Paper 5- Financial Accounting

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

Section-A

1. Answer the following questions:

(a) Multiple choice questions: **[5x1=5]**

(i) Provision for bad and doubtful debts is created in anticipation of actual bad debts on the basis of:
- **(a) Business Entity Concept;**
- **(b) Conservatism Concept;**
- **(c) Accrual Concept;**
- **(d) Full Disclosure Concept.**

(ii) The out flow of funds to acquire an asset that will benefit the business for more than one accounting period is referred to as:
- **(a) Miscellaneous Expenditure;**
- **(b) Revenue Expenditure;**
- **(c) Capital Expenditure;**
- **(d) Deferred Revenue Expenditure.**

(iii) Goods are sent to the Branch at cost plus 25%. The loading on invoice price is:
- **(a) 20%;**
- **(b) 25%;**
- **(c) 30%;**
- **(d) None of the above.**

(iv) In Hire Purchase System cash price plus interest is known as:
- **(a) Capital value of asset;**
- **(b) Book value of asset;**
- **(c) Hire Purchase price of asset;**
- **(d) Hire purchase charges.**

(v) Actuarial valuation relates to:
- **(a) Banking company;**
- **(b) Electric Supply Company;**
- **(c) Insurance Company;**
- **(d) None of the above.**

Solution:

(i) — B
(ii) — C
(iii) — A
(iv) — C
(v) — C

(b) Match the following: **[5x1=5]**

	Column 'A'		Column 'B'

1.	**Non Performing Assets**	**A**	**Single Entry System**
2.	**Intangible assets**	**B**	**Trial Balance**
3.	**Statement of Affairs**	**C**	**AS-26**
4.	**Depreciation Accounting**	**D**	**Banking Companies**
5.	**Check Arithmetic Accuracy**	**E**	**AS-10**

Solution:

1. — D
2. — C
3. — A
4. — E
5. — B

(c) State whether the following statements are true or false: [5x1=5]

(i) Goodwill is a fictitious asset.
(ii) Every banking company incorporated in India is required to transfer at least 25% of its profit to Reserve Fund.
(iii) Wages incurred by departmental workers of a factory in installing a new machinery is a revenue expenditure.
(iv) Royalty account is a nominal account in nature.
(v) Trial Balance would not disclose error of omission.

Solution:

(i) — False;
(ii) — True;
(iii) — False;
(iv) — True;
(v) — True.

(d) Answer the following: [5x2=10]

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

	₹		₹
Opening Stock at Branch	**30,000**	**Expenses:**	
Goods sent to Branch	**90,000**	**Salaries**	**10,000**
Sales (Cash)	**1,20,000**	**Other expenses**	**4,000**

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.

Solution:

Calculation of closing stock at branch:

Particulars	**₹**
Opening stock at branch	30,000
Goods sent to branch	90,000
	1,20,000
Less: Cost of sales $\left(1{,}20{,}000 \times \frac{100}{120}\right)$	20,000

(ii) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3rd goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 per cent on sales at invoice price and overriding

commission of 20 percent of any surplus realized. Calculate the amount of consignee's commission.

Solution:

Invoice value of Goods sold =₹5,25,000

$\left[6,30,000 \times \frac{2}{3} \times \frac{100}{(100-20)}\right]$

Surplus of sales value over Invoice Value = ₹75,000

$[6,00,000 - 5,25,000]$

Consignee's commission:

Ordinary $(5,25,000 \times \frac{3}{20})$ = ₹15,750

Overriding $\left(75,000 \times \frac{20}{100}\right)$ = ₹15,000

$\therefore$ Total commission = ₹30,750

(iii) Safety Life Insurance Co. furnishes you the following information:

	Amount ₹
Life Insurance fund on 31-3-2012	**1,30,00,000**
Net liability on 31-3-2012 as per actuarial valuation	**1,00,00,000**
Interim bonus paid to policyholders during inter valuation period	**7,50,000**

Compute the Net Profit for the valuation period.

Solution:

Statement showing net profit for the valuation period:

Particulars	**Amount ₹**
Life Insurance Fund on 31.03.2012	1,30,00,000
(-) Net Liability as per actuarial valuation	(1,00,00,000)
Surplus	30,00,000
(+) Interim Bonus paid	7,50,000
Net Profit	37,50,000

(iv) On 12th June, 2013, a fire occurred in the premises of Amit, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 20,000. Estimated value of the stock at the date of fire is ₹ 1,60,000. Amit has insured his stock for ₹ 1,20,000. Compute the amount of the claim.

