Paper 5 – Financial Accounting

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Full Marks:100 **Time allowed: 3 hours**

[This paper contains 9 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

1. Answer the following questions **[5 ×1 = 20]**

(a) Multiple choice questions:

(i) An amount spent for replacement of worn out part of machine is
(a) Capital Expenditure
(b) Revenue Expenditure
(c) Deferred revenue
(d) Capital Loss

(ii) Which of the following item(s) is (are) shown in the Income and Expenditure Account?
(a) Only items of Capital nature
(b) Only items of Revenue nature, which are received during the period of Accounts
(c) Only items of Revenue nature pertaining to the period of Accounts
(d) Both the items of Capital and Revenue nature

(iii) Goods are sent by the head office to the branch but not received by the branch before the close of financial year are credited by head office to
(a) Branch account
(b) Trading account
(c) Goods sent to branch account
(d) Goods-in-transit account

(iv) Depreciation is a process of
(a) Valuation
(b) Allocation
(c) Both valuation and allocation
(d) None of the above

(v) In case of a Club, the excess of expenditure over income is called as
(a) Surplus
(b) Deficit
(c) Capital Fund
(d) Investment in Fixed Assets

(b) Match the following: **[5 × 1 = 5]**

	Column 'A'		Column 'B'
1.	AS - 10	A	Inventories
2.	Del – Credere Commission	B	Receipts and Payments Account
3.	Entrance fee	C	Property, plant and equipment
4.	AS - 2	D	Dissolution of Partnership Firm
5.	Garner V Murray Rule	E	Consignment

(c) State whether the following statements are true or false **[5 × 1 = 5]**

(i) Income and expenditure account is a Personal Account.
(ii) Royalty is the sum paid by lessee to lessor for using the rights of latter.
(iii) Partial Repossession is related to Hire Purchase agreement.
(iv) Realization account is opened at the time of dissolution of the partnership firm.
(v) Amount spent for white washing the factory building is treated as Revenue Expenditure.

(d) Answer the following: **[5 × 2 = 10]**

(i) A fire damaged in the premises of a trader resulting in loss of stock of ₹ 1,10,000. The goods salvaged from fire was ₹ 40,000. The policy was for ₹ 50,000 eligible for average clause. Decide the quantum of claim to be lodged with the insurance company.

(ii) The following information has been extracted from the books of lessee for the year 2016-17:
Short workings ₹ 8,000
Short workings recovered ₹ 12,000
Actual royalty based on output ₹ 30,000
Calculate Minimum Rent.

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

Goods sent (1,000 kgs.)	₹ 20,000
Consignor's expenses	₹ 4,000
Consignees non-recurring expenses	₹ 3,000
Sold (800 kgs.)	₹ 40,000
Loss due to natural wastage (100 kgs.)	

(iv) From the following particulars, determine Closing Stock at Branch

	₹		₹
Opening stock at the Branch	60,000	Expenses:	
Goods sent to Branch	1,80,000	Salaries	20,000
Sales(Cash)	2,40,000	Other Expenses	8,000

The branch sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

(v) Debtors ledger includes ₹ 9,000 due from Pin top Ltd. whereas creditor's ledger includes ₹ 5,400 due to Pin top Ltd. Journalise the above.

Section B
Answer any five from the following.
Each question carries 15 marks [5 × 15 = 75]

2. (a) Ram of Patna consigns to Shyam of Delhi for sale at invoice price or over. Shyam is entitled to a commission @5% on invoice price and 25% of any surplus price realized. Ram draws on Shyam at 90 days sight for 80% of the invoice price as security money. Shyam remits the balance of proceeds after sales, deducting his commission by sight draft.
Goods consigned by Ram to Shyam costing ₹ 20,900 including freight and were invoiced at ₹ 28,400. Sales made by Shyam were ₹ 26,760 and goods in his hand unsold at 31st Dec, represented an invoice price of ₹ 6,920. (Original cost including

freight ₹ 5,220). Sight draft received by Ram from Shyam upto 31st Dec was ₹ 6,280. Others were in- transit.
Prepare necessary Ledger Accounts in the books of Ram. **[12]**

(b) TVSM Ltd. has taken a transit insurance policy. Suddenly, in the year 2014-15, the percentage of accident has gone up to 7% and the company wants to recognize insurance claim as revenue in 2014-15. In accordance with relevant accounting standard. Do you agree? **[3]**

3. Joy and Jolly are in partnership sharing profits and losses equally. They keep their books by Single Entry system. No ready figures are available for the total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2018 is given below:

Receipts	₹	Payments	₹
Cash in hand	10,800	Salaries	22,000
Receipts from Customers	2,70,000	Rent	4,400
Cash sales	32,000	Advertising	1,800
		Printing	1,600
		General expenses	19,100
		Payment to Trade Creditors	2,24,000
		Joy's drawings	4,000
		Cash in hand	35,900
	3,12,800		3,12,800

Following balances are available from their books as on 30th June, 2017 and 30th June, 2018.

