# Paper 5- Financial Accounting

## Paper 5- Financial Accounting

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

### Section - A

**1. Answer the following questions**

**(a) Multiple choice questions:** **[10x1=10]**

**(i)** Which of the following is not part of financial statements?
(A) Fund Flow Statement
(B) Balance Sheet
(C) Trial Balance
(D) Both (A) and (C)

**(ii)** All credit sale of goods are recorded in
(A) Cash Book
(B) Purchase Book
(C) Sales Day Book
(D) Bills Receivable Book

**(iii)** Which of the following is/are a part of inventory cost as per AS – 2?
(A) Cost of purchase
(B) Cost of conversion
(C) Selling and distribution cost;
(D) Both (A) and (B)

**(iv)** AS-9 is related to
(A) Revenue Recognition
(B) Cash Flow Statement
(C) Construction Contract
(D) Disclosure of Accounting policies

**(v)** Which of the following is/are the advantage/s of Computerised Accounting System?
(A) Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system
(B) Bugs may remain in the software because of Inadequate testing
(C) It provides many MIS reports as per the specification of the organisation
(D) None of the above

**(vi)** When a new partner is admitted, unless otherwise agreed, the profit sharing ratio between the existing partners will
(A) Reduce
(B) Increase
(C) Remain same
(D) None of the above

**(vii)** 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

**(viii)** Which of the following is an example of Capital Expenditure?

(A) Inventory of raw materials, work-in-progress and finished goods;
(B) Insurance premium;
(C) Taxes and legal expenses;
(D) None of the above.

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

**(x)** Which of the following is a function of journal:
(A) Analytical Function
(B) Recording Function
(C) Historical Function
(D) All of the above

**Answer:**

**(i)** (D)
**(ii)** (C)
**(iii)** (C)
**(iv)** (A)
**(v)** (C)
**(vi)** (C)
**(vii)** (B)
**(viii)** (D)
**(ix)** (A)
**(x)** (D)

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

| Column-I | | Column-II | |
|---|---|---|---|
| **(i)** | **Revenue Receipts** | **(A)** | **AS - 7** |
| **(ii)** | **Dissolution of Firm** | **(B)** | **Agent** |
| **(iii)** | **Consignee** | **(C)** | **Abnormal Losses** |
| **(iv)** | **Stock destroyed by fire** | **(D)** | **Realisation A/c** |
| **(v)** | **Construction Contract** | **(E)** | **Recurring in Nature** |

**Answer:**

| Column-I | | Column-II | |
|---|---|---|---|
| (i) | Revenue Receipts | (E) | Recurring in Nature |
| (ii) | Dissolution of Firm | (D) | Realisation A/c |
| (iii) | Consignee | (B) | Agent |
| (iv) | Stock destroyed by fire | (C) | Abnormal Losses |
| (v) | Construction Contract | (A) | AS - 7 |

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

**(i) Transaction means exchange of money or money's worth for __________.**
**(ii) Unexpired insurance premium means ____________ .**
**(iii) Income & Expenditure Account is similar to _________ _________ A/c.**

**(iv) Annual subscriptions are credited to Income & Expenditure Account on ______________ basis.**

**(v) Under__________ _________, preparation of trial balance is possible whereas it is not possible to prepare a trial balance in___________ _________.**

**Answer:**

(i) Value;
(ii) Prepaid insurance;
(iii) Profit and Loss;
(iv) Accrual.
(v) double entry system, single entry system.

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

**(i) When complete sequence of accounting procedure happens frequently and repeated in same directions during an accounting period that is called an accounting cycle.**
**(ii) Liability is a resource owned by the business with the purpose of using it for generating future profits.**
**(iii) Assets like brand value, copy rights, goodwill are intangible assets.**
**(iv) Event is a transaction or change recognized on the financial statements of an accounting entity.**
**(v) Depreciation on any particular asset is restricted to the working life of the asset.**

**Answer:**

(i) True;
(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 ₹3,000 for gift to his daughter were not recorded at all.**
**(ii) ₹3,000 received from Niraj against debts previously written off as bad debts have been credited to his personal account.**
**(iii) Received interest ₹300, posted to loan account.**
**(iv) A cheque received from Vishal, a debtor, for ₹4,000 was directly received by the proprietor who deposited it into his personal bank account. [5]**

***Answer:***

**Books of ………….**
**Journal**

| Date | Particulars | L. F. | Dr. Amount ₹ | Cr. Amount ₹ |
|---|---|---|---|---|
| | Drawings A/c Dr.<br>To Purchase A/c<br>[Goods taken by proprietor previously not recorded, now rectified] | | 3,000 | 3,000 |

| | | | | |
|---|---|---|---|---|
| | Niraj's A/c Dr.<br>To Trading A/c<br>[Niraj's A/c wrongly credited for amount received against bad debts written of, now rectified] | | 3,000 | 3,000 |
| | Loan A/c Dr.<br>To Interest Received A/c<br>[Interest received wrongly credited to Loan A/c, now rectified] | | 300 | 300 |
| | Drawings A/c Dr.<br>To Vishal's A/c [Debtors]<br>[Cheque from a Debtor directly received and deposited into personal bank a/c by proprietor, now adjusted] | | 4,000 | 4,000 |

