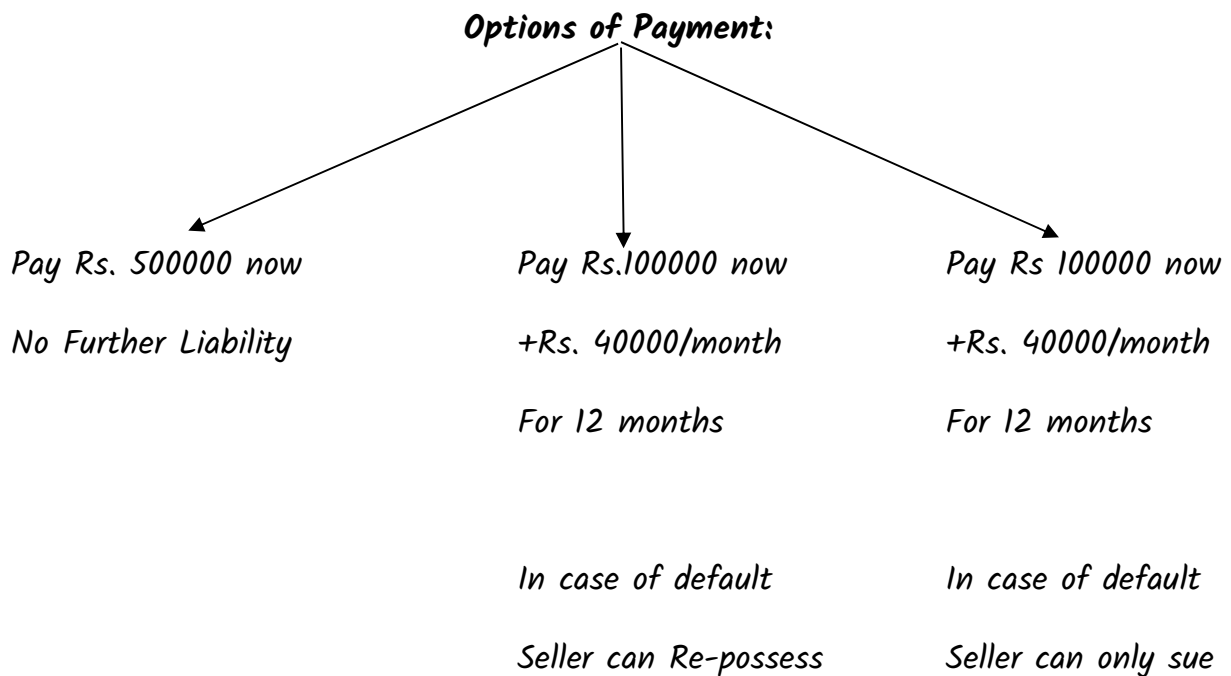
- (iii) In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on revaluation which is immaterial and useless; and
- (iv) If any solvent partner who possess more private asset but contributes less capital, he will naturally, as per Garner 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.

Hire-Purchase

Concept of Hire-Purchase and Installment System

Example:

Price of a car is Rs. 500000.



Difference between Hire-Purchase and Installment System

<i>Particulars</i>	<i>Hire Purchase</i>	<i>Installment</i>
<i>Ownership</i>	<i>Ownership passes to the buyer on the payment of last installment.</i>	<i>Ownership passes at the time of sale.</i>
<i>Default in making payment</i>	<i>Seller can repossess the goods. Installments paid is treated as Hiring charges.</i>	<i>Seller can sue the buyer for the non-payment of price.</i>
<i>Right of sale or transfer</i>	<i>No right to sale or transfer since the legal position of the hirer is bailee.</i>	<i>Right to sale or otherwise transfer the goods.</i>
<i>Loss or damages to the goods.</i>	<i>To be borne by the seller if the buyer takes reasonable care.</i>	<i>To be borne by the buyer.</i>

Accounting of Hire-Purchase Transaction

<i>Transaction</i>	<i>In the books of Hire Purchaser</i>	<i>In the books of Hire Vendor</i>
<i>On transfer of Possession</i>		
<i>On making Down Payment</i>		
<i>On making Interest due on unpaid balance</i>		
<i>On making payment of Instalment</i>		
<i>On providing Depreciation</i>		
<i>On closure of Depreciation A/c and Interest A/c</i>		

