# 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)** Inward invoice received from the creditors of goods is the source of —
(a) **Purchase Book**
(b) Sales Book
(c) Return Inward Book
(d) Return Outward Book

**(ii)** Which of the following is capital nature?
(a) Commission on purchases
(b) Cost of repairs
(c) Rent of factory
(d) **installation of machinery for use in production**

**(iii)** _____________ are investments which are held beyond the current period as to sale or disposal.
(a) **Non-current Investments**
(b) Current Investments
(c) Current Liabilities
(d) None of the above

**(iv)** Accounting treatment once decided should be followed period after period. It follows ________________________ Concept.
(a) Money Measurement
(b) Going Concern
(c) **Consistency**
(d) None of the above

**(v)** __________________________ is similar to the Profit and loss A/c
(a) **Income and Expenditure A/c**
(b) Receipts and Payments A/c
(c) Balance Sheet
(d) None of the Above

**(vi)** Which of the following is not a feature of Trial Balance
(a) It is an Account;
(b) All the transactions are primarily recorded in this book, hence it is the primary book of entry;
(c) It provides narrations with entries;
(d) **All of the above.**

**(vii)** Which of the following is a function of journal:
(a) Analytical Function
(b) Recording Function
(c) Historical Function
(d) **All of the above**

**(viii)**___________ is specially suited to mines, oil wells, quarries, sandpits and similar assets of a wasting character.

(a) **Depletion**
(b) Depreciation
(c) Amortisation
(d) Delapidation

**(ix)** AS-9 is related to
(a) **Revenue Recognition**
(b) Cash Flow Statement
(c) Accounting for Fixed Assets
(d) Disclosure of Accounting policies

**(x)** Which subsidiary book serves both as Journal as well as ledger?
**(a) Cash Book**
(b) Purchase Book
(c) Sales Book
(d) Bills Receivable Book

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

| Column-I | | Column-II | |
|---|---|---|---|
| **(i)** | **Garner vs. Murray case** | **(A)** | **AS - 2** |
| **(ii)** | **Trial Balance** | **(B)** | **Bills of Exchange** |
| **(iii)** | **Good Debt** | **(C)** | **Partnership** |
| **(iv)** | **Inventories** | **(D)** | **Royalty Accounts** |
| **(v)** | **Endorsement** | **(E)** | **Statement of debit and credit balances** |
| | | **(F)** | **Recoverable** |
| | | **(G)** | **AS - 7** |

**Answer:**

| Column-I | | Column-II | |
|---|---|---|---|
| **(i)** | Garner vs. Murray case | **(C)** | Partnership |
| **(ii)** | Trial Balance | **(E)** | Statement of debit and credit balances |
| **(iii)** | Good Debt | **(F)** | Recoverable |
| **(iv)** | Inventories | **(A)** | AS - 2 |
| **(v)** | Endorsement | **(B)** | Bills of Exchange |

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

**(i) The fixed asset is generally held for_______________.**
**(ii) Money invested by the owner of business is known as __________.**
**(iii) GAAP stands for _________ ________.**
**(iv) Loss means excess of ___________ over _____________.**
**(v) _________ accounting package can suitably match with the organisational structure of the company.**

**Answer:**

**(i)** Longer period;
**(ii)** Capital;
**(iii)** Generally Accepted Accounting Principles;
**(iv)** Expenditure, income;
**(v)** Customised.

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

**(i) In the hire purchase system interest charged by vendor is calculated on the basis of instalment amount.**
**(ii) Minimum rent is also called Short workings.**
**(iii) Depreciation is a charge against profit.**
**(iv) Freight on purchase of new machinery is a capital expenditure.**
**(v) Honour of a Bill means that the acceptor pays the due amount on due date.**

**Answer:**

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

## Section - B

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

**2. (a) Rectify the following errors by passing necessary journal entries:**
**(i) Goods taken by the proprietor ₹7,500 for gift to his wife were not recorded at all.**
**(ii) ₹9,300 received from Upal against debts previously written off as bad debts have been credited to his personal account.**
**(iii) Received interest ₹645, posted to loan account.**
**(iv) A cheque received from Manav, a debtor, for ₹12,000 was directly received by the proprietor who deposited it into his personal bank account.** **[6]**