Solution:

Statement of claim:

Particulars	**Amount ₹**
Estimated value of stock as at date of fire	1,60,000
(-) Value of salvaged stock & damaged stock	(20,000)
Estimated value of stock lost by fire	1,40,000

Average clause is not applying here. Because estimated value of stock is higher than Insured Stock amount.

(v) A trader purchased goods for ₹ 3,25,000. The opening stock of inventory prior to the said purchase was ₹ 50,000. His sale was ₹ 4,00,000. Find out the closing stock of inventory if the gross profit margin is 25% on cost.

Solution:

Computation of closing stock:

Gross profit = 25% on cost = 20% of sales
= ₹4,00,000 × 20% = ₹80,000

Cost of Goods sold = Sales – Gross profit
= ₹4,00,000 – ₹80,000
= ₹3,20,000

Closing stock = Opening stock + Purchases – Cost of goods sold
= ₹50,000 + 3,25,000 – 3,20,000
= ₹55,000.

Section B

Answer any five from the following. Each question carries 15 marks (5x15=75)

2. (a) Based on the following information prepare a Bank Reconciliation Statement as on 31st December, 2015 and find the balance as per Pass Book:

(i) Bank overdraft as per cash book on 31-12-2015 ₹ 6,340.

(ii) Interest on Overdraft ₹ 160 is entered in pass book.

(iii) Bank charges ₹ 30 were debited by the bank.

(iv) Cheques issued but not presented upto 31-12-2015 ₹ 1,160.

(v) Cheques sent for collection to the bank but not collected upto 31-12-2015 amount to ₹ 2,170.

(vi) Interest on investments collected by the bank and entered in the pass book ₹ 1,200. [7]

Solution:

Bank Reconciliation Statement as on 31st December 2015

Particulars	₹	₹
Overdraft balance as per Cash Book		6,340
Add:		
Interest on overdraft entered in the Pass Book only	160	
Bank charges entered in Pass Book only	30	
Cheque sent for collection but not collected and credited in the Pass Book	2,170	2,360
		8,700
Less:		
Cheques issued but not presented for payment	1,160	
Interest on investments collected by the bank and entered in Pass Book only	1,200	(2,360)
Overdraft balance as per Pass book		6,340

(b) The information given under has been extracted from the books of a contractor relating to contract for ₹ 3,75,000

	I YEAR	II YEAR	III YEAR
Materials	**45,000**	**55,000**	**31,500**
Direct Expenses	**1,750**	**6,250**	**2,250**
Indirect expenses	**750**	**1,000**	**---**
Wages	**42,500**	**57,500**	**42,500**
Total work certified	**87,500**	**2,82,500**	**3,75,000**
Uncertified work	**---**	**5,000**	**---**
Plant	**5,000**	**---**	**---**

The value of plant at the end of I year was ₹ 4,000 at the end of II year ₹ 2,500 and at the end of III year it was ₹ 1,000. It is customary to pay 90% in cash of the amount of work certified. Prepare the contract Account and show how the figures would appear in the balance sheet. [8]

Solution:

Contract Account

Dr. **Cr.**

Particulars	I Year ₹	II Year ₹	III Year ₹	Particulars	I Year ₹	II Year ₹	III Year ₹
To WIP b/d	-	87,500	287500	By WIP b/d	-	-	31,500
To Materials	45,000	55,000	31,500	By Plant	4,000	2,500	1,000
To Direct Expenses	1,750	6,250	2,250	By WIP			
To Indirect Expenses	750	1,000	-	(a) Work Certified	87,500	2,82,500	-
To Wages	42,500	57,500	42,500	(b) Work Uncertified	-	5,000	-
To Plant	5,000	4,000	2,500	By Contractee A/c	-	-	3,75,000
To Balance c/d (Notional Profit)	-	78,500	-	By, P/L A/c	3,500	-	-
To P/L A/c	-	-	41,250				
	95,000	**2,90,000**	**4,07,500**		**95,000**	**2,90,000**	**4,07,500**
To P/L A/c	-	47,250	-	By Balance b/d (Notional Profit)	-	78,750	-
To WIP Reserves (b/f)	-	31,500	-				
	-	**78,750**	**-**		**-**	**78,750**	**-**

3. Maruti and ford are partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2014 their Balance Sheet stood as under:

Liabilities		**₹**	**Assets**	**₹**
Capital Accounts:			**Freehold Premises**	**24,000**
Maruthi	**40,000**		**Plant**	**4,000**
Ford	**20,000**	**60,000**	**Stock**	**33,000**
General Reserve		**15,000**	**Debtors**	**12,000**
Creditors		**10,000**	**Bank**	**7,000**
			Profit and Loss A/c	**5,000**
		85,000		**85,000**

On the same day, they admitted Sujuki as a partner and new profit sharing ratio became 7:3:3 Goodwill of the firm was valued at ₹ 20,800. Sujuki was to bring required

premium and proportionate Capital. Capitals of Maruti and Ford as between themselves were also to be adjusted in their profit sharing ratios.

