

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.]

Section - A

1. Answer the following questions:

(a) Multiple choice questions:

[5x1=5]

(i) The cost of a Fixed Assets of a business has to be written off over its

- (a) Natural Life
- (b) Accounting Life
- (c) Physical Life
- (d) Estimated Economic Life

(ii) 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

(iii) Excess of minimum rent over royalty is known as

- (a) Maximum rent
- (b) Excess workings
- (c) Short workings
- (d) Deficiency of actual royalty

(iv) The person in whose favour the bill is endorsed is known as _____.

- (a) Endorsee
- (b) Drawee
- (c) Drawer
- (d) None of the above

(v) The following account has a credit balance

- (a) Plant and Equipment A/c
- (b) Purchase Returns A/c
- (c) Purchase A/c
- (d) None of the above

(b) Match the following:

[5x1=5]

	Column 'I'		Column 'II'
1.	AS 16	A	Revenue Recognition
2.	Remittance in transit	B	Receipts and Payments Account
3.	Entrance fee	C	Borrowing costs
4.	AS 9	D	Dissolution of Partnership Firm
5.	Garner V Murray Rule	E	Branch Adjustment

(c) State whether the following statements are true or false:

[5x1=5]

- (i) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.

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- (ii) Hybrid Basis of Accounting is the combination of both Cash as well as Accrual basis.
- (iii) Reserve for unexpired risk is applicable for Banking Companies.
- (iv) Realisation 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 (Give workings):

[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) X, Y were in partnership sharing profits and losses in the ratio of 4 : 1. Z is admitted for 1/5th share in the future profits. Calculate new profit sharing ratio.
- (iii) On 1-1-2015 M/s. J and Co. Ltd purchased machinery for ₹1,00,000 subsequently ₹ 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method. Determine the closing book value of machine as at 31-12-2016.
- (iv) M/s Pipul purchased 10% Debentures in RR LTD for ₹ 5,20,000 on 1st July, 2015. The face value of these Debentures were ₹ 4,80,000. Interest on Debentures falls due on 30th September and 31st March. Compute the Cost of Acquisition of the Debentures.
- (v) Good Health Life Insurance Ltd. declared a reversionary bonus of ₹ 12 per ₹ 1,000 and gave the policyholders an option to get the bonus in cash for ₹ 5 per ₹ 1,000. Total business of the company is ₹ 15 crores, 40% of the policyholders decided to get bonus in cash. Pass the necessary journal entries in the Book of Healthy Life Insurance Ltd.

Section - B

Answer any five from the following.

Each question carries 15 marks [5 × 15 = 75]

2. (a) On 1st April, 2014, Om Ltd. purchased a machine for ₹66,000 and spent ₹5,000 on shipping and forwarding charges, ₹7,000 as import duty, ₹1,000 for carriage and installation, ₹500 as brokerage and ₹500 for an iron pad. It was estimated that the machine will have a scrap value of ₹ 5,000 at the end of its useful life which is 15 years. On 1st January, 2015 repairs and renewals of ₹ 3,000 were carried out. On 1st October, 2016 this machine was sold for ₹ 50,000. Prepare Machinery Account for the 3 years. [7]

- (b) Rewrite the following Trial Balance to correct the same.

Trial Balance as on 31st March, 2016

Debit Balances	₹	Credit Balances	₹
Wages	2,680	Capital	10,000
Purchases	12,490	Sales	31,080
Salaries	520	Rent Paid	500
Carriage	50	Discount Received	120
Building	12,010	Lighting Charges	160
Bank Overdraft	470	Sundry Creditors	800
Cash in hand	60	Opening Stock	9,260
Sundry Debtors	1,490	Furniture	3,250
	29,770		55,770

[8]

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3. The Income & Expenditure Account of Jayashree Sangha Club for the year ended 31.12.2015 as given below:

Expenditure	₹	Income	₹
To Salaries	20,500	By Subscription	52,000
To Newspaper	1,500	By Sale of Newspaper	2,500
To Audit Fees	2,500	By Admission Fees	12,000
To General Expenses	22,000	By Donation	15,000
To Printing & Stationery	7,500	By Miscellaneous Income	500
To Travelling Expenses	2,000		
To Rent	3,500		
To Depreciation of Furniture	2,500		
To Surplus	20,000		
	82,000		82,000

The following is the Balance Sheet of the Club as on 31.12.2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding salary	2,000	Furniture	15,000
Subscription received in advance	2,500	Sports equipment	20,000
Accumulated fund	45,500	Accrued Subscription	5,000
		Cash at Bank	10,000
	50,000		50,000

Prepare Receipts & Payments Account for the year ended 31.12.2015 taking into account the following adjustments:

- (i) Subscription received in advance ₹ 1,500
- (ii) Salary due for ₹ 1,500 but not paid for the year
- (iii) 60% of the admission fee to be capitalized
- (iv) Subscription due for 2015 but not received ₹ 3,000.

[15]

4. Gupta and Maitra were partners in a firm sharing profits in the ratio of 3 : 1. They admitted Sen as a new partner for $\frac{3}{8}$ th share in the profits. The new profit-sharing ratio will be 3:2:3. Sen brought ₹2,00,000 for his capital and ₹50,000 for his share of premium for goodwill. On 31st March, 2015, the date of Sen's admission, the Balance Sheet of Gupta and Maitra was:

Liabilities	₹	Assets	₹
Creditors	60,000	Cash	90,000
Bills Payable	20,000	Debtors	80,000
Capital A/cs:		Stock	1,50,000
Gupta	4,00,000	Furniture	50,000
Maitra	1,00,000	Machinery	2,10,000
	5,80,000		5,80,000

It was agreed that

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- (i) Stock to be valued at ₹2,00,000.
- (ii) Machinery will be depreciated by 12% and Furniture by ₹2,000.
- (iii) A Provision of 5% for Doubtful Debts will be made on Debtors.
- (iv) The Capital Accounts of all the partners were adjusted in the new profit-sharing ratio after admission. For surplus or deficiency, the Current Accounts were to be opened.