Particulars	As on 30-06-2017	As on 30-06-2018
Stock in Trade	44,000	50,000
Sundry debtors	?	70,000
Sundry Creditor	46,800	37,000
Furniture	6,000	?

Other information:
(i) Discount allowed ₹ 2,800
(ii) Discount earned ₹ 2,400
(iii) Outstanding printing ₹ 500
(iv) Capital of Joy as on 30th June, 2017 was ₹ 4,000 more than Capital of Jolly.
(v) Provide depreciation of Furniture @ 10% p.a.

From the above you are required to prepare in the books of Joy and Jolly:
(i) The trading and profit and loss Account for the year ended 30th June, 2018 and
(ii) The Balance Sheet as on the date. **[15]**

4. (a) The following is the summarized balance sheet as at 30th June, 2018 of Wind and Storm, who were partners sharing profits and losses in the ratio of 3:2

Particulars		₹	Particulars		₹
Creditors		97,500	Land and Buildings		30,000
Capital Accounts :			Motor Vehicles		18,300
Wind	85,000		Stock		72,800
Storm	63,000	1,48,000	Debtors	1,13,200	
			Less: provision	2,450	1,10,750
			Bank		10,000
			Cash		3,650
		2,45,500			2,45,500

The partners decided to dissolve the firm on and from the date of balance sheet. Motor vehicles and stock were sold for cost at ₹ 16,950 and ₹ 77,600 respectively and all debtors accounts were realised in full. Wind took over land and buildings at an agreed valuation of ₹ 43,500. Creditors were paid off subject to discount amounting to ₹ 1,700. Expenses of realisation were ₹ 1,250. Show necessary journal entries and ledger accounts to close the books of the firm. **[12]**

(b) On 31.12.2017, Sundry Debtors and Provision for Bad Debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2018, ₹ 3,000 are bad and written off on 30.9.2018, an amount of ₹ 400 was received on account of a debt which was written off as bad last year on 31.12.2018, the debtors left was verified and it was found that sundry debtors stood in the books were ₹ 40,000 out of which a customer Mr. Shyam who owed ₹ 800 was to be written off as bad.
Prepare Provision for bad debts A/c. **[3]**

5. **(a)**Mr. True purchased a truck for ₹ 2,80,000, payment to be made ₹ 91,000 down and 3 installments of ₹ 76,000 each at the end of each year. Rate of interest is charged at 10% p.a. Buyer depreciates assets at 15% p.a. on written down value method.
Because of financial difficulties, Mr. True, after having paid down payment and first installment to the end of 1st year could not pay second installment and seller took possession of the truck. Seller, after spending ₹ 9,200 on repairs of the asset sold for ₹1,50,000. Show the relevant accounts in the books of the purchaser. **[8]**

(b) A & co. has two departments P & Q. department P sells goods to department Q at normal selling prices. From the following particulars, prepare departmental Trading & PL account for the year ended 31.03.2018 and also ascertain the net profit to be transferred to balance sheet:

Particulars	Department P	Department Q
Opening stock	5,00,000	NIL
Purchases	28,00,000	3,00,000
Goods from P	NIL	8,00,000
Wages	3,50,000	2,00,000
Travelling expenses	20,000	1,60,000
Closing stock at cost to the department	8,00,000	2,09,000
Sales	30,00,000	20,00,000
Printing & Stationery	30,000	25,000

The following expenses incurred for both the departments were not apportioned between the departments:
Salaries ₹ 33,000, advertisement expenses ₹ 1,20,000, General Expenses ₹ 5,00,000, Depreciation is to be charged @ 30% on the machinery worth ₹ 96,000.
The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation are to be apportioned in the ratio 2 : 1 and 1 : 3 respectively. General expenses are to be apportioned in the ratio 3 : 1 **[7]**

6. **(a)** Munni of Mumbai and Chunni of Chennai entered into a Joint Venture of purchase and sale of Jute and cotton .They agreed to share profits and losses in the ratio 3:2 and also to be entitled to an interest of 10% p.a. (on monthly basis) on Capital invested by each of them .
The following transactions took place:

On 1st July 2015, Chunni purchased 800 bales of Cotton @ ₹ 424 per bale, the brokerage being ₹ 12,800 and dispatched to Chunni incurring ₹ 6,400 as freight and insurance.