Pass journal entries in the books of the new firm and prepare the Balance Sheet of the reconstituted firm. [15]

Solution:

Sacrificing Ratio = Old Ratio – New ratio

Old Ratio = 3;2
Maruthi = 3/5
Ford = 3/5

New Ratio = 7;3;3
Maruthi = 7/13
Ford = 3/13
Sujuki = 3/13

Sacrificing Ratio:

Maruthi $= \frac{3}{5} - \frac{7}{13} = \frac{4}{65}$

Ford $= \frac{2}{5} - \frac{3}{13} = \frac{11}{65}$

= 4:11

Calculation of Adjusted Capitals:

Particulars	Maruthi (₹)	Ford (₹)
Capital	4,000	20,000
General Reserves	9,000	6,000
Bank (Goodwill) [$[20{,}800 \times \frac{3}{13}]$ in 4:11 ratio	1,280	3,520
Profit and Loss A/c (loss)	(3,000)	(2,000)
	47,280	27,520

New Ratio = 7:3

Total Adjusted Capital of Maruthi & Ford is = ₹74,800

$\therefore$ Per share = $\frac{74{,}800}{10}$ =₹7,480

Maruthi = (7,480 ×7) =52,360
Ford = (7,480×3) =22,440
Sujuki = (7,480×3) =22,440

Balance Sheet of Maruthi, Ford & Sujuki as on 31.03.14

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	10,000	Freehold Premises	24,000
Capitals:		Plant	4,000
Maruthi	52,360	Stock	33,000
Ford	22,440	Debtors	12,000
Sujuki	22,440	Bank (7,000+4,800+22,440)	34,240
	1,07,240		1,07,240

4. (a) Mr. Self-reliant maintains his books on Self-Balancing Ledger. From the following particulars, prepare General Ledger Adjustment Accounts in (a) Bought Ledger, and (b) Sold Ledger.

Date	Particulars	Amount ₹
1-11-2011	Bought Ledger – Debit Balance	700
	Bought Ledger – Credit Balance	30,640
	Sold Ledger – Debit Balance	66,930
	Sold Ledger – Credit Balance	1,865
	Transactions during the month of November, 2011:	
	Sales	1,35,000
	Credit Sales	1,16,000
	Purchases – Credit	72,700
	Purchase – Cash	11,800
	Sales Returns (out of credit sales)	500
	Provision for Bad and Doubtful Debts	270
	Bad Debts written-off	1,000
	Amount received against Bad Debts written-off last year.	600
	Purchases Returns (out of Credit Purchase)	2,500
	Cash collected from Debtors	83,000
	Cash paid to Creditors	57,500
	Discount Allowed	650
	Discount Received	320
	Interest charged to Debtors	592
	Bills Receivable Received	10,000
	Bills Payable accepted	8,000
	Bills Receivable dishonoured	2,500
	Notary Charges debited to Party's A/c	10
	Cash paid to Customers	137
30-10-2012	Sold Ledger – Debit balance	266
	Bought Ledger – Debit Balance	980

[9]

Solution:

In the Books of Self reliant
In Bought Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
1.11.11	To Balance b/d	30,640	1.11.11	By Balance b/d	700
31.10.12	To Creditors Ledger Adjustment A/c:		31.10.12	By Creditors Ledger Adjustment A/c	
	Purchases	72,700		Cash	57,500
				Purchase returns	2,500
				Discount Received	320
				Bills Payable	8,000
	To Balance c/d	980		By Balance c/d	35,300
		1,04,320			**1,04,320**
1.11.11	To Balance b/d	35,300	1.11.12	By Balance b/d	980

In Sales Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
1.11.11	To Balance b/d	1,865	1.11.11	To Balance b/d	66,930
31.10.12	Debtors Ledger Adjustment A/c		31.1012	Debtors Ledger Adjustment A/c	

	Sales returns	500		Sales	1,16,000
	Bad debts	1,000		Interest Charges	592
	Cash	83,000		B/R (Dishonoured)	2,500
	Discount Allowed	650		Notary Charges	10
	Bills Receiveble	10,000		Carriage	137
	To Balance c/d	89,420		To, Balance c/d	266
		1,86,435			**1,86,435**
1.11.12	To Balance b/d	266	1.11.12	By Balance b/d	89,420

(b) Rohit & Rahul entered into a joint venture to take a building contract for ₹ 7,80,000. They provide the following information regarding the expenditure incurred by them.