Required: Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm. **[15]**

5. (a) Show what journal entries would be passed by the Delhi Head Office to record the following transactions in their Books on 31st March, 2016, the closing date :

- A remittance of ₹ 70,000 made by Noida Branch to Head Office on 29th March, 2016 and received by the Head Office on 5th April, 2016.
- Goods of ₹ 1,26,000 sent by the Head Office to the Ajmer Branch on 28th March, 2016 and received by the later on 4th April, 2016.
- Noida Branch paid ₹ 60,000 as salary to a visiting Head Office Official. **[6]**

(b) The summarized analysis of the accounts of the outstanding debtors of GANAPATHI LTD. at the date of 13.03.2015 (Annual Closing) of amount as under:

Debtors	Goods Sold during the year (₹)	Goods returned during the year (₹)	Cash and Cheques received during the year (₹)	Discount allowed during the year (₹)	Bills Exchange received during the year (₹)
A	6,000	---	4,000	1,000	---
B	4,000	1,000	2,000	---	---
C	10,000	---	6,000	---	---
D	20,000	2,000	12,000	1,000	2,000
F	24,000	3,000	16,000	2,000	2,000

Debtors' balance at the beginning of the year was ₹ 9,000. Out the above receipts of a bill for ₹ 1,400 given by D was dishonoured, noting charges amounting to ₹ 40.

Required:

Prepare General Ledger Adjustment Account in Debtors Ledger. **[9]**

6. (a) On 12th June, 2015, a fire occurred in the premises of Ramakrishna Rao, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 22,400. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹20,800. From the books of account, the following particulars were available:

- (i) His stock at the close of account on December 31, 2014 was valued at ₹ 1,67,000.
- (ii) His purchases from 1.1.2015 to 12.6.2015 amounted to ₹ 2,24,000 and his sales during the period amounted to ₹ 3,08,000.

On the basis of his accounts for the past three years, it appears that he earns on an average a gross profit of 25% on sales. Mr. Rao has insured his stock for ₹ 1,20,000. Compute the amount of the claim. **[6]**

(b) A Ltd. obtained from P.P Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account and (ii) Royalty Account in the books of A. Ltd.

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Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2012	2,000	300
2013	3,500	400
2014	4,800	600
2015	5,600	500
2016	8,000	800

[9]

7. (a) On 25th September, 2016, Manika Advertising Limited obtained advertisement rights to a Hockey Tournament to be held in Nov./Dec, 2016 for ₹ 520 lakhs.

They furnished the following information:

- (i) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 2016.
- (ii) For the balance time they got bookings in October, 2016 for ₹240 lakhs.
- (iii) all the advertisers paid the full amount at the time of booking the advertisements.
- (iv) 40% of the advertisements appeared before the public in Nov. 2016 and balance 60% appeared in the month of December, 2016.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2016 as per Accounting Standard-9. [7]

- (b) J of Jamsedpur consigned 50 tilling machines costing ₹4,000 each to V of Varanasi. J incurred the following expenses in dispatching the goods :
Carriage — ₹ 2,120; Insurance — ₹ 19,380; Freight — ₹ 3,500

2 machines were damaged in transit beyond repairs and 3 other machines were yet to be received by V. The latter sold 30 machines at a profit of ₹ 1,500 each and charged a commission of 5% on sales.

He paid the following expenses :

Unloading Charges — ₹ 3,000; Warehouse Rent — ₹ 4,000; Salesman's Salary, etc. — ₹ 5,000

Show the Consignment Account in the books of J. [8]

8. From the following information relating to Global Finance Bank Ltd., prepare profit and loss account for the year ended 31-3-2015. Also show Schedule 13, 14, 15 & 16 as necessary.

Information for the year ending 31-3-2015:

	₹ (in '000)
Interest/discount on advances/bills	1,58,140
Income on investments	59,050
Interest on balances with RBI	21,215
Commission, exchange & brokerage	14,535
Profit on sale of investments	570
Interest on deposits	1,57,020
Interest on RBI borrowings	16,810
Rent, taxes, lighting	4,775
Printing and Stationery	1,065
Advertisement and publicity	435

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Depreciation on bank's property	1,460
Director's fees, allowances and expenses	35
Auditor's fees and expenses	205
Law charges	110
Postage, telephone etc.	1,560
Repairs and maintenance	455
Insurance	4,575
Other expenditure	4,420
Balance of Profit and Loss A/c b/f	7,620

The following adjustments are to be made:

- 1) Provide for Income Tax (including surcharge) @ 51.75%.
- 2) Every year the bank transfers 25% of profit to statutory reserve and 5% of profit of revenue reserve.

Dividend amounting to ₹10,00,000 for the year ended 31-3-2015 is proposed by the Board of Directors. **[15]**

9. Write short notes on any three of the following

[3×5=15]

- (a) Accommodation Bills;
- (b) Differences between Receipts and Payments A/c and Income and Expenditure A/c;
- (c) Reserve for Unexpired Risks;
- (d) Causes of Depreciation.