**Answer:**

**Books of …………**
**Journal**

| Date | Particulars | L. F. | Dr. Amount ₹ | Cr. Amount ₹ |
|---|---|---|---|---|
| | Drawings A/c Dr.<br>To Purchase A/c<br>[Being, goods taken by proprietor previously not recorded, now rectified] | | 7,500 | 7,500 |
| | Upal's A/c Dr.<br>To Trading A/c<br>[Being, Upal's A/c wrongly credited for amount received against bad debts written of, now rectified] | | 9,300 | 9,300 |
| | Loan A/c Dr.<br>To Interest Received A/c<br>[Being, Interest received wrongly credited to Loan A/c, now rectified] | | 645 | 645 |
| | Drawings A/c Dr.<br>To Manav's A/c [Debtors]<br>[Being, cheque from a Debtor directly received and deposited into personal bank a/c by proprietor, now adjusted] | | 12,000 | 12,000 |

**(b) Krishna of Kolkata sent on 15.01.2017, a consignment of 500 bicycles costing ₹ 1,000 each. Expenses of ₹ 7,000 met by the consignor. Moti of Mumbai spends ₹ 15,000 for clearance and the selling expenses were ₹ 10 per bicycle.**
**Moti sold, on 05.04.2017, 300 bicycles @ ₹ 1,600 each and, again, on 20.06.2017,150 bicycles @ ₹ 1,720 each.**
**Moti was entitled to a commission of ₹250 per bicycle sold plus one-fourth of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 1,200 per bicycle sold. Moti sent the amount due to Krishna on 30.6.2017.**
**You are required to show the Consignment Account and Moti's Account in the books of Krishna.** **[9]**

**Answer:**

**Dr.** **Consignment to Mumbai Account** **Cr.**

| Date | Particulars | | Amount ₹ | Date | Particulars | | Amount ₹ |
|---|---|---|---|---|---|---|---|
| 2015<br>Jan.15 | To Goods Sent on Consignment A/c (500 × ₹1000)<br>To Bank A/c – Expenses<br>To Moti A/c – Expenses<br>Clearance<br>Selling (450 × ₹10) | <br><br><br>15,000<br>4,500 | 5,00,000<br>7,000<br><br><br>19,500 | 2015<br>Apr.5 | By Moti A/c<br>- Sale Proceeds<br>300 × ₹1600<br>150 × ₹1720<br>By Stock on Consignment A/c (5,00,000 + 7,000+15,000) × $\frac{50}{500}$ ) | <br><br>4,80,000<br>2,58,000 | <br><br><br>7,38,000<br>52,200 |
| June 30 | To Y A/c<br>Ord. Commission<br>Spl. Com | <br>1,12,500<br>17,100 | 1,29,600[A] | | | | |
| | To Profit and Loss A/c<br>- Profit on Consignment Transferred | | 1,34,100 | | | | |
| | | | 7,90,200 | | | | 7,90,200 |

**Dr.** **M's Account** **Cr.**

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| 2015<br>Apr. 5 | To Consignment Mumbai A/c<br>- Sale Proceeds | 7,38,000 | 2015<br>Jan. 15<br>June 30 | By Consignment Mumbai A/c<br>- Expenses<br>By – Commission<br>By Bank A/c | <br><br>19,500<br>1,29,600<br>5,88,900 |
| | | 7,38,000 | | | 7,38,000 |

**Note:**

**A. Calculation of Commission:** ₹

Ordinary Com. = 450 × ₹250 1,12,500

Add: special Com. = $\frac{1}{5}$ [(Gross Sale Proceeds – Total Com.) – (450 × 1200)]

* $\frac{1}{5}$ [₹7,38,000 – ₹1,12,500) – (₹5,40,000)]

$= \frac{1}{5}$ (₹6,25,500 – ₹5,40,000)

$= \frac{1}{5}$ × ₹85,500 — 17,100

1,29,600

(* It should be considered after charging as the total Commission is not known).

$$\left\{ \text{So, } \frac{\text{Rate}}{\text{Rate}+1} = \frac{\frac{1}{4}}{\frac{1}{4}+1} = \frac{\frac{1}{4}}{\frac{5}{4}} = \frac{1}{4} \times \frac{4}{5} = \frac{1}{5} \right\}$$

**3. Mr. X runs a retail business. Suddenly he finds on 31.03.2017 that his Cash and Bank balances have reduced considerably. He provided you the following information:**

**(i) Balances:**

| Particulars | Opening ₹ | Closing ₹ |
|---|---|---|
| Sundry Debtors | 35,400 | 58,800 |
| Sundry Creditors | 84,400 | 22,400 |
| Cash at Bank | 1,08,400 | 2,500 |
| Cash in Hand | 10,400 | 500 |
| Rent (Outstanding for one month) | 2,400 | 3,000 |
| Stock | 11,400 | 20,000 |
| Electricity and Telephone bills-outstanding | | 6,400 |