	Rohit ₹	**Rahul ₹**
Materials	**8,16,000**	**6,00,000**
Cement	**1,56,000**	**2,04,000**
Wages	**--**	**3,24,000**
Architect's fees	**1,20,000**	**--**
Licence fees	**--**	**60,000**
Plant	**--**	**2,40,000**

Plant was valued at ₹ 1,20,000 at the end of the contract and Rahul agreed to take it at that value. Contract amount of ₹ 28,80,000 was received by Rohit. Profit or loss to be shared equally.

You are asked to show:

(i) Joint Venture Account and
(ii) Rahul's Account in the books of Rohit. **[6]**

Solution:

In the books of Rohit
Joint Venture Account

Dr. **Cr.**

Particulars	**Amount (₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**	**Amount (₹)**
To, Bank A/c			By, Bank A/c		28,80,000
Materials	8,16,000		By, Rahul A/c (Plant)		1,20,000
Cement	1,56,000				
Architect's Fees	1,20,000	10,92,000			
To, Rahul A/c					
Materials	6,00,000				
Cement	2,04,000				
Wages	3,24,000				
License	60,000				
Plant	2,40,000	14,28,000			
To, Rahul A/c (Profit)	2,40,000				
To, P/L A/c (Own Share)	2,40,000	4,80,000			
		30,00,000			**30,00,000**

Rahul Account

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Joint Venture (Plant)		1,20,000	By, Joint Venture (Subsidiaries)		14,28,000
To, Balance b/d		15,48,000	BY, Joint Venture (Profit)		2,40,000
		16,68,000			**16,68,000**

5. (a) Rangakarmi, an amateur theatre organisation, charges its members an annual subscription of ₹200 per member. It accrues for subscription owing at the end of each year and also adjusts for subscriptions received in advance. The organisation closes its accounts every year at 31st December. The following particulars are available:

(1) On 1st January, 2005, 20 members owed ₹ 4,000 for the year 2004.

(2) On December 2004, 5 members paid ₹1,000 for the year 2005.

(3) During the year 2005, the organization received cash subscriptions of ₹85,000. The details are:

	₹
For 2004	**4,000**
For 2005	**79,000**
For 2006	**2,000**
Total	**85,000**

At close of 31st December 2005, 15 members had not paid their 2005 subscriptions. Prepare the subscriptions account. [7]

Solution:

Subscription Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Balance b/d	4,000	By, Balance b/d	1,000
To, Income & Expenditure A/c (Bal. Fig.)	83,000	By, Receipts & Payments A/c (Received)	85,000
To, Balance c/d (for the year 2006)	2,000	By, Balance c/d (This year o/s)	3,000
	89,000		89,000

(b) X Ltd has taken out a fire policy of ₹ 1,60,000 covering its stock. A fire occurred on 31st March, 2013. The following particulars are available:

	₹
Stock as on 31-12-2012	**60,000**
Purchases to the date of fire	**2,60,000**
Sales to the date of fire	**1,80,000**
Carriage inwards	**1,600**

Commission on purchase to be paid @ 2%.

Gross Profit Ratio @ 50% on cost.

You are asked to ascertain

(i) total loss of stock

(ii) amount of claim to be made against the insurance company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 41,360.

[8]

Solution:

In the books of X Ltd.

Memorandum Trading Account for the period ended 31.03.2013

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	60,000	By Sales	1,80,000
To, Purchases 2,60,000 (+) Carriage Inward 1,600 (+) Commission 5,200	2,66,800	By Closing Stock b/f	2,06,800
To Gross Profit (50% on Cost or $31\frac{1}{3}$ on Sales)	60,000		
	3,86,800		3,86,800

Loss of Stock:

Stock at the date of fire = ₹2,06,800

(-) Stock Salvage (41,360)

