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: **[10x1=10]**

(i) Income Statement of a charitable institution is known as
(A) Profit and Loss A/c
(B) Receipts and payments A/c
(C) Income and Expenditure A/c
(D) Statement of Affairs.

(ii) If a partner dies which of the following amount becomes payable?
(A) His share of undistributed profit/loss;
(B) His share of goodwill;
(C) His share of Joint Life Policy, if any;
(D) All of the above

(iii) Bearer plant is a plant that
(A) is used in the production or supply of agricultural produce
(B) a living animal
(C) are held for use in the production or supply of goods or services
(D) None of the above

(iv) As per AS 7 Contract Cost do not consist
(A) Site labour cost including supervision
(B) Cost of material used in construction
(C) Depreciation of plant and equipments used on the contract
(D) General administration cost

(v) Bad debts are apportioned among departments in the proportion of
(A) Sales of each department
(B) Number of units sold each department
(C) Cost of sales of each department
(D) None of the above

(vi) Which of the following is true when a debtor pays his dues?
(A) The asset side of the Balance Sheet will decrease
(B) The asset side of the Balance Sheet will increase
(C) The liability side of the Balance Sheet will increase
(D) There is no change in total assets or total liabilities

(vii) XYZ send goods worth ₹1,00,000 to Y on consignment basis at 20% above the cost price. The goods are sold by the consignee on a mark of 15% on invoice price. Find the total mark up % over the cost price of the goods —
(A) 30%
(B) 38%
(C) 35%
(D) 25%

Note:

XYZ sent goods to Y at a price of [₹1,00,000 + (₹1,00,000×20%)] i.e. ₹1,20,000 and the goods are sold at [₹1,20,000 + (₹1,20,000 × 15%)]i.e. ₹1,38,000.

$\therefore$ Mark up % over the cost price is $\frac{(₹1,38,000 - ₹1,00,000)}{₹1,00,000} \times 100 = 38\%$

(viii) Which of the following relationships is/are false?
- **(A)** Net Profit = Gross Profit – Administration and Other expenses
- **(B)** Net Profit = Gross Profit + Administration expenses and Other expenses
- **(C)** Opening Stock + Purchases – Closing Stock = Cost of Sales
- **(D) Both (b) and (c) above**

(ix) Expense Account will always have
- **(A) Debit balance**
- **(B)** Credit balance
- **(C)** Nil
- **(D)** None of the above

(x) An amount spent for replacement of worn out part of machine is
- **(A)** Capital Expenditure
- **(B) Revenue Expenditure**
- **(C)** Deferred revenue
- **(D)** Capital Loss

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

	Column 'A'		Column 'B'
1.	**Income and Expenditure A/c**	**A**	**Royalties**
2.	**Bills of Exchange**	**B**	**Does not require a name**
3.	**Joint venture**	**C**	**Trial Balance is not prepared**
4.	**Single Entry System**	**D**	**Unconditional order**
5.	**Ground Rent**	**E**	**Nominal Account**

Answer:

	Column 'A'		Column 'B'
1.	Income and Expenditure A/c	**E**	Nominal Account
2.	Bills of Exchange	**D**	Unconditional order
3.	Joint venture	**B**	Does not require a name
4.	Single Entry System	**C**	Trial Balance is not prepared
5.	Ground Rent	**A**	Royalties

(c) Fill in the blanks: [5x1=5]

(i) **_______________ is an art of recording business transactions in a set of books.**
(ii) **__________is a person to whom the business owes money or money's worth.**
(iii) **Profit made on re-issue of forfeited shares is a __________ Profit.**
(iv) **____________ is an estimated loss of the value of an asset.**
(v) **________________means that the acceptor refuses to honour his commitment on due date.**

Answer:

(i) Book-keeping;

(ii) Creditor;
(iii) Capital;
(iv) Depreciation;
(v) Dishonour of a Bill.

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

(i) The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.
(ii) Normal Losses arises as a result of negligence.
(iii) Partners of a Joint venture are called co-venturers.
(iv) A fire insurance policy is taken to cover four types of losses.
(v) Bad debts are uncollectable or irrecoverable debt or debts.