On 15th July 2015, Munni purchased 1,200 bales of Jute @ ₹ 192 per bale, Brokerage being ₹8 per bale and dispatched to Munni incurring ₹4,800 as freight and insurance.

On 1st August 2015, Chunni sold 300 bales of Cotton @ ₹ 576 per bale, brokerage being ₹ 16 per bale.
On 1st September 2015, Chunni sold 450 bales of Cotton @ ₹ 580 per bale, brokerage being ₹ 12 per bale.
On 15th August 2015, Munni sold 400 bales of Jute @ ₹ 2,800 per bale, brokerage being ₹ 8 per bale and on 15th September 2015, sold 700 bales of Jute @ ₹ 292 per bale brokerage being ₹4 per bale. Each partner took unsold stock in his hand at cost plus $12\frac{1}{2}$ % on 30th September 2015, on which date venture was closed.
Compute the value of unsold stock held by Munni and that of held by Chunni. **[7]**

(b) Mr. Surajit Ray, a junior lawyer, provides the following particulars for the year ended 31st December, 2017:

	₹
Fees received in cash in 2017	60,000
Salary paid to Staff in 2017	8,000
Rent of office in 2017	14,000
Magazine and Journal for 2017	1,000
Travelling and Conveyance paid in 2017	3,000
Membership Fees paid in 2017	1,600
Office Expenses paid in 2017	10,000

ADDITIONAL INFORMATION:

Fees include ₹ 3,000 in respect of 2016 and fees not yet received are ₹ 7,000.

Office rent includes ₹ 4,000 for previous year and rent of ₹ 2,000 not yet paid.

Membership fees are paid for 2 years.

Compute his net income for the year 2017, under – (i) Accrual Basis and (ii) Mixed or Hybrid Basis. **[8]**

7. (a) From the following Receipts and Payments Account, prepare Final Accounts of a Sports Club:

Receipts	₹	Payments	₹
To Subscriptions	15,000	By Land	10,000
To Donations	50,000	By Buildings	40,000
To Legacies	10,000	By Furniture	10,000
To Entrance Fees	5,000	By Sports Materials	5,000
To Life Membership Fee	3,000	By Sports Expenditure	6,000
To Sports Income	17,000	By General Expenses	1,000
To Sundries	5,000	By Magazines	1,500
To Sale of Old Papers	500	By Ground expenses and Maintenance	4,000
		By Cl. Balance	28,000
	1,05,500		1,05,500

Capitalize half of donations, legacies, entrance fee and life membership fee. Subscriptions still outstanding amounts to ₹ 5,000. Depreciate fixed assets by 5% and sports material by 10%. **[8]**

(b) A fire occurred on 15th September 2018 in the premises of Sinha & Co. from the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

Particulars	Amount (₹)
Stock at cost on 1-1-2017	40,000
Stock at cost on 1-1-2018	60,000
Purchases in 2017	80,000
Purchase from 1-1-2018 to 15-9-2018	1,76,000
Sales in 2017	1,20,000
Sales from 1-1-2018 to 15-9-2018	2,10,000

During the current year cost of purchase has risen by 10% above last year's level. Selling prices have gone up by 5%. Salvage value of stock after fire was ₹ 4,000. **[7]**

8. **(a)** On 1.1.15 machinery was purchased for ₹ 80,000. On 1.7.16 additions were made to the amount of ₹ 40,000. On 31.3.2017, machinery purchased on 1.7.2016, costing ₹ 12,000 was sold for ₹ 11,000 and on 30.06.2017 machinery purchased on 1.1.2018 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.2017, additions were made to the amount of ₹ 20,000. Depreciation was provided at 10% p.a. on the Diminishing Balance Method.

Show the Machinery Accounts for three years from 2015-2017. (year ended 31st December. **[12]**

(b) Write down the differences between Revenue Receipt and Capital Receipt. **[3]**

9. **Write short notes on any three of the following:** **[3 × 5 = 15]**

(a) Garner vs. Murray Rule

(b) Accounting Concepts

(c) Differences between Hire Purchase System and Installment System.

(d) Contra Transaction in relation to Self balancing system