Amount of claim applying Average clause:

$$\text{Amount of claim} = \frac{\text{Amount of Policy}}{\text{Value of Stock at the date of fire}} \times \text{Actual loss}$$

$$= \frac{1,60,000}{2,06,800} \times 1,65,440 = 1,28,000\cdot$$

6. The following figures are extracted from the books of the New Bank Ltd. as on 31st March, 2013:

	₹ ('000)
Interest and discount received	**3,695**
Payment to Employees	**200**
Interest paid on deposits	**2,032**
Director's Fees and Allowances	**30**
Issued and Subscribed Capital	**1,000**
Rent and Taxes paid	**100**
Statutory Reserve under Sec.17	**800**
Postage and Telegrams	**50**
Commission, Exchange & Brokerage	**200**
Depreciation on Bank's Properties	**30**
Rent received	**55**
Stationery etc.	**50**
Profit on sale of investments	**200**
Advertisement and Publicity	**15**
Audit Fees	**5**

The further information is given:

(a) A customer to whom a sum of ₹10,00,000 has been advanced has become insolvent and it is expected only 50% can be recovered from his Estate. Interest due at 18% on his debt has not been provided in the Books.

(b) There were also other debts for which a provision of ₹ 1,50,000 was found necessary by the auditors.

(c) Rebate on bills discounted as on 1st April, 2012 ₹ 16,000. Rebate on bills discounted as on 31st March, 2013 ₹ 12,000.

(d) Provide ₹ 6,50,000 for income tax.
(e) The Directors desire to declare 10% dividend.
Prepare the Profit and Loss Account in accordance with the Law. Make necessary assumptions. [15]

Solution:

Statement Showing Profit & Loss Account of New Bank Ltd. for the year ended 31.03.2013

Particulars	**Schedule No.**	**Current Year (₹000)**	**Previous Year (₹000)**
I. Income:			
Interest, Discount earned	13	3,879	
Other Income	14	455	
		4,334	
II. Expenditure:			
Interest Expended	15	2,032	
Operating Expenses	16	480	
Provisions & Contingencies	-	1,300	
Total		3,812	
III. Profit or Loss:			
Current year (I+II)		522	
Previous year profit b/f		-	
		522	
IV. Apportions:			
(i) Transfer to Statutory Reserve u/s 17		131	
(ii) Transfer to proposed dividend		100	
(iii) Balance carried over to B/S		291	
		522	

Working Notes:

Particulars	Schedule No.	Current Year (₹000)	Previous Year (₹000)
Interest Earned:	13		
Interest / Discount on advance/ Bills (3,695+180+12-16)		3,879	
Total		3,879	
Other Income:	14		
(i) Commission, exchange and brokerage		200 55	
(ii) Locker rent		200	
(iii) Profit on sale of Investments			
Total		455	
Interest Expended:	15		
Interest paid on deposits		2,032	
Total		2,032	
Operating Expenses:	16		
Payment to employees		200	
Rent, Taxes, lighting		100	
Printing & Stationary		50	
Advt, Stationary		15	
Depreciation on bank property		30	
Director Fees		30	
Audit Fees		5	
Postage & Telegram		50	

Total		480	
Provisions & Contingencies: 1. Bad Debts 2. Provisions for Bad Debts 3. Provision for tax		 500 150 650	
Total		1,300	

7.(a) From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004.

- **Date of Commercial Operation of COD = 1st April 2010**
- **Approved opening Capital cost as on 1st April 2010 = ₹ 1,50,000**
- **Weighted Average Rate of Depreciation: 3.5%**
- **Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as follows:**

	Year			
	1st	2nd	3rd	4th
Additional Capital Expenditure (Allowed)	**10,000**	**3,000**	**2,000**	**2,000**
Repayment of Loan	**8,000**	**10,000**	**10,000**	**11,000**
Weighted Average Rate of Interest on Loan	**7.4**	**7.5**	**7.6**	**7.5**

[8]

Solution:

1. COMPUTATION OF DEPRECIATION

Particulars	1st year	2nd year	3rd year	4th year
A. Opening Capital Cost	1,50,000	1,60,000	1,63,000	1,65,000
B. Additional Capital Cost	10,000	3,000	2,000	2,000
C. Closing Capital Cost (A + B)	1,60,000	1,63,000	1,65,000	1,67,000
D. Average Capital Cost [(A + C)/2]	1,55,000	1,61,500	1,64,000	1,66,000
E. Weighted Average Rate of Dep.	3.5%	3.5%	3.5%	3.5%
F. Annualized Depreciation (D x E)	5,425	5,652.50	5,740	5,810
G. Advance Against Depreciation (AAD)	2,575	4,347.50	4,260	5,190
H. Total Depreciation (including AAD) for Tariff (F +G)	8,000	10,000	10,000	11,000