Answer:

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

Section - B

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

2. (a) On 1st January 2014, Very Good Ltd. Purchased a second-hand machine for ₹1,60,000 and spend ₹40,000 on its cartage, repairs and installation. The residual value at the end of its expected useful life of 4 years is estimated at ₹80,000. On 30th September 2015, this machine was sold for ₹1,00,000. Depreciation is to be provided according to Straight Line Method.
Prepare: Machinery Account of the years assuming that the accounts are closed on 31st March each year. [7]

Answer:

Dr. MACHINERY ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
1.1.2014	To Bank A/c	1,60,000	31.3.2014	By Depreciation A/c $[₹2,00,000 \times \frac{15}{100} \times \frac{3}{12}]$	15,000
	To Bank A/c	40,000		By Balance c/d	1,92,500
		2,00,000			2,00,000
1.4.2014	To, Balance b/d	1,92,500	31.3.2015	By Depreciation A/c $[₹2,00,000 \times \frac{15}{100} \times \frac{12}{12}]$	30,000
				By Balance c/d	1,62,500
01.4.2015	To, Balance b/d	1,62,500	30.9.2015	By Depreciation A/c $[₹2,00,000 \times \frac{15}{100} \times \frac{6}{12}]$	15,000
				By Bank A/c (Sale)	1,00,000
				By Profit & Loss A/c (loss)	47,500

		1,62,500			1,62,500

Working Note: Calculation of Profit /Loss on Sale of Machine

Particulars	₹
A. Total cost of asset [₹1,60,000 + ₹40,000]	2,00,000
B. Less: Depreciation from date of purchase to date of sale $[₹2,00,000 \times \frac{15}{100} \times \frac{21}{12}]$	52,500
C. Book Value as on date of sale [A-B]	1,47,500
D. Less: Sale Proceeds	1,00,000
E. Loss on sale of asset [C-D]	47,500

(b) A and B jointly undertake to construct a building for Big & Rich Ltd. For contract price of ₹50,00,000 payable as to 80% in cash by four equal instalments and the balance by in fully paid shares of ₹ 10 each at a premium of 100%. They opened a bank account in their joint name and deposited ₹24,00,000 in the ratio of 2:1. They agreed to distribute first ₹5,00,000 of profits equally and the balance in the ratio of 2:1.

Their transactions were as follows:

(i) Materials supplied by A ₹60,000.
(ii) Wages paid ₹6,00,000, material bought ₹9,00,000, Mixer ₹1,00,000, Plant ₹3,00,000.
(iii) Expenses (including insurance premium) paid by B ₹40,000.
(iv) On completion of construction, the contract price was realized.
(v) A took over unused materials at ₹40,000
B took over mixer at ₹60,000
Plant was sold at ₹1,85,000
Materials costing ₹20,000 stolen against which claim of ₹15,000 was received.
(vi) A took-up 60% of the shares and B took-up the balance at an agreed value of ₹15 per share.
(vii) Accounts were settled.

Prepare : Joint Venture Account, Joint Bank Account and Co-venturers' Account .

[8]

Answer:

Dr. Joint Venture Account Cr.

Particulars		₹	Particulars	₹
To Joint Bank A/c:			By Joint Bank A/c	40,00,000
Wages	6,00,000		By Equity Shares A/c	10,00,000
Material	9,00,000		By A (Material)	40,000
Mixer	1,00,000		By B (Mixer)	60,000
Plant	3,00,000	19,00,000	By Joint Bank A/c (Plant)	1,85,000
To A (Material)		60,000	By Joint Bank A/c (Claim)	15,000
To B (Expenses)		40,000		
To Equity Shares [50,000 x ₹5]		2,50,000		
To Profit t/f to:				
A	19,50,000			
B	11,00,000	30,50,000		
		53,00,000		53,00,000

Particulars	₹	Particulars	₹

To A To B To Joint Venture A/c To Joint Venture A/c (Plant) To Joint Venture A/c (Claim)	16,00,000 8,00,000 40,00,000 1,85,000 15,000	By Joint Venture A/c By A By B	19,00,000 31,20,000 15,80,000
	66,00,000		66,00,000

Dr. Co-venturers' Accounts Cr.

Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To Joint Venture A/c To Equity Shares A/c To Joint Bank A/c	40,000 4,50,000 31,20,000	60,000 3,00,000 15,80,000	By Joint Bank A/c By Joint Venture A/c By Joint Venture A/c	16,00,000 60,000 19,50,000	8,00,000 40,000 11,00,000
	36,10,000	19,40,000		36,10,000	19,40,000

Working Note: Calculation of Share of Profit

	A	B
First ₹50,00,000 (in 1:1 Ratio)	2,50,000	2,50,000
Balance ₹25,50,000 (in 2:1 ratio)	17,50,000	8,50,000
	19,50,000	11,00,000

3. **From the following Trial Balance and Necessary Information given below for a public school, prepare Income and Expenditure Account for the year ended 2016 and the Balance Sheet as at March 31, 2016. [5+5+5=15]**

Debit Balance	₹	Credit Balance	₹
Buildings	**3,00,000**	**Admission Fee**	**5,000**
Furniture and Fittings	**40,000**	**Tution and other fees received**	**2,50,000**
Library books	**60,000**	**Creditors for Supplies**	**6,000**
9% Investments	**2,00,000**	**Rent for the Hall**	**4,000**
Salaries	**2,00,000**	**Miscellaneous Receipts**	**12,000**
Stationery	**15,000**	**Govt. Grant**	**1,40,000**
General Expenses	**8,000**	**General Fund**	**4,00,000**
Annual Sports – Expenses	**6,000**	**Donation received for purchase of Library Books**	**25,000**
Cash at Bank	**20,000**	**Sale of Old Furniture**	**8,000**
Cash in Hand	**1,000**		
	8,50,000		**8,50,000**

Fees yet to be received for the year ₹10,000. Salaries yet to be paid amount to ₹12,000. Furniture costing ₹15,000 was purchased on 01.10.2015. The book value of the Furniture sold (on 30.09.2015) was ₹20,000 on 01.04.2015. depreciation is to be charged @ 10% per annum on Furniture and Fittings; 15% on Library Books and 5% on Buildings.

Answer:

Income and Expenditure Account
For the year ended on 31st

Dr. Cr.

Expenditure	₹	Income	₹
To Salaries 2,00,000		By Admission fees	5,000
Add; Outstanding 12,000	2,12,000	By Tuition fees 2,50,000	
To Stationery	15,000	Add Accrued 10,000	2,60,000
To General Expenses	8,000	By Hall Rent	4,000
To Annual Sports Expenses	6,000	By Miscellaneous Receipts	12,000

To Depreciation on furniture	2,250	By Govt. Grants	1,40,000
To Loss on Sale of Furniture	11,000	By Accrued Interest on Investment	18,000
To Depreciation on Library Books	9,000		
To Depreciation on Buildings	15,000		
To Surplus t/f to Capital fund	1,60,750		
	4,39,000		**4,39,000**

Balance Sheet as at
For the year ended on 31st march,2016

Liabilities	₹	Assets	₹
Creditors for suppliers	6,000	Buildings 3,00,000	
Library funds	25,000	Less: Depreciation 15,000	2,85,000
Salaries due	12,000	Furniture and Fittings 20,000	
General fund 4,00,000		Less: Depreciation 1,250	18,750
Add: Surplus 1,60,750	5,60,750	Library Books 60,000	
		Less: Depreciation 9,000	51,000
		9% Investments	2,00,000
		Interest Accrued on Investment @ 9% p.a.	18,000
		Bank	20,000
		Cash	1,000
		Tution Fees Due	10,000
	6,03,750		**6,03,750**

Working Note:

Since Sale of old furniture for ₹8,000 appears in the Trial Balance, it means, no accounting effect has yet been given in respect of Furniture Account. After passing the rectification entry the furniture Account will appear as under :

Opening balance of Furniture as at 01.04.2015 = ₹40,000 - ₹15,000 = ₹25,000.
Book Value of Unsold Old Furniture = ₹25,000 - ₹20,000 = ₹5,000