**(ii) Bank Pass – Book reveals following:**

| | ₹ |
|---|---|
| Total Deposits | 10,34,000 |
| Withdrawals: | |
| Creditors | 8,90,000 |
| Professional charges | 34,000 |
| Furniture and Fixtures (acquired on1st Oct.) | 54,000 |
| Proprietor's drawings | 1,61,900 |

**(iii) Rent has been increased from January, 2017.**

**(iv) Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, electricity and telephone charges.**

**(v) Mr. X made all purchases on credit.**

**(vi) His credit sales during the year amounts to ₹9,00,000.**

**(vii) He incurred ₹6,500 per month towards wages.**

**(viii) He incurred following expenses:**

**(A) Electricity and telephone charges ₹24,000 (paid)**

**(B) Shop expenses ₹18,000 (paid)**

**(ix) Charge depreciation on furniture and fixtures @ 10% p.a.**

***Required:*** **Finalize the accounts of Mr. X and compute his profit for the year ended 31.03.2017.**

**Prepare his statement of affairs and reconcile the profit and capital balance. [15]**

**Answer:**

**Trading and Profit and Loss Account**
**for the year ended 31st March, 2017**

| Dr. Particulars | | ₹ | Particulars | | Cr. ₹ |
|---|---|---|---|---|---|
| To Opening Stock | | 11,400 | By Sales: | | |
| To Purchases | | 8,28,000 | Cash | 2,97,500 | |
| To Gross Profit c/d | | 3,78,100 | Credit | 9,00,000 | 11,97,500 |
| | | | By Closing Stock | | 20,000 |
| | | 12,17,500 | | | 12,17,500 |
| To Wages | | 78,000 | By Gross Profit b/d | | 3,78,100 |
| To Rent Paid | 30,000 | | | | |
| Less: o/s in the beg. | (2,400) | | | | |
| | 27,600 | | | | |
| Add: o/s at the end | 3,000 | 30,600 | | | |
| To Electricity & Telephone | | | | | |
| Paid | 24,000 | | | | |
| o/s at the end | 6,400 | 30,400 | | | |
| To Professional Charges | | 34,000 | | | |
| To Shop Expenses | | 18,000 | | | |
| To Depreciation (54,000 × 10% × 1/2) | | 2,700 | | | |
| To Net Profit | | 1,84,400 | | | |
| | | 3,78,100 | | | 3,78,100 |

**Statement of Affairs of Mr. X as on 31.03.2016 & 31.03.2017**

| Liabilities | 31.03.16 ₹ | 31.03.17 ₹ | Assets | 31.03.16 ₹ | 31.03.17 ₹ |
|---|---|---|---|---|---|
| Capital A/c (b.f.) | 78,800 | 1,01,300 | Furniture | | 51,300 |
| Sundry Creditors | 84,400 | 22,400 | Stock | 11,400 | 20,000 |
| Outstanding Rent | 2,400 | 3,000 | Sundry Debtors | 35,400 | 58,800 |
| Outstanding Electricity & Telephone | | 6,400 | Bank | 1,08,400 | 2,500 |
| | | | Cash | 10,400 | 500 |
| | 1,65,600 | 1,33,100 | | 1,65,600 | 1,33,100 |

**Reconciliation of Profit**

| Particulars | ₹ |
|---|---|
| Closing Capital | 1,01,300 |
| Add: Drawings | 1,61,900 |
| Less: Opening Capital | (78,800) |
| Profit for the year | 1,84,400 |

**Working Note**

**(i) Total Debetors Account**

| Dr. Particulars | ₹ | Particulars | Cr. ₹ |
|---|---|---|---|
| To Balance b/d | 35,400 | By Cash A/c (b.f.) | 8,76,600 |
| To Credit Sales | 9,00,000 | By Balance c/d | 58,800 |
| | 9,35,400 | | 9,35,400 |

**(ii) Total Creditors Account**

| Dr. Particulars | ₹ | Particulars | Cr. ₹ |
|---|---|---|---|
| To Bank A/c | 8,90,000 | By Balance b/d | 84,400 |
| To Balance c/d | 22,400 | By Credit Purchases | 8,28,000 |
| | 9,12,400 | | 9,12,400 |

Dr. **(iii) Cash Account** Cr.