2. COMPUTATION OF ADVANCE AGAINST DEPRECIATION (AAD)

Particulars	1st year	2nd year	3rd year	4th year
A. Repayment of Loan	8,000	10,000	10,000	11,000
B. Depreciation (Excluding AAD)	5,425	5,652.5	5,740	5,810
C. Difference between A & B	2,575	4,347.50	4,260	5,190.50
D. Cumulative Repayment of Loan	8,000	18,000	28,000	39,000
E. Cumulative Depreciation (Excluding AAD)	5,425	11,077.5	16,817.50	22,627.5
F. Difference between D & E (D - E)	2,575	6,922.50	11,182.50	16,372.5
G. Advance Against Depreciation (AAD) (Minimum of C & F)	2,575	4,347.50	4,260	5,190

(b) Rahim, for mutual accommodation, draws a bill for ₹ 3,000 on Ratan. Rahim discounted it for ₹ 2,925. He remits ₹ 975 to Ratan. On the due date, Rahim is unable to remit his dues to Ratan to enable him to meet the bill. He, however, accepts a bill for ₹ 3,750

which Ratan discounts for ₹ 3,625. Ratan sends ₹ 175 to Rahim after discounting the above bill. Rahim becomes insolvent and a dividend of 80 paise in the rupee is received from his estate.
Pass the necessary journal entries in the books of both the parties. [7]

Solution:

In the books of Rahim
Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bills Receivable A/c To Ratan A/c (Bill drawn for mutual accommodation and accepted by Ratan)	Dr.		3,000	 3,000
	Bank A/c Discount A/c To Bills Receivable A/c (Bill discounted by the bank)	Dr. Dr.		2,925 75	 3,000
	Ratan A/c To Bank A/c To Discount A/c (1/3 Proceeds remitted to Ratan)	Dr.		1,000	 975 25
	Ratan A/c To Bills Payable A/c (Bill accepted)	Dr.		3,750	 3,750
	Bank A/c Discount A/c To Ratan A/c (Proceeds received from Ratan including discount charges)	Dr. Dr.		175 75	 250
	Bills Payable A/c To Ratan A/c (Bill dishonored since e became insolvent)	Dr.		3,750	 3,750
	Ratan A/c To Bank A/c To Deficiency A/c (Cash paid to Ratan @80 paise in the rupee and balance transferred to deficiency account)	Dr.		2,250*	 1,800 450

In the books of Ratan
Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Rahim A/c To Bills Payable A/c (Bill accepted for mutual accommodation)	Dr.		3,000	 3,000

	Bank A/c Dr. Discount A/c Dr. To Rahim A/c (Being $^1/_{3}$rd proceeds received from Rahim including discount)			975 25	 1,000
	Bills Receivable A/c Dr. To Rahim A/c (Bill drawn and accepted by Rahim)			3,750	 3,750
	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bill discounted)			3,625 125	 3,750
	Rahim A/c Dr. To Bank A/c To Discount A/c (Proceeds remitted to Rahim including discount)			250	 175 75
	Rahim A/c Dr. To Bank A/c (Bill honoured at maturity)			3,750	 3,750
	Bills Payable A/c Dr. To Bank A/c (Bill honoured at maturity)			3,000	 3,000
	Bank A/c Dr. Bad Debt A/c Dr. To Rahim A/c (Amount realised from the official liquidator of Rahim @ 80 paise in the rupee and the balance proved bad)			1,800 450	 2,250

Working Note:

The amount of discount to be credited to Ratan is calculated as follows:

₹2,000 due to her for the first bill but not remitted on due date.
₹175 received from Ratan on getting her second bill discounted.

₹2,175 total amount due to Ratan. So, Proportionate Charge for discount is

$$\frac{\text{Total Discount} \times \text{Total Amount due}}{\text{Proceeds of the Bill}}$$

$$= \frac{125 \times 2{,}175}{3{,}625} = ₹75$$

Rahim is to bear = ₹75 of discounting charges and the balance by Ratan.

8. (a) A Calcutta trading firm has a branch at Patna to which goods are charged out at cost plus 25%. Branch keeps its own sales ledger and remits daily all cash received to the Head office. All expenses are paid from the Head Office. The transactions for the branch for the year, 2013 are given below.

