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

(a) Multiple choice questions: **[5×1=5]**

(i) Purchase Cost of machinery ₹ 7,20,000; Carriage inwards ₹ 15,000; Transit insurance ₹ 8,000; Establishment Charges ₹ 25,000; Workshop Rent ₹ 25,000; Salvage value ₹ 50,000 and estimated working life 8 years. On the basis of straight line method the amount of depreciation for third year will be
(A) ₹ 96,000
(B) ₹ 89,750
(C) ₹ 88,750
(D) ₹ 91,875

(ii) Which of the following purpose is served from the preparation of Trial Balance?
(A) To check the arithmetical accuracy of the recorded transactions
(B) To ascertain the balance of any ledger account
(C) To facilitate the preparation of final accounts promptly
(D) All of the above

(iii) Receipts and payments Account records
(A) Only revenue nature receipts
(B) Only capital nature receipts and payment
(C) Only revenue nature receipts and payments
(D) Both the revenue and capital nature receipts and payments

(iv) Account Sales is a periodical statement prepared by
(A) Consignor
(B) Consignee
(C) Endorsee
(D) None of the above

(v) Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of
(A) Omission
(B) Commission
(C) Principle
(D) Misposting

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

	Column 'A'		Column 'B'
1.	Independent Branch	A	Both a journal and ledger
2.	Partial Repossession	B	Prepares the accounts independently
3.	Insurance Claim	C	Hire purchase
4.	AS - 9	D	Indemnity Period
5.	Cash book	E	Revenue recognition

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

(i) Purchase of a technical know-how is revenue expenditure.
(ii) Del-credre commission is additional commission payable to the consignee for taking over additional responsibility of collecting money from customers.
(iii) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.
(iv) Indemnity is the difference between the actual profit earned after the damage and that which should have been earned had no damage occurred.
(v) All abnormal losses are charged against Profit & Loss Account.

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

(i) Give rectification entry for the following:

- An amount of ₹ 200 withdrawn by owner for personal use was debited to trade expenses.
- ₹ 150 received from Malhotra was credited to Mehrotra.

(ii) State whether the following items are in the nature of Capital, Revenue Expenditure:
- Legal charges of ₹ 15,000 incurred for raising loan.
- An amount of ₹ 7,500 spent as legal charges for abuse of Trade-Mark.

(iii) X bought goods from Y for ₹ 4,000. Y draws a bill on 1.1.2013 for 3 months which was accepted by X for this purpose. On 1.3.2013, X arranged to retire the bill at a rebate of 12% p.a. Show the entries in the books of X and Y.

(iv) The following information has been extracted from the books of a lessee for the year 2014-2015:

Particulars	Amount(₹)
Short workings lapsed	48,000
Short workings recovered	72,000
Actual royalty based on output	1,80,000

Compute the minimum rent.

(v) A,B & C were partners sharing profits/loses as 3:2:1. They admitted D as a new partner giving him 1/6th share of future profits. D acquired 3/24th share from B. Calculate the new profit sharing ratio.

Section-B

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

2. Amit and Sumit are Partners sharing Profit and Losses as 3:2. Their Balance Sheet as on 31st March 2014 is given below:

Equity & Liabilities	₹	Assets	₹
Capital Accounts:		Non-Current Assets:	
- Amit	1,76,000	Land & Building	3,20,000
- Sumit	2,54,000	Investments (Market Value ₹ 55,000)	50,000
General Reserve	30,000	Current Assets:	
Non-Current Liabilities:		Stock	1,10,000

Loan from Puneet	3,00,000	Debtors	
Current Liabilities:		Less: Provision for Doubtful Debts	2,90,000
Employer's Provident Fund	10,000	[3,00,000 – (10,000)]	
Creditors	50,000	Cash at Bank	50,000
Total	8,20,000	Total	8,20,000

They decided to admit Puneet as a new Partner from 1st April 2015 on the following terms -

1. Amit will give 1/3rd of his share and Sumit will give ¼th of his share to Puneet.
2. Puneet's Loan Account will be converted into his Capital.
3. The Goodwill of the Firm is valued at ₹ 3,00,000. Puneet will bring his share of Goodwill in Cash, and the same was immediately withdrawn by the Partners.
4. Land and Building was found undervalued by ₹ 1,00, 000.
5. Stock was overvalued by ₹ 60,000.
6. Provision for Doubtful Debts will be made equal to 5% of Debtors.
7. Investments are to be valued at their Market Price.