Disclosure in the Balance Sheet

In the Books of Hire Purchaser

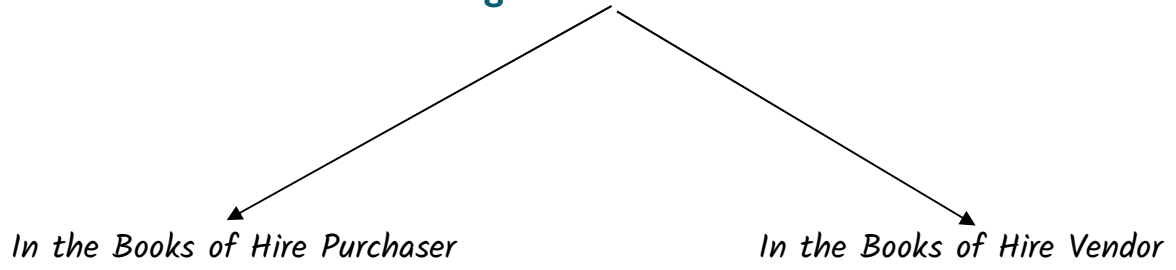
In the Books of Hire Vendor

Accounting of Full Repossession

In the Books of Hire Purchaser

In the Books of Hire Vendor

Accounting of Partial Re-Possession



Points to Remember

1. Cash Price = PV of all the payments
2. Loan Amortization Table should be prepared
3. Interest rate can be calculated using trial and error method through interpolation.
4. Int. amount in case of quarterly or monthly installments can be calculated using "Ratio Method".
5. If installment amount is same, Annuity Factor can be used.
6. Value of Goods Repossessed by the Vendor:
At the time of Full Repossession – This value is only relevant for Vendor and not for Hire Purchaser. For Hire Purchaser, total amount due to Vendor will be debited.
At the time of Partial Repossession – This value is actually the agreed value between Vendor and Purchaser relevant for both the parties.
7. Int. and Depreciation till date of repossession must be charged.

Suggested Answers_Syl2016_June 2019_Paper 5

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.		Cr.		
Particular	₹	Particulars	₹	₹
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

Suggested Answer_Syl16_Dec2018_Paper_5

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Suggested Answer_Syl16_Dec2018_Paper_5

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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

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)	15,600	15,600
	(b) Creditors/Bought Ledger Adjustment A/c (In General Ledger) Dr. 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.	₹	Cr.	₹
Particulars		Particulars	
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 Answer_Syl16_Dec2017_Paper 5

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 of ₹ 20.00 = 4.00	₹ 16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹ 18.00
Department 2	₹ 25.00	1/5 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.

8

Suggested Answer_Syl16_Dec2017_Paper 5

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

Suggested Answers_Syllabus 2016_Jun2017_Paper 5

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:

- Hire Purchase Price = Down Payment + Installments
= ₹ 3,00,000 + (₹ 4,20,000 + ₹ 3,90,000 + ₹ 3,60,000 + ₹ 3,30,000) = 18,00,000
- Total Interest = H.P. Price - Cash Price
= 18,00,000 - ₹ 15,00,000 = ₹ 3,00,000
- 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

Insurance Claim

Step - 1

Calculate Book Value of Stock on the date of loss by preparing Memorandum Trading A/c

Step - 2

Calculate Actual Value of Stock Lost:

Book Value	XX
Deduct: Salvage Value	<u>XX</u>
Actual Value of Stock Lost	<u>XX</u>

Step - 3

Average Clause: Encourages full insurance and discourages under-insurance. The insured person also has to bear a portion of loss himself in case the value of-stock lost is more than the value of the policy.

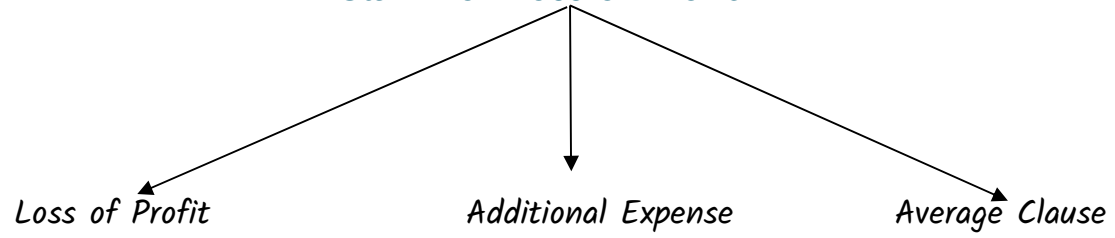
$$\text{Net Claim} = \text{Actual Loss of Stock} \times \text{Policy Value} / \text{Book Value}$$

Note: If Policy Value is more than the Book Value of Stock, Claim is the Value of Actual Loss of Stock.