| Particulars | Cash | Bank | Particulars | Cash | Bank |
|---|---|---|---|---|---|
| To Balance b/d | 10,400 | 1,08,400 | By Bank (Contra) | 10,34,000 | |
| To Sundry Debtors | 8,76,600 | - | By Wages | 78,000 | |
| To Cash Sales (b.f.) | 2,97,500 | - | By Rent | 30,000 | |
| To Cash A/c(Contra) | - | 10,34,000 | By Electricity & Tel. | 24,000 | |
| | | | By Shop Expenses | 18,000 | |
| | | | By Professional Charges | - | 34,000 |
| | | | By Sundry Creditors | - | 8,90,000 |
| | | | By Furniture | - | 54,000 |
| | | | By Drawings A/c | - | 1,61,900 |
| | | | By Balance c/d | 500 | 2,500 |
| | 11,84,500 | 11,42,400 | | 11,84,500 | 11,42,400 |

**Computation of Rent Paid:**

| | | |
|---|---|---|
| Total Rent (April 2016 – March 2017) — | | |
| (₹2,400 × 9) + (₹3,000 × 3) | = | ₹30,600 |
| **Less:** outstanding at the end | | ₹3,000 |
| **Add:** outstanding in the beg. | | ₹2,400 |
| Rent paid | | ₹30,000 |

**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 3/8th 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**

**(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]**

**Answer:**

Dr. **Revaluation Account** Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Machinery A/c | 25,200 | By Stock A/c | 50,000 |
| To Furniture A/c | 2,000 | | |
| To Provision for Doubtful Debts A/c | 4,000 | | |
| To Profit on revaluation t/f to: | | | |
| Gupta's Capital A/c (3/4) 14,100 | | | |

| | | | |
|---|---|---|---|
| Maitra's Capital A/c (1/4) 4,700 | 18,800 | | |
| | 50,000 | | 50,000 |

**Dr.** **Partners' Capital Accounts** **Cr.**

| Particulars | Gupta (₹) | Maitra (₹) | Sen (₹) | Particulars | Gupta (₹) | Maitra (₹) | Sen (₹) |
|---|---|---|---|---|---|---|---|
| To Gupta's Current A/c (b.f.) | 2,64,100 | --- | --- | By Balance b/d | 4,00,000 | 1,00,000 | --- |
| To Balance c/d | 2,00,000 | 1,33,334 | 2,00,000 | By Revaluation A/c | 14,100 | 4,700 | --- |
| | | | | By Bank A/c | --- | --- | 2,00,000 |
| | | | | By Premium for Goodwill A/c | 50,000 | --- | --- |
| | | | | By Maitra's Current A/c (b.f.) | --- | 28,634 | --- |
| | 4,64,100 | 1,33,334 | 2,00,000 | | 4,64,100 | 1,33,334 | 2,00,000 |

**Balance Sheet of the new firm**
**as at 1st April, 2015**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Creditors | 60,000 | Cash (₹ 90,000 + ₹ 2,00,000 + ₹ 50,000) | 3,40,000 |
| Bills Payable | 20,000 | Debtors 80,000 | |
| Gupta's Current A/c | 2,64,100 | Less: Provision 4,000 | 76,000 |
| Capital A/cs: | | Stock | 2,00,000 |
| Gupta | 2,00,000 | Furniture (₹ 50,000 - ₹ 2,000) | 48,000 |
| Maitra | 1,33,334 | Machinery (₹ 2,10,000 - ₹ 25,200) | 1,84,800 |
| Sen | 2,00,000 | Maitra's Current A/c | 28,634 |
| | 8,77,434 | | 8,77,434 |

**Working Notes:**

1. **Calculation of Sacrificing Ratio**

   Sacrifice = Old Share - New Share

   Gupta's sacrifice = $\frac{3}{4} - \frac{3}{8} = \frac{3}{8}$, Maitra's sacrifice = $\frac{1}{4} - \frac{2}{8}$ = Nil

   Only Gupta sacrifices his share of profit.

2. **Calculation of Partners' New Capitals**

   **(a)** Total Capital of the Firm $= \frac{\text{Capital of the New Partner (Sen)}}{\text{Share of Profit of Sen}}$

   = ₹ 2,00,000 × 8/3 = ₹ 16,00,000/3

   **(b)** New Capitals of Partners

   Gupta = $\frac{₹16,00,000}{3} \times \frac{3}{8}$ = ₹ 2,00,000

   Maitra = $\frac{₹16,00,000}{3} \times \frac{2}{8}$ = ₹ 1,33,334

**5. (a) Yatri Ltd. having its principal place of business at Chennai has a branch at New Delhi. The company sends goods to its branch at cost plus 33 $^1/_3$% which is the selling price. The following information is given in respect of the branch for the year ended 31st March, 2016.**