	₹
Stock on 1-1-2013	**55,000**
Sundry Debtors on 1-1-2013	**550**
Petty Cash balance on 1-1-2013	**450**
Cash Sales	**13,250**

Goods sent to Branch	**1,00,000**
Collections on Ledger Accounts	**1,05,000**
Goods returned to Head Office	**1,500**
Bad Debts	**1,500**
Allowances to customers	**1,250**
Returns Inward	**2,500**
Cheques sent t o Branch:	
for Rent	**2,500**
for Wages	**1,500**
for Salary and other expenses	**4,500**
Stock on 31-12-2013	**60,000**
Sundry Debtors on 31-12-2013	**15,000**
Petty cash on 31-12-2013 (including miscellaneous income ₹ 50 not remitted within the year)	**500**

Prepare the Branch Account and Branch Trading and Profit & Loss Account for the year, 2013 in the Head Office books. **[9]**

Solution:

In the books of Head Office

Patna Branch Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/f Stock – 55,000 Debtors – 550 Petty Cash – 450	56,000	By Stock Reserve (Load on opening stock)	11,000
To Goods sent to Branch	1,00,000	By Bank (Remittances) Cash sales – 13,250 Collection from Debtors – 1,05,000	1,18,250
To Bank: Rent – 2,500 Wages – 1,500 Salary – 4,500	8,500	By Goods Sent to Branch (Return from branch)	1,500
To Goods sent to Branch (Load on Return)	300	By Goods sent to Branch (Load on goods sent)	20,000
To Stock Reserves A/c (Load on closing stock)	12,000	By Balance c/f: Stock – 60,000 Debtors – 15,000 Petty Cash – 500	75,500
To Profit & Loss A/c (Profit)	49,450		
	2,26,250		2,26,250

In the books of Head Office

Patna Branch Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)

To Opening Stock (At Cost)	44,000	By Sales:	
To Goods sent to Branch	78,800	Cash – 13,250	
(80,000 – Return 1,200)		Credit – 1,24,700	
To Gross Profit c/d	60,650	1,37,950	
		(-) Returns (2,500)	1,35,450
		By Closing Stock	48,000
	1,83,450		1,83,450
To Rent	2,500	By Gross Profit b/d	60,650
To Wages	1,500	By Miscellaneous Income	50
To Salary & Other Exp	4,500		
To Bad Debts	1,500		
To Allowances	1,250		
	60,700		60,700

Memorandum Branch Debtors Account

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	550	By Bank [Collection]	1,05,000
To Credit Sales (B/F)	1,24,750	By Bad debts	1,500
		By Allowances	1,250
		By Return inwards	2,500
		By Balance c/d	15,000
	1,25,250		1,25,250

(b) Rectifying the following errors by way of journal entries and work out their effect on profit or loss of the concern:

(i) Return inward book was cast short by ₹ 500.

(ii) ₹ 300 received from Ram has been debited to Mr. Shyam.

(iii) Wages paid for the installation of a machine debited to wages account for ₹ 1,000.

(iv) A purchase made for ₹ 1,000 was posted to purchase account as ₹ 100.

(v) Purchase of furniture amounting to ₹ 3,000 debited to purchase account.

(vi) Goods purchased for proprietor's use for ₹ 1,000 debited to purchase account. [6]

Solution:

Journal Proper

Date	**Particulars**	**L.F.**	**Debit (₹)**	**Credit (₹)**
(a)	Return Inwards A/c Dr. To Suspense A/c (Being undercasting of return inward book now rectified)		500	 500
(b)	Suspense A/c Dr. To Ram A/c To Shyam A/c (Being cash received from Ram wrongly debited to Mr. Shaym now rectified)		600	 300 300
(c)	Machinery A/c Dr. To Wages A/c (Being wages paid for the installation of a		1,000	 1,000

	machine debited to Wages A/c, rectified)			
(d)	Purchase A/c Dr. To Suspense A/c (Being Purchases A/c short by 900, now rectified)		900	 900
(e)	Furniture A/c Dr. To Purchases A/c (being furniture purchased wrongly debited Purchases A/c , now rectified)		3,000	 3,000
(f)	Drawings A/c Dr. To, Purchases A/c (Being goods purchased for properties use wrongly debited to Purchases A/c, now rectified)		1,000	 1,000

Items	Particulars	Increase	Decrease
(a)	Decrease in Profit	-	500
(b)	No effect on Profit	-	-
(c)	Increase in Profit	1,000	-
(d)	Decrease in Profit	-	900
(e)	Increase in Profit	3,000	-
(f)	Increase in Profit	1,000	-
	Total	5,000	1,400
	Increase in Profit	-	3,600
		5,000	5,000

9. Write short notes on any three of the following: [3x5=15]

(a) Slip System of Posting;

(b) Register of Claims;

(c) Capital and Revenue Expenditure;

(d) Objectives of providing depreciation.