Notes:

- 1. Stock on date of fire is either taken from Stores Ledger or calculated by preparing Memorandum Trading Account till the date of fire.*
- 2. To calculate GP Ratio, we may need to prepare Previous Year Trading Account. Adjust GP Ratio according to information (Different GP Ratio or Different Selling Price so different GP Ratio)*
- 3. Abnormal Goods – Double Column Trading Accounts*
- 4. Loss of Stock is both Normal Goods and Abnormal Goods (Realisable Value)*
- 5. Drawings of Goods, Goods distributed, Goods sent on consignment or on approval basis and other similar items need to be treated at cost only.*
- 6. If any amount is written off from stock on account of abnormality, add it back and then treat as segregated between Normal Goods and Abnormal goods.*

Claim for Loss of Profit



Steps:

1. Determine the Trend
2. Calculation of Short Sales
3. $GP \text{ Ratio} = (NP + I.S.C) / Sales$
4. Calculate Loss of Profit due to short sale
5. Additional Expense:
Lower of the following
 - a. Actual
 - b. Incremental Profit due to incremental sales in Loss period
 - c. $Additional \text{ Expense} \times GP \text{ on AATO} / (GP \text{ on AATO} + U.I.S.C)$

Note: Trend will only be used on Current FY

6. Total Loss

Loss on GP	XX
Allowed Additional Expense	XX
Savings in I.S.C	(XX)

7. Claim
 $Loss \times Policy \text{ Value} / GP \text{ on AATO}$

Suggested Answers_Syl2016_December 2019_Paper 5

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>

Suggested Answers_Syl2016_December 2019_Paper 5

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:

1. Calculation of Stock Reserve (opening)
 $25,000 \times 75\% \text{ wood} \times 15\% = ₹ 2,813$

2. 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 × $\frac{100}{90}$)	
	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				

Suggested Answers_Syl2016_December 2019_Paper 5

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:

$$\begin{aligned} \text{Claim subject to average clause} &= \frac{\text{Actual Loss of Stock}}{\text{Value of Stock on the date of fire} \times \text{Amount of policy}} \\ &= 1,20,000 \times \left(\frac{1,50,000}{1,50,000} \right) = ₹ 1,20,000 \end{aligned}$$

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.

Suggested Answers_Syl2016_June 2019_Paper 5

(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

Suggested Answers_Syl2016_June 2019_Paper 5

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.			Cr.		
Particular	₹	Particulars	₹	₹	
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

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(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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	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

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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)	15,600	15,600
	(b) Creditors/Bought Ledger Adjustment A/c (In General Ledger) Dr. 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.	₹	Cr.	₹
Particulars		Particulars	
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.

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

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

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(₹ 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

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Answer:

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

Dr.			Cr.	
Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		13,27,200	By Sales	49,17,000
To Purchases	34,82,700		By Stock on 22 nd January, 2015 – Balancing figure	7,76,300
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 22 nd 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	₹	Particulars	₹
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

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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:

- Hire Purchase Price = Down Payment + Installments
= ₹ 3,00,000 + (₹ 4,20,000 + ₹ 3,90,000 + ₹ 3,60,000 + ₹ 3,30,000) = 18,00,000
- Total Interest = H.P. Price - Cash Price
= 18,00,000 - ₹ 15,00,000 = ₹ 3,00,000
- 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

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

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
			Land and Building	75,000
		3,65,000		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.	Particulars	₹	Cr.	₹
	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		

Departmental Accounts

Why Departmental Accounts:

- a. **Proper Allocation:** Expenses that relate to a particular department are estimated on an exact basis. Hence, cost and profits of each department is estimated more accurately.

- b. **Control :** Availability of separate cost and profit figures for each department facilitates control. Proper control and fixation of responsibility is easier.

- c. **Proper absorption :** The processing times of different products in different departments may vary. Specific cost analysis on a department-wise basis facilitates scientific cost absorption and cost assignment.

Interdepartmental Transfer

For transferor department like sale and for transferee like purchase. In total column or Entity Trading A/c nothing will be shown.

Allocation of Expenses

Specific to any Department -

*Charge to that
department only*

Common Allocable Expense -

Charge on suitable basis

Non Allocable Expense -

*Charge to General P/L
A/c*

S. No	Expenses	Basis of Allocation
1	Rent, rates and taxes, repairs and maintenance, insurance of building	Floor area occupied by each department (if given) otherwise on time basis
2	Lighting and Heating expenses (e.g., energy expenses)	Consumption of energy by each department
3	Selling expenses, e.g., discount, bad debts, selling commission, freight outward, travelling sales manager's salary and other costs	Sales of each department
4.	Carriage inward/ Discount received	Purchases of each department
5.	Wages/Salaries	Time devoted by employees to each department
6.	Depreciation, insurance, repairs and maintenance of capital assets	Value of assets of each department otherwise on time basis
7.	Administrative and other expenses, e.g., salaries of managers, directors, common advertisement expenses, etc.	Time basis or equally among all departments
8.	Labour welfare expenses	Number of employees in each department
9.	PF/ESI contributions	Wages and salaries of each department

1. **Stock Reserve Accounting**

Profit element in the stock due to IDT Stock when transfer is at above cost.