| | ₹ |
|---|---|
| **Goods sent to Branch (invoice value)** | **24,00,000** |

| | |
|---|---|
| **Stock at Branch (01.04.2015) at selling price** | **1,20,000** |
| **Cash Sales** | **9,00,000** |
| **Returns from Customers** | **30,000** |
| **Branch Expenses paid for cash** | **2,67,500** |
| **Branch Debtors' Balance (01.04.2015)** | **1,50,000** |
| **Discounts allowed** | **5,000** |
| **Bad Debts** | **7,500** |
| **Stock at Branch (31.03.2016) at selling price** | **2,40,000** |
| **Branch Debtor's Balance(31.03.2016)** | **1,82,500** |
| **Collections from Debtors** | **13,50,000** |
| **Branch Debtors' Cheques returned dishonoured** | **25,000** |

**You are required to prepare:**

**(i) Branch Stock Account**

**(ii) Branch Debtors Account and**

**(iii) Branch Adjustment Account to reveal the profit of the Branch for the year ended March 31, 2016. [3+2+4=9]**

**Answer:**

**Book of Yayati Ltd. (H.O.)**
**Branch Stock Account**

**Dr.** **Cr.**

| **Particulars** | **₹** | **Particulars** | **₹** |
|---|---|---|---|
| To Balance b/d (Opening stock) | 1,20,000 | By Cash (Cash Sales)A/c | 9,00,000 |
| | | By Branch Debtors A/c (Credit Sales) | 14,00,000 |
| To Goods sent to Branch A/c | 24,00,000 | By Branch Adjustment A/c | |
| To Branch Debtors A/c (Returns inward) | 30,000 | Spoilage: Loss 7,500<br>Loading 2,500<br>(Balancing figure) | 10,000 |
| | | By Balance c/d (closing stock) | 2,40,000 |
| | 25,50,000 | | 25,50,000 |

**Branch Debtors Account**

**Dr.** **Cr.**

| **Particulars** | **₹** | **Particulars** | **₹** |
|---|---|---|---|
| To Balance (Opening b/d) | 1,50,000 | By Branch Stock A/c | 30,000 |
| To Bank (Dishonour of cheque) | 25,000 | By Bank-Collections from Debtors | 13,50,000 |
| To Branch Stock A/c | 14,00,000 | By Branch Expenses: | |
| (balancing figure-credit sales) | | Bad debts 7,500<br>Discount allowed 5,000 | 12,500 |
| | | By Balance (Closing) c/d | 1,82,500 |
| | **15,75,000** | | **15,75,000** |

**Branch Adjustment Account**

**Dr.** **Cr.**

| **Particulars** | **₹** | **Particulars** | **₹** |
|---|---|---|---|
| To Stock Reserve A/c (on closing stock) | 60,000 | By Stock Reserve A/c (On opening stock) | 30,000 |
| To Branch stock A/c (spoilage-loading) | 2,500 | By Goods sent to branch A/c (loading) | 6,00,000 |
| To Gross Profit c/d | 5,67,500 | | |
| | **6,30,000** | | **6,30,000** |

| | | | |
|---|---|---|---|
| To Branch Expenses: | | By Gross Profit b/d | 5,67,500 |
| Discount & Bad Debts | 12,500 | | |
| Cash Expenses | 2,67,500 | | |
| To Branch Stock A/c Loss: Spoilage | 7,500 | | |
| To Net profit | 2,80,000 | | |
| | **5,67,500** | | **5,67,500** |

**(b) The following details were extracted from the books of M/S Avishkar & Co. for 6 months ended March 31, 2017.**

| Particulars | Amount in (₹) |
|---|---|
| **Creditors Balance on 01.10.2016** | **40,000** |
| **Cash Purchases during the period** | **2,00,000** |
| **Credit Purchases during the period** | **2,72,000** |
| **Bills payable accepted** | **62,000** |
| **Cash paid to Creditors** | **1,35,000** |
| **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. [6]**

**Answer:**

**In the General Ledger of M/s Vivain & Co.**
**Total Creditors Account - for six months ended 31.03.2017**

**Dr.** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.3.17 | To Bills payable accepted | 62,000 | 1.10.16 | By Balance b/d | 40,000 |
| | To Cash paid to creditors | 1,35,000 | 31.3.17 | By Purchases (Credit) | 2,72,000 |
| | To B/R endorsed | 16,000 | | By Endorsed B/R Dishonoured | 3,000 |
| | To Purchase returns | 11,000 | | By B/P Dishonoured | 2,000 |
| | To Discount received | 6,000 | | | |
| | To Transfer from debtors ledger | 7,000 | | | |
| | Balance c/d | 80,000 | | | |
| | | 3,17,000 | | | 3,17,000 |