Dr. **Furniture Account** **Cr.**

Particulars	₹	Particulars	₹
To, Balance (Unadjusted given)	40,000	By Depreciation on old furniture (20,000 × 10/100 × 6/12)	1,000
		By Sale of Furniture A/c	8,000
		By Income & Expenditure A/c (Loss)	11,000
		By Depreciation A/c	
		On old furniture of ₹5,000	500
		On New furniture of ₹15,000	750
		By Balance c/d	18,750
	40,000		40,000

4. A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March, 2015 was as follows:

Liabilities	₹	Assets	₹
A's Capital	**1,60,000**	**Building**	**4,00,000**
C's Capital	**1,00,000**	**Machinery**	**4,00,000**
A's Loan	**2,00,000**	**Furniture and Fixtures**	**1,60,000**
Creditors	**10,00,000**	**Stock**	**1,60,000**

		Book Debts	**2,00,000**
		Cash at Bank	**10,000**
		B's Capital (Overdrawn)	**1,30,000**
			14,60,000

The firm was dissolved as all the partners were declared insolvent. The assets were realized as under:
Book debts : 45% less; Building : ₹ 1,60,000; Stock : ₹ 1,00,000; Machinery : ₹ 2,00,000; and Furniture and fixtures: ₹ 40,000. Realization expenses were ₹ 10,000.

The private assets and private liabilities of the partners were as follows:

Partner	Private Assets (₹)	Private Liabilities (₹)
A	**2,50,000**	**2,50,000**
B	**2,00,000**	**1,80,000**
C	**2,30,000**	**2,50,000**

You are required to prepare:
(i) Realisation Account,
(ii) Bank Account,
(iii) Creditors Account,
(iv) Partner's Capital Account, and
(v) Deficiency Account. **[15]**

Answer:

(1) Realisation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹	₹
To Building A/c	4,00,000	By Bank A/c (Realisation of Assets):		
To Machinery A/c	4,00,000	Book Debts	1,10,000	
To Furniture & Fixtures A/c	1,60,000	Building	1,60,000	
To Stock A/c	1,60,000	Stock	1,00,000	
To Book Debts A/c	2,00,000	Machinery	2,00,000	
To Bank (Realisation Exp.)	10,000	Furniture	40,000	6,10,000
		By Loss transferred:		
		A Capital A/c	2,40,000	
		B Capital A/c	2,40,000	
		C Capital A/c	2,40,000	7,20,000
	13,30,000			13,30,000

(2) Bank Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Realisation A/c (Expenses)	10,000
To Realisation A/c (Assets Realised)	6,10,000	By Creditors (Available cash paid)	6,30,000
To B Capital A/c (2,00,000 – 1,80,000)	20,000		
	6,40,000		6,40,000

(3) Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank b/d	6,30,000	By Balance b/d	10,00,000
To Deficiency A/c	3,70,000		
	10,00,000		10,00,000

(4) Partners' Capital Account

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Balance b/d		1,30,000		By Balance b/d	1,60,000	--	1,00,000
To Realisation A/c (Loss)	2,40,000	2,40,000	2,40,000	By A's Loan A/c	2,00,000		
To Deficiency A/c	1,20,000			By Bank		20,000	
				By Deficiency A/c		3,50,000	1,40,000
	3,60,000	3,70,000	2,40,000		3,60,000	3,70,000	2,40,000

(5) Deficiency Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To B's Capital A/c	3,50,000	By Creditors A/c	3,70,000
To C's Capital A/c	1,40,000	By A's Capital A/c	1,20,000
	4,90,000		4,90,000

5. (a) From the following figures prepare accounts to disclose total profit and the profit of the two departments B and C.

Particulars	**₹**	**Particulars**	**₹**
Opening Stock:		**Advertising**	**8,100**
B	**15,200**	**Insurance**	**1,000**
C	**10,800**	**General Expenses**	**5,400**
Purchase:		**Discount Allowed**	**1,800**
B	**75,100**	**Accountancy Charges**	**500**
C	**69,800**	**Sales:**	
Carriage inwards	**2,860**	**B**	**1,00,000**
Salaries:		**C**	**80,000**
B	**9,000**	**Purchases returns:**	
C	**8,500**	**B**	**1,100**
General Salaries	**11,600**	**C**	**800**
Rent and Rates	**6,000**	**Discount Received**	**1,430**

The following further information is supplied:

(i) Goods transferred from department B and C was ₹5,000. This has not yet been recorded.
(ii) General Salaries are to be allocated equally.
(iii) The area Occupied is in the ratio 3:2
(iv) Insurance premium is for a comprehensive policy, allocation being inconvenient.
(v) The closing stock of the two departments were:
B — ₹17,800 and C — ₹15,600.