It was decided that the Capital of the Firm after admission of New Partner would be ₹ 10,00,000. Capital Accounts of Partners will be re-adjusted on the basis of their Profit Sharing Ratio and excess or deficiency will be adjusted in Cash.

Prepare - (a) Revaluation A/c,
(b)Partners' Capital A/cs, and
(c)Balance Sheet of the Firm after admission of New Partner. **[15]**

3. On 1St Aug, 2014, Viru of Delhi sends 500 cases of sunglasses costing ₹600 each to Dhoni of Ranchi, on consignment basis. Viru paid freight and insurance amounting to ₹4,800. Dhoni makes an advance of ₹45,000.

On Dec. 31st,2014 Dhoni forwards an Account sales to Viru showing:

- 360 cases had been sold for ₹800 each on cash basis.
- 90 cases had been sold for ₹900 each on credit basis

Dhoni had paid ₹4,400 for carriage and ₹1,400 for rent of godown.

The consignee was entitled to an ordinary commission of 10% and del Credere commission of 5%. Dhoni realized all the due from the customers and remitted the balances due by bank draft with such account sales. You are required to make journal entries, necessary ledger accounts and extracts of final accounts in the books of Dhoni assuming he closes his books on Dec. 31 every year. **[15]**

4. (a) Difference between Management Accounting and Financial Accounting. **[6]**

(b) Mithil Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa.

From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufactured	₹10,000	₹5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former. **[9]**

5. Prepare Income & Expenditure A/c for the year ended 31-12-2013 and the balance sheet as on 31-12-2013 in the books of an Education society.

Particulars	Debit (₹)	Credit (₹)
Library Books	2,30,000	
Books Added during the year	52,200	
Furniture	1,59,500	
Addition to Furniture	35,500	
Buildings	37,89,000	
Investment	21,25,000	
Creditors		1,77,900
Debtors	59,700	
Investment Reserve Fund		1,85,000
Entrance Fees		2,02,600
Examination Fees		32,500
Certification Fees		7,800
Subscriptions Received		2,75,800
Hire Charges		95,500
Interest		85,000
Other Receipts		4,400
Salary	1,55,900	
Printing & Stationery	8,500	
Insurance	2,500	
Examination Expenses	10,400	
Periodicals	24,000	
Prizes Fund	15,600	
Prizes Investments		2,15,000
Prizes Investment Income	2,10,400	
Prizes Given		10,200
Prizes Bank Balance	9,500	
Donations (Capital)		1,99,000
General Expenses	5,250	
Capital Fund		54,71,720
Bank Balance	65,500	
Cash in hand	1,520	
Total	69,62,420	69,62,420

Additional Information
Subscription receivable ₹22,500, Subscription received for 2014 ₹7,850, Interest accrued on investments ₹6,250, salary outstanding for 2013 ₹12,500, Prepaid insurance ₹4,500.
Depreciate Books @ 15%, Building @ 1% and Furniture @ 10%. **[15]**

6. **(a)** Prepare Branch account in the books of the Head Office and also debtors account from the following information given below: for the year 2013
The Unique Shoe Stores has an old branch at Kanpur. Goods are invoiced at the branch at 25% profit on cost price. The branch has been instructed to send all cash daily to the Head Office. All expenses are paid by the Head Office except petty expenses which are met by the Branch Manager.