**6. (a) The factory premises of AURISHI LTD. were engulfed in the fire on August 16, 2016, as a result of which a major part of stock burnt to ashes.**

**The stock was covered by policy for ₹ 90,000, subject to Average Clause.**

**The records at the office of the company revealed the following information:**

| Particulars | ₹ |
|---|---|
| **Stock on 1st April, 2015** | **1,15,200** |
| **Purchases during the year ended 31st March, 2016** | **4,80,000** |
| **Sales during the year ended 31st March, 2016** | **6,07,800** |
| **Closing stock on 31st March, 2016** | **95,400** |
| **Purchases from 1st April, 2016 to August 16, 2016** | **1,62,000** |
| **Sales from 1st April, 2016 to August 16, 2016** | **1,84,200** |

**An item of stock purchased in 2014 at a cost of ₹ 30,000 was valued at ₹ 18,000 on 31st March, 2015, due to obsolescence. Half of this stock was sold in July, 2015 for ₹ 7,800; the remaining was valued at ₹ 7,200 on 31st March, 2016. One-fourth of the original**

**stock was sold in June, 2016, for ₹ 4,200. The remaining stock was considered to be worth 60% of the original cost.**
**Salvaged stock was valued at ₹ 36,000.**
**You are required to compute the amount of claim to be lodged with Insurance Company for Loss of Stock. [3+3+2=8]**

**Answer:**

**AURISHI LTD.**
**Trading Account for the year ended 31st March 2016**

**Dr.** **Cr.**

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|---|---|---|---|---|---|---|---|
| | (₹) | (₹) | (₹) | | (₹) | (₹) | (₹) |
| To Stock (Op, at cost) | 97,200 | 30,000 | 1,27,200 | By Sales | 6,00,000 | 7,800 | 6,07,800 |
| To Purchase | 4,80,000 | | 4,80,000 | By Profit & Loss Account (loss) | | 7,200 | 7,200 |
| To Gross profit | 1,11,000 | | 1,11,000 | By Stock (at cost) | 88,200 | 15,000 | 1,03,200 |
| | 6,88,200 | 30,000 | 7,18,200 | | 6,88,200 | 30,000 | 7,18,200 |

Gross profit to Sales Ratio = (1,11,000/6,00,000)×100= 18.50%.

**Memorandum Trading Account upto 16th August, 2016**

**Dr.** **Cr.**

| Particulars | Normal | Abnormal | Total | Particulars | Normal | Abnormal | Total |
|---|---|---|---|---|---|---|---|
| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
| To Stock (at cost) | 88,200 | 15,000 | 1,03,200 | By Sales | 1,80,000 | 4,200 | 1,84,200 |
| To Purchase | 1,62,000 | | 1,62,000 | By Profit & Loss Account-(Loss) | | 6,300 | 6,300 |
| To Gross profit 18.5% on sales of normal goods | 33,300 | | 33,300 | By Stock (Balancing figure) | 1,03,500 | 4,500 | 1,08,000 |
| | 2,83,500 | 15,000 | 2,98,500 | | 2,83,500 | 15,000 | 2,98,500 |

| Value of stock on 16th August, 2016 | ₹ | ₹ |
|---|---|---|
| Normal | 1,03,500 | |
| Abnormal (adjusted price) | 4,500 | 1,08,000 |
| Less: Stock Salvaged | | 36,000 |
| Stock destroyed by fire | | 72,000 |

Since there is an average clause in the policy, the **claim will be:**
(Amount of the policy/stock on the date of fire) × stock destroyed by fire
= ₹ 72,000 × (90,000/1,08,000) = ₹ **60,000.**

**Note:** As an item of stock as on 31st March, 2015 was valued below cost, it was an abnormal item. It is shown under abnormal stock column at its original cost i.e., ₹30,000. The normal items have been separated to arrive at the normal rate of gross profit. Assume: Ratio of G.P. was uniform throughout.