[8]

Answer:

Dr. Departmental Trading and Profit and Loss Account for the year ended… Cr.

Particulars	B	C	Particulars	B	C
To, Opening Stock	15,200	10,800	By, Sales:	1,00,000	80,000
To, Purchase Less Returns [B= 75,100 -1,100; C = 69,800 – 800]	74,000	69,000	By, Transfer [to C Deptt.]	5,000	

To, Transfer [from B Department]	-	5,000	By, Closing Stock	17,800	15,600
To, Carriage inwards	1,480	1,380			
To, Gross Profit c/d	32,120	9,420			
	1,22,800	95,600		1,22,800	95,600
To, Salaries	9,000	8,500	By, Gross Profit b/d	32,120	9,420
To, General salaries	5,800	5,800	By, Discount received	740	690
To, Rent and taxes	3,600	2,400	By, Net Loss b/f	-	13,390
To, Advertising	4,500	3,600			
To, General Expenses	3,000	2,400			
To, Discount Allowed	1,000	800			
To, Net Profit c/f	5,960	-			
	32,860	23,500		32,860	23,500

Dr. General Profit and Loss Account for the year ended…. Cr.

Particulars	₹	Particulars	₹
To, Net Loss:		By, Net Profit:	
Department C	13,390	Department B	5,960
To, Insurance	1,000	By, Balance transferred to Balance Sheet	8,930
To, Accounting charges	500		
	14,890		14,890

(b) From the following information, prepare Total Debtors Account for the year ending on 31st March, 2016:

(i) Trade Debtors as on 01.04.2015 ₹2,00,000.
(ii) Gross Sales (including Cash Sales of ₹3,00,000) ₹16,20,000.
(iii) Return Inwards ₹20,000.
(iv) Discount Allowed ₹11,000 (of which later on ₹1,000 disallowed)
(v) Cash received from Debtors ₹4,40,000 of cheques amounting to ₹40,000 were dishonoured. Out of these dishonoured cheques a cheque for ₹10,000 was dishonoured for non-payment as the customer became insolvent and his estate realized nothing.
(vi) Bills Receivable drawn during the year totaled ₹6,60,000 of which bills amounting to ₹60,000 were endorsed in favour of suppliers. Bills dishonoured ₹30,000 (including Bills of ₹10,000 endorsed to suppliers).
(vii) Interest on Overdue Account ₹45,000.
(viii) Bad Debts written off in earlier years recovered ₹20,000.
(ix) Provision for Doubtful Debts on Debtors ₹25,000.
(x) Transfer to Bought Ledger ₹15,000. **[7]**

Answer:

Dr. TOTAL DEBTORS ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.2015	To Balance b/d	2,00,000,	31.03.2016	By Returns Inward	20,000
31.03.2016	To Credit Sales	13,20,000		By Discount Allowed	11,000
	To Disc, disallowed	1,000		By Cash A/c	2,00,000
	To Bank A/c (Ch. dish.)	40,000		By Bank A/c	4,40,000
	To Bills Rece. A/c			By Bad Debts	10,000

	(B/R Dish.)	20,000		By Bills Receivable	6,60,000
	To Total Creditors A/c			By Total Creditors A/c	15,000
	(Endor. B/R Disc.)	10,000		By Balance c/d	2,80,000
	To Interest	45,000			
		16,36,000			16,36,000

6. (a) Following are the extracts from the Trial Balance of a Company as at 31st March,2017:

Name of Account	Debit Balance (₹)	Credit Balance (₹)
Sundry Debtors	**4,10,000**	
Provision for Doubtful Debts		**20,000**
Bad Debts	**6,000**	

Additional Information:

(i) Additional bad debts ₹10,000,

(ii) Maintain the provision for Doubtful Debts @ 10% on Debtors

Give the Journal Entries and show the relevant Accounts. [7]

Answer:

Particulars	L.F.	Dr. (₹)	Cr.(₹)
Bad Debts A/c Dr. To Sundry Debtors A/c (Being the additional bad debts recorded)		10,000	10,000
Provision for Doubtful Debts A/c Dr. To Bad Debts A/c (Being bad debts, transferred to Provision for doubtful debts A/c)		16,000	16,000
Profit & Loss A/c Dr. To Provision for Doubtful Debts A/c (Being the amount charged from P & L A/c to maintain provision for doubtful debts @ 10% on debtors)		36,000	36,000

Dr. Sundry Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	4,10,000	By, Bad Debts A/c	10,000
		By, Balance b/d	4,00,000
	4,10,000		4,10,000

Dr. Bad Debts Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	6,000	By, Profit and Loss A/c	16,000
To, Sundry Debtors	10,000		
	16,000		16,000

Dr. Provision for Doubtful Debts Account Cr.

Particulars	₹	Particulars	₹
To Bad Debts A/c	16,000	By, Balance b/d	20,000
To, Balance c/d [10% of ₹(4,10,000 – 10,000)	40,000	By, Profit and Loss A/c	36,000
	56,000		56,000

Dr. Profit and Loss Account Cr.

Particulars	₹	Particulars	₹
To Provision for Doubtful Debts	36,000		

(b) On 1st January 2015, Mr. A purchased from Mr. B a plant valued at ₹14,90,000; payment to be made by four semi-annual instalments of 4,20,000; interest being charged at 5% per half year. Mr. A paid the first instalment on 1st July 2015 but failed to pay the next. Mr. B repossessed the plant on 4th January 2016. On 5th January 2016, after negotiation, Mr. A was allowed to retain the plant of which the original cash price was 7,80,000 and he was to bear the loss on the remainder which was to taken over by Mr. B on that date for 7,50,000. Mr. B waived the interest after 31st December 2015. Another agreement was signed for payment of the balance amount.

Show by ledger accounts the necessary records in the books of Mr. A charging depreciation at 10% per annum half yearly on the written down value. [8]

Answer:

Dr. MACHINERY ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
1.1.2015	To B 's A/c	14,90,000	30.6.2015	By Depreciation A/c By Balance c/d	74,500 14,15,500
		14,90,000			14,90,000
1.7.2015	To Balance b/d	14,15,500	31.12.2015	By Depreciation A/c By Balance c/d	70,775 13,44,725
		14,15,500			14,15,500
1.1.2016	To Balance b/d To P & L A/c (b.f.) [7,50,000 - 6,40,775]	13,44,725 1,09,225	5.1.2016	By B 's A/c By Balance c/d	7,50,000 7,03,950
		14,53,950			14,53,950

Dr. Y'S ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
30.6.2015	To Balance c/d	15,64,500	01.1.2015 30.6.2015	By Plant on Hire Purch. A/c By Interest A/c [₹ 14,90,000 x 5%]	14,90,000 74,500
		15,64,500			15,64,500
1.7.2015 31.12.2015	To Bank A/c To Balance c/d	4,20,000 12,01,725	1.7.2015 31.12.2015	By Balance b/d By Interest A/c [₹ 11,44,500 x 5%]	15,64,500 57,225
		16,21,725			16,21,725
5.1.2013	To Machinery A/c To Balance	7,50,000 4,51,725	1.1.2013	By Balance b/d	12,01,725
		12,01,725			12,01,725

Working Note:

Calculation of Book Value of Plant Repossessed and Retained

Particulars	Repossessed (₹)	Retained (₹)
A. Cash Price of the Plant	7,10,000	7,80,000
B. Less: Depreciation @ 10% for 6 months	(35,500)	(39,000)

C. Book Value	6,74,500	7,41,000
D. Less: Depreciation @ 10% for 6 months	(33,726)	(37,050)
E. Book Value	6,40,774	7,03,950

7. (a) ABC Ltd. is installing a new plant for its production facility. It has incurred these costs:

	₹
Cost of the plant (cost per supplier's invoice plus taxes)	**35,00,000**
Initial delivery and handling costs	**3,00,000**
Cost of site preparation	**8,00,000**
Consultants used for advice on the acquisition of the plant	**7,00,000**
Interest charges paid to supplier of plant for deferred credit	**5,00,000**
Estimated dismantling costs to be incurred after 7 years	**3,00,000**
Operating losses before commercial production	**4,00,000**

Please advise ABC Ltd. on the costs that can be capitalized in accordance with AS 10 (Revised). [8]

Answer:

According to AS 10 (revised), these costs can be capitalized:

Particulars	₹
Cost of the plant	35,00,000
Initial delivery and handling costs	3,00,000
Cost of site preparation	8,00,000
Consultants' fees	7,00,000
Estimated dismantling costs to be incurred after 7 years	3,00,000
	56,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹5,00,000 and operating losses before commercial production amounting to ₹4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(b) List the salient features of Computerized Accounting System. [7]

Answer:

Salient Features of Computerised Accounting System

Computer information system environment exists when one or more computer(s) of any type or size is (are) involved in the processing of any information, whether those computers are operated by the entity or by a third party. A computerised accounting environment will therefore have the following salient features:

1. The processing of information will be by one or more computers.
2. The computer or computers may be operated by the entity or by a third party.
3. The processing of financial information by the computer is done with the help of one or more computer softwares.
4. A computer software includes any program or routine that performs a desired function or set of functions and the documentation required to describe and maintain that program or routine.
5. The computer software used for the accounting system may be an acquired software or may be developed specifically for the business.

6. Acquired software may consist of a spread sheet package or may be prepackaged accounting software.

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

(a) Weaknesses of single entry system;
(b) Provision for Discount on Creditors;
(c) Operating Cycle of Consignment Arrangement;
(d) Differences between Cash Basis and Accrual Basis of Accounting.

Answer:

(a) Weaknesses of single entry system —

(i) As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.
(ii) Profit or loss can be found out only by estimates as nominal accounts are not maintained.
(iii) It is not possible to make a balance sheet in absence of real accounts.
(iv) It is very difficult to detect frauds or errors.
(v) Valuation of assets and liabilities is not proper.
(vi) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
(vii) It is quite likely that the business and personal transactions of the proprietor get mixed.

(b) Provision for Discount on Creditors

Businessman expects that he would receive discounts from suppliers (creditors), when the businessman remits cash to them. Anticipating some percentage of creditors which may be received as discount in the coming year, the business proprietor makes a provision for the expected income in the current year itself. Discount on creditors is an income and therefore reserve for discount on creditors is debited and profit and loss account is credited to show it as anticipated profit. In the subsequent year, when discount on creditors is actually received, it is first set of against provision for discount on creditors and the difference between the new provision for discount on creditors and the balance of old provision left over is carried to Profit and Loss Account.

- **It is allowed by the creditors for prompt settlement of debts.**
- **It is an anticipated gain.**

Payment to Creditors —

Creditors A/c	Dr.	₹10,000
To, Bank A/c		₹9,500
To, Discount Received A/c		₹500

Treatment of Discount Received

Closing or Transfer Entry —

Discount Received A/c	Dr.
To, Provision for Discount on Creditors A/c	

- This is the process of adjusting discount received
- Ultimately the provision shall be transferred to the Profit and Loss (P&L) A/c

(c) 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.

(d) Differences between Cash Basis and Accrual Basis of Accounting:

Basis of Distinction	Cash Basis of Accounting	Accrual Basis of Accounting
1. Prepaid/Outstanding Expenses/ accrued/unaccrued Income in Balance Sheet.	Under this, there is no prepaid / outstanding expenses or accrued/ unaccrued incomes.	Under this, there may be prepaid/outstanding expenses and accrued/ unaccrued incomes in the Balance Sheet.
2. Higher/lower Income in case of prepaid expenses and accrued income	Income Statement will show lower income.	Income Statement will show a relatively higher income.
3. Higher/lower income in case of outstanding expenses and unaccrued income	Income Statement will show higher income.	Income Statement will show a relatively lower income.
4. Availability of options to an accountant to manipulate the accounts by way of choosing the most suitable method out of several alternative methods of accounting e.g. FIFO/LIFO/SLM/ WDV	Under this an accountant has no option to make a choice as such.	Under this, an accountant has options.