Particulars	₹
Stock on 01.01.2013 (invoice price)	15,000
Sundry debtors on 01.01.2013	9,000
Cash in hand on 01.01.2013	400

Office furniture on 01.01.2013	1,200
Goods supplied by the Head Office (invoice price) for year	80,000
Goods returned to Head Office for year	1,000
Goods returned by debtors at the end of year	480
Debtors at the end of year	8,220
Cash sales for year	50,000
Credit sales for year	30,000
Discount allowed for year	300
Expenses paid by Head Office: for year ₹	
Rent 1,200	
Salary 2,400	
Stationery 300	3,900
Petty expenses paid by Branch Manager during year	280
Stock on 31.12.2013	14,000
Provide depreciation on furniture at 10% per year	

[7]

(b) JIBAN and MITRIK decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3:
They guaranteed the subscription at par of 50 lakhs shares of ₹ 10 each in RAINBOW LTD. and to pay all expenses up to allotment in consideration of RAINBOW LTD. issuing to them 3,00,000 other shares of ₹ 10 each fully paid together with a commission @ 5% in cash which will be taken by JIBAN AND MITRIK in 3 : 2.

Co-ventures introduced cash as follows:

JIBAN:	Stamp charges, etc.	₹ 1,65,000
	Advertising charges	₹ 1,35,000
	Car expenses	₹ 1,54,000
	Printing charges	₹ 1,88,000
MITRIK:	Rent	₹ 1,30,000
	Solicitor's charges	₹ 80,000

Application fell short of the 50 lakhs shares by 1,20,000 shares and MITRIK introduced ₹ 12,00,000 for the purchase of those shares.
The guarantee having been fulfilled, Rainbow Ltd. handed over to the ventures 3,00,000 shares and also paid the Commission in cash. All their holdings were subsequently sold by the venture MITRIK receiving ₹ 12,50,000 and JIBAN ₹ 25,00,000.
You are required to prepare the:
(i) Memorandum Joint Venture Account and
(ii) Joint Venture Account with MITRIK – in the Books of JIBAN. **[6+2=8]**

7. (a) On 1st April, 2013 the balance of provision for bad and doubtful debts was ₹ 13,000. The bad debts during the year 2013-14 were ₹ 9,500. The sundry debtors as on 31st March, 2014 stood at ₹ 3,25,000 out of these debtors of ₹ 2,500 are bad and cannot be realized. The provision for bad and doubtful debts is to be raised to 5% on sundry debtors.
(i) Pass necessary adjustment entries for bad debts and its provision on 31st March, 2014.
(ii) Prepare the necessary ledger accounts.
(iii) Show the relevant items in the profit and loss account and Balance Sheet. **[10]**

(b) The following details were extracted from the books of M/S VIVAIN & CO. for 6 months ended March 31, 2015.

Particulars	Amount in (₹)
Creditors Balance on 01.10.2014	38,000
Credit Purchases during the period	2,67,000
Bills payable accepted	62,000
Cash paid to Creditors	1,37,000

B/R endorsed to creditors	16,000
Endorsed B/R dishonoured	3,000
B/P dishonoured	2,000
Purchase returns	11,000
Discount received	6,000
Transfer from Debtors ledger	7,000

Required:
Prepare Total CREDITORS Account as appearing in the General Ledger. **[5]**

8. (a) On 1.1.2012 B Ltd. purchased a Truck from T Ltd. on hire purchase system. At the time of Agreement a sum of ₹ 1,92,000 was paid out of the cash down price of the Truck and the balance was be payable in 3 equal installments together with interest @ 5% p.a. The amount of last installment including interest was ₹ 2,68,800 .
Show the calculation of Cash Price, the interests paid and the Hire Purchase Price of the Truck. **[9]**

(b) State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a licence for starting the factory were ₹ 10,000.

(ii) ₹ 1,000 paid for removal of stock to a new site.

(iii) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get full efficiency.

(iv) ₹ 2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.

(v) ₹ 10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.

(vi) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials. **[6]**

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

(a) Difference between Revenue Receipt and Capital Receipt;
(b) Errors which are not disclosed by a Trial Balance;
(c) The Accrual Concept;
(d) Difference between IND AS 11 on 'Construction Contracts', and Existing AS 7 (Revised 2002) on Construction Contracts.