**(b) GOEL COAL LTD., leased land from Mr. Dutt at a royalty of ₹3.00 per tonne of coal raised. Minimum rent was ₹2,88,000.**

**Shortworkings was to be recouped during the first 4 years. The coal raised in the first 4 years was as follows:**

| Year ended March, 31 | Tonnes | |
|---|---|---|

| | | |
|---|---|---|
| **2013** | **80000** | |
| **2014** | **90000** | |
| **2015** | **60000** | **(Strike for 3 months)** |
| **2016** | **120000** | |

**There was a provision for proportionate reduction in minimum rent in case of stoppage of work by strike, lock out, accident etc.**
**You are required to prepare:**
**(i) Royalty Account**
**(ii) Shortworking Account in the book of GOEL COAL LTD.** **[2+2+3=7]**

**Answer:**

**Statement Showing Calculation of Short Workings and its Recoupment**

| **Sl.** | **Year ended March 31** | **Production (Tonnes)** | **Royalty @ ₹3.00 per tonne ₹** | **Minimum Rent ₹** | **Short workings** | | |
|---|---|---|---|---|---|---|---|
| | | | | | **Caused ₹** | **Recouped** | **Transferred to P&L Account** |
| 1 | 2013 | 80,000 | 2,40,000 | 2,88,000 | 48,000 | - | - |
| 2 | 2014 | 90,000 | 2,70,000 | 2,88,000 | 18,000 | - | - |
| 3 | 2015 | 60,000 | 1,80,000 | 2,16,000 | 36,000 | - | - |
| 4 | 2016 | 1,20,000 | 3,60,000 | 2,88,000 | - | 72,000 | 30,000 |

*Minimum rent proportionately reduced in view of strike for 3 months in the year ended March 31, 2015 (₹2,88,000x3/4) = ₹2,16,000.

(i)

**BANSAL COAL LTD.**
**Royalty Account**

**Dr.** **Cr.**

| **Year Ended 31st March** | **Particulars** | **₹** | **Particulars** | **₹** |
|---|---|---|---|---|
| 2013 | To Mr. Dutt A/c | 2,40,000 | By Profit & Loss A/c | 2,40,000 |
| 2014 | To Mr. Dutt A/c | 2,70,000 | By Profit & Loss A/c | 2,70,000 |
| 2015 | To Mr. Dutt A/c | 1,80,000 | By Profit & Loss A/c | 1,80,000 |
| 2016 | To Mr. Dutt A/c | 3,60,000 | By Profit & Loss A/c | 3,60,000 |

(ii)

**Short Workings Account**

**Dr.** **Cr.**

| **Year Ended March 31** | **Particulars** | **₹** | **Year Ended March 31** | **Particulars** | **₹** |
|---|---|---|---|---|---|
| 2013 | To Mr. Dutt A/c | 48,000 | 2013 | By Balance c/d | 48,000 |
| | | 48,000 | | | 48,000 |
| 2014 | To Balance b/d<br>To Mr. Dutt A/c | 48,000<br>18,000 | 2014 | By Balance c/d | 66,000 |
| | | 66,000 | | | 66,000 |
| 2015 | To Balance b/d<br>To Mr. Dutt A/c | 66,000<br>36,000 | 2015 | By Balance c/d | 1,02,000 |
| | | 1,02,000 | | | 1,02,000 |

| | | | | | |
|---|---|---|---|---|---|
| 2016 | To Balance b/d | 1,02,000 | 2016 | By Mr. Dutt A/c<br>By Profit & Loss A/c | 72,000<br>30,000 |
| | | 1,02,000 | | | 1,02,000 |

**7. (a) On 25th September, 2017, Manika Advertising Limited obtained advertisement rights to a Hockey Tournament to be held in Nov./Dec, 2017 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, 2017.**

**(ii) For the balance time they got bookings in October, 2017 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. 2017 and balance 60% appeared in the month of December, 2017.**

**Your are required to calculate the amount of profit/loss to be recognized for the month November and December, 2017 as per Accounting Standard-9. [6]**

**Answer:**

As per AS 9 in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

In the given problem, 40% of the advertisement appeared before the public in November, 2017 and balance 60% in December, 2017.

**Calculation of Total Profit**

₹ in lakhs

| | |
|---|---|
| Advertisement for 70% of available time obtained by 30th September, 2017 | 700 |
| Advertisement for 30% of available time obtained in by October, 2017 | 240 |
| Total | 940 |
| *Less:* Cost of advertisement rights | (520) |
| Profit | 420 |

The profit amounting ₹ 420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2017. Thus, the company should recognise ₹168 lakhs (i.e. ₹ 420 lakhs × 40%) in November, 2017 and rest ₹ 252 lakhs (i.e. ₹ 420 lakhs × 60%) in December, 2017.