Eliminate unrealised profit from Closing Stock by debiting Gen P/L

Eliminate unrealised profit from Opening Stock by crediting Gen P/L

Calculation of Stock Reserve

*Stock X IDT Ratio of **Transferee** X GP Ratio of **Transferor***

*While calculating IDT Ratio, consider all the items in the debit side of Trading A/c except Opening Stock and Gross Profit. If IDT is 400 and Purchases, Wages etc is 1600 it means IDT Ratio to be used is "**1/5**" as the fraction*

*If Opening IDT Ratio and GP Ratio is not available and neither, can it be calculated, then assume it to be same as Closing IDT Ratio and GP Ratio.
(Only if it cannot be computed)*

If Stock Reserve is required to be done in Departmental Trading A/c then do it in transferor department.

2. If A to B and B to C

In stock of C,

Calculate B's Loading in C's stock and Then A's Loading in C's Stock

Suggested Answers_Syl2016_December 2019_Paper 5

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:

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

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

Suggested Answers_Syl2016_December 2019_Paper 5

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>

Suggested Answers_Syl2016_December 2019_Paper 5

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:

1. Calculation of Stock Reserve (opening)
 $25,000 \times 75\% \text{ wood} \times 15\% = ₹ 2,813$

2. 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 ×)	
	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				

Suggested Answer_Syl16_Dec2018_Paper_5

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	356.066
1.12.18	To Bank A/c	316.268	1.12.18	By 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. 9

(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.

Suggested Answer_Syl16_Dec2018_Paper_5

(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**

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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.

8

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

Suggested Answer_Syl16_Dec2017_Paper 5

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 of ₹ 20.00 = 4.00	₹ 16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹ 18.00
Department 2	₹ 25.00	1/5 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.

8

Branch Accounts

Types

- i) *Inland*
 - a. *Dependent*
 - i. *Debtors' method*
 - ii. *Stock & Debtors Method*
 - iii. *Final accounts method*
 - b. *Independent*
- ii) *Foreign*

Debtors Method

- Step 1. *Opening balances of assets and liabilities*
- Step 2. *Recording transactions between HO and branch only*
- Step 3. *Year end closing balances*
- Step 4. *Difference is profit - T/f to G. P/L*

- If GSTB at I.P, unloading to be done
- Stock reserve in closing stock and opening stock should be accounted for
- Working notes and memorandum A/cs to be prepared

Stock and Debtors Method

Complete double entry system. No memorandum accounts, all are part of the books of accounts.

Mainly the following ledger are required to be prepared:

- i) Branch stock a/c (at invoice price)
- ii) Branch debtors a/c
- iii) Branch cash a/c
- iv) Pilferage, loss in transit, abnormal loss a/c
- v) Branch adjustment a/c
- vi) Branch P/L a/c
- vii) GSTB a/c
- viii) May prepare, Branch expense, branch asset a/c

E.g.:

Opening stock at I.P = 400

GSTB = 5000

Opening debtors = 200

Opening cash = 130

Goods returned by branch = 1000

Credit sales = 3200

Cash sales = 1100

Loss in transit (I.P) = 100

Profit on cost = 25%

Insurance claim = 50

Closing stock = 600

Bad debts = 100

Collection from debtors = 2800

Expense paid = 200 by branch and 300 by HO

Final A/C Method

- Everything at cost only except sales
- GSTB like purchase

Independent Branches

1. Double entry completely by branch except capital & drawing (instead there is HO a/c)
 2. HO also maintains branch a/c (like two different entities)
 3. Accounting of goods in transit and cash in transit (reconciliation accounting)
 4. All branches open only an HO account but HO opens an account for each branch
 5. Even the transaction between two branches will be recorded by HO.
(cumulating entry for a period is allowed)
 6. Sometime FA of branch is maintained by HO
* depreciation to be accounted for by branch
7. Trading & P/L account
- * For HO, GSTB is like sales
 - * For branch GRFHO is like purchases
 - * HO earns GP on GSTB (for loading)
 - * branch earns GP on sales above I.P
 - * HO also earns GP on direct sales
 - * Stock reserve accounting to be done in HO P/L account
 - * Goods in transit – stock reserves to be done as well
 - * GRFHO and GIT relation

Independent Branch- Incorporation entries in HO Books

Branch

To Profit from Branch A/c

Assets

To Branch

Branch

To Liabilities

** Branch Personal A/c will become NIL.*

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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. 8

(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	18,000	4,500	39,000	22,000
	(Dr.)	(Dr.)	(Cr.)	(Dr.)	(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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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 × 7/2 = 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 × 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.

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(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	1,00,000	
To Goods Sent to Branch	2,50,000		Credit	3,00,000	4,00,000
Less: Returns to H.O.	10,000		By Closing Stock	60,000	
	2,40,000		Less: Loading	15,000	45,000
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.

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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			
		77,500			77,500

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.

(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 Dishonoured	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