Solution:

(a) Slip System of Posting:

In this system, posting is made from slips prepared inside the organization itself or from slips filled in by its customers. So entries are not made in the books of original entry of subsidiary books, but posting of entries in done from slips. In banking company the main slips are pay-in-slips; withdrawal slips and cheques; and all these slips are filled by clients of the bank. These slips serve the basis of entry.

Advantages:

1. The bank saves a lot of clerical labour as most of the slips are filled by its customers.
2. Subsidiary books are avoided as posting is done from slips.
3. It ensures smooth flow of accounting work.
4. Entries can be recorded with minimum delay as slips can early pass from hand to hand among clerks concerned.

Disadvantages:

1. Slips may be lost, destroyed or misappropriated as these are loose.

2. Books cann't be verified if subsidiary books are not kept.

(b) Register of Claims:

The Insurance Act, 1938 and the rules framed there under have an important bearing on the prerations of accounts by insurance companies.
The Insurer must maintain a register of claims. It contains the details of claims made such as date of claim, the name and address of the claimant and the date on which the claim was discharged.
If the claim was rejected, the date of rejection and the reasons therefore.

(c) Capital and Revenue Expenditure:

The proper distinction between capital and revenue as regard to expenditure, payment, profits, receipts and losses is one of the fundamental principles of correct accounting. Failure or neglect to discriminate between the two will falsify the whole of the result of accounting.

It consists of expenditure the benefit of which is not fully consumed in one period but spread over several periods. It is non-recurring in nature. It means an expenditure which is incurred for the purpose of long term advantages. It is the money which is spent on the purchase of permanent fixed assets for the use in the business and not for immediate resale. It is the money spent on the permanent improvement or addition or substitution or extension of an asset to increase the earning capacity of the business.

There are 3 types of capital expenditure
(i) Tangible Assets such as plant and machineries, furniture.
(ii) Intangible Assets like Goodwill, Patents, trademarks, copy rights etc.
(iii) Investment in shares and debentures of other company for long duration.

Expenditure incurred in connection with the purchase, receipt or erection of a fixed asset e.g. the carriage and cartage charges paid to bring the machinery to the factory, repairs to the second hand machinery purchased, installation charges etc. are added to the respective cost of the asset. Similarly, the cost of financing of fixed asset is added to its cost only for the period up to the asset is put to use.

Revenue Expenditure:
An expenditure that arises out of and in the course of operations of business enterprises is called as revenue expenditure. It consists of expenditure incurred in one accounting period, the full benefit of which is consumed in that period. The following are the example of revenue expenditure.

(i) Expenses incurred in normal course of running the business. E.g. Administration expenses, selling expenses, manufacturing cost, printing and stationary charges, depreciation charges etc.
(ii) Expenses incurred to maintain the business. E.g. money spent on repairs, cost of stores consumed etc.
(iii) Cost of goods purchased for resale.

(d) Objectives of providing depreciation:

Fixed assets are used for business purposes and with the passage of time and the constant use of an asset, the value of asset declines. Thus deprecation is the gradual and permanent decrease in the value of an asset due to wear and tear, efflux of time, obsolescence or any other cause.

Objectives of providing depreciation:

(i) To ascertain correct profit or loss:

The businessman calculates the profit of an enterprise when all costs of earning revenue are charged against them, fall in the value of an asset is the cost of earning revenue from the use of an asset and charged against revenue, otherwise, true profit cann't be ascertained.

(ii) To ascertain the correct financial position:

Unless depreciation is charged the depreciable assets cann't be correctly valued and presented in the Balance Sheet. The assets are shown in the Balance Sheet at its actual value , otherwise the Balance Sheet will fail to provide true state of affairs.

(iii) To provide funds for replacement of assets:

The businessman uses the assets for productive purposes and with constant use, the asset requires replacement at the end of its useful life. The provisions of depreciation by the method of sinking fund provides dual advantage of depreciation of an asset and accumulating necessary funds for replacement of an asset.

(iv) To keep proper account of cost of production:

Depreciation is part of cost of production. If depreciation is not recorded, the true cost of production cann't be ascertained.

(v) Incidental benefits:

The amount of depreciation is a deductible expense for tax purpose. Thus, it reduces tax liability. Similarly, the amount of depreciation reduces the profit after depreciation. As a result less dividend needs to be distributed which saves the cash resource of an enterprise.

(vi) Compliance with legal requirements:

Depreciation has to be charged to comply with the relevant provisions of the Companies Act.