**(b) (i) State any four advantages of pre-packaged accounting software?**

**(ii) Discuss the matters to be considered for selection of pre-packaged accounting software. [4+5=9]**

**Answer:**

**(i) Following are the advantages of pre-packaged accounting software:**

| | | |
|---|---|---|
| **1.** | Easy to Install | The CD containing set up file is to be inserted and |

| | |
|---|---|
| | run to complete the installation according to instructions as per user's manuals. |
| **2.** Relatively Inexpensive | These packages are available at very cheap prices. |
| **3.** Easy to Use | These packages are mostly menu driven with the help options. Further the user manual provides most of the solutions to problems that the user may face while using the software. |
| **4.** Simple Backup Procedure | Housekeeping section provides a menu for backup. The backup can be taken on CD or hard disk |
| **5.** Certain Flexibility of Report Formats Provided by some of the Soft wares | This allows the user to make the invoice, challan, GRNs look the way they want. |
| **6.** Very Effective for Small and Medium size Businesses | Most of their functional areas are covered by these standardised packages. |

**(ii)** The following factors should be considered while selecting pre-packaged accounting software:

| | |
|---|---|
| **1.** Fulfillment of Business Requirements | The purchaser should ensure whether the available software meets all the business requirements. |
| **2.** Completeness of Reports: | The purchaser should ensure whether the available software can provide all the reports required by business. |
| **3.** Ease of Use | The purchaser should ensure whether the available software is easy to operate. |
| **4.** Cost | The software should not involve very high installation and running cost. |
| **5.** Reputation of the vendor | It should be ensured whether the vendor has good reputation and good track records or not. |
| **6.** Regular updates | It should be ensured whether the vendor is prepared to give updates. |

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

**(a) Capital and Revenue Losses;**
**(b) Advantages of Double Entry System;**
**(c) Basic features of a Joint Venture;**
**(d) Going Concern Concept.**

**Answer:**

**(a) Capital and Revenue Losses**:

While ascertaining losses, revenue losses are differentiated from capital losses, just as revenue profits are distinguished from capital profits. Revenue losses arise from the normal course of business by selling the merchantable at a price less than its purchase price or cost of goods sold or where there is a declining in the current value of inventories. Capital losses may result from the sale of assets, other than inventory for less than written down value or the diminution or elimination of assets other than as the result of use or sale (flood, fire, etc.) or in connection with raising capital of the business (issue of shares at a discount) or on the settlement of liabilities for a consideration more than its book value (debenture issued at par but redeemed at a premium). Treatment of capital losses are same as that of capital profits. Capital losses arising out of sale of fixed assets generally appear in the Profit and Loss Account (being deducted from the net profit). But other capital losses are adjusted against the capital profits. Where the capital losses are substantial, the treatment is different. These losses are generally shown on the balance sheet as fictitious assets and the common practice is to spread that over a number of accounting years as a charge against revenue profits till the amount is fully exhausted.

**(b) Advantages of Double Entry System :**

- Since personal and impersonal accounts are maintained under the double entry system, both the effects of the transactions are recorded.
- It ensures arithmetical accuracy
- It prevents, minimizes and detects frauds.
- Errors can be detected and rectified easily.
- The balances of receivables and payables are determined easily.
- The current year's financial position of the business can be compared with that of the past years.
- Helps in decision making.
- Helps in determining the net operating results by preparing the Trading and Profit and Loss A/c.
- The financial position can be ascertained by the preparation of the Balance Sheet.
- Helps the Government to decide the tax and to decide sickness of business units and extend help accordingly.
- The other stakeholders like suppliers, banks, etc. take a proper decision regarding grant of credit or loans.

**(c) The basic features of a Joint Venture business are :**

(i) It is done for a specific purpose and hence has a limited duration.
(ii) The partners are called co-venturers.
(iii) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio.
(iv) The co-venturers may or may not contribute initial capital.
(v) The JV is dissolved once the purpose of the business is over.
(vi) The accounts of the co-venturers are settled immediately on dissolution.
(vii) A joint venture has no name.

**(d) Going Concern Concept**

The basic principles of this concept are that business is assumed to exist for an indefinite period and is not established with the objective of closing it down. So unless there is good evidence to the contrary, the accountant assumes that a business entity is a 'going concern' - that it will continue to operate as usual for a longer period of time. It will keep getting money from its customers, pay its creditors, buy and sell goods, use assets to earn profits in future. If this assumption is not considered, one will have to constantly value the worth of the assets and resource. This is not practicable. This concept enables the accountant to carry forward the values of assets and liabilities from one accounting period to the other without asking the question about usefulness and worth of the assets and recoverability of the receivables. The going concern concept forms a sound basis for preparation of a Balance Sheet.