**(b) B of Bombay consigned 400 packages of coffee to K of Kanpur. The cost of each package was ₹300. A sum of ₹2,000 was paid towards freight and insurance by B. In the transit 60 packages were damaged. However, the consignor received ₹400 for the damaged packages from the Insurance Company.**
**The consignee accepted a Bill of Exchange for 60,000 for 60 days as an advance to B of Bombay. The operating statement from the consignee disclosed the following information :**
**(a) 280 packages were sold @ ₹360 per package; (b) The damaged packages were sold @ ₹100 per package; (c) K also paid ₹1,400 towards godown rent, ₹1,000 for carriage outward and ₹3,400 towards clearing charges.**
**The consignee is entitled to a commission of 10% on the sale proceeds. At the end of the consignment**
**period, K of Kanpur sent a Bank draft to B of Bombay. You are required to prepare the necessary accounts in the books of consignor B of Bombay. [10]**

**Answer:**

**Books of B of Bombay (Consignor)**

**Dr. Consignment to Kanpur Account Cr.**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| **To** Goods sent on Consignment A/c [400 × ₹300] | 1,20,000 | By Damage in Transit A/c [Note 1] | 18,300 |
| To Cash/Bank : Freight & Insurance | 2,000 | By K A/c : Sales [280 × 360] | 1,00,800 |
| To K A/c :<br>Godown Rent 1,400<br>Carriage Outward 1,000<br>Clearing Charges 3,400 | 5,800 | By Stock on Consignment A/c [Note 2] | 18,900 |
| To, K A/c : Commission [10% of 1,06,800] | 10,680 | Profit & Loss A/c (Loss on Consignment) | *480 |
| | 1,38,480 | | 1,38,480 |

**Dr. Damage in Transit Account Cr.**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| To Consignment to Kanpur A/c [400 × ₹300] | 18,300 | By Cash A/c (Ins. Claim Received) | 400 |
| | | By K A/c [60 × ₹100] | 6,000 |
| | | " Profit & Loss A/c (Loss) | 11,900 |
| | 18,300 | | 18,300 |

**Dr. K Account Cr.**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| To Consignment to Kanpur A/c<br>To Damage in Transit A/c<br>(Sale of Damaged Goods) | 1,00,800<br>6,000 | By Bills Receivable A/c<br>By Consignment to Kanpur A/c<br>Expenses 5,800<br>Commission 10,680<br>Bank (Balance) | 60,000<br><br>16,480<br><br>30,320 |
| | 1,06,800 | | 1,06,800 |

| 1. **Damage in Transit** | | |
|---|---|---|
| | **No. of Packages** | **Amount (₹)** |
| Goods Sent | 400 | 1,20,000 |
| Add: Consignor's Expenses | | 2,000 |
| | 400 | 1,22,000 |
| | 60 | $1,22,000 \times \frac{60}{400} = 18,300$ |

**2. Stock on Consignment** [Qty = 400 – (60+280) = 60]

| Particulars | ₹ |
|---|---|
| Value excluding Consignee's Expenses | 18,300 |
| Add: Non-recurring Expenses of Consignee<br>[Consignee paid ₹3,400 as clearing charge for 340 packages.<br>So for 60 packages it should be 60 × ₹10] | 600 |
| | 18,900 |

***Actual Loss on Consignment**

| | |
|---|---|
| Loss as per Consignment A/c | ₹480 |
| Abnormal loss to be written off | ₹11,900 |
| | ₹12,380 |

3. **The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2017:**

**Income and Expenditure Account for the year ended 31st March, 2017**

| | ₹ | | ₹ |
|---|---|---|---|
| **To Salaries** | **19,500** | **By Subscription** | **68,000** |
| **To Rent** | **4,500** | **By Donation** | **5,000** |
| **To Printing** | **750** | | |
| **To Insurance** | **500** | | |
| **To Audit Fees** | **750** | | |
| **To Games & Sports** | **3,500** | | |
| **To Subscriptions written off** | **350** | | |
| **To Miscellaneous Expenses** | **14,500** | | |
| **To Loss on sale of Furniture** | **2,500** | | |
| **To Depreciation:** | | | |
| **Sports Equipment** | **6,000** | | |
| **Furniture** | **3,100** | | |
| **To Excess of income over expenditure** | **17,050** | | |
| | **73,000** | | **73,000** |

**Additional information:**

| | **31-03-2016** | **31-03-2017** |
|---|---|---|
| | ₹ | ₹ |

| | | |
|---|---|---|
| **Subscription in arrears** | **2,600** | **3,700** |
| **Advance Subscriptions** | **1,000** | **1,500** |
| **Outstanding expenses:** | | |
| **Rent** | **500** | **800** |
| **Salaries** | **1,200** | **350** |
| **Audit Fee** | **500** | **750** |
| **Sports Equipment less depreciation** | **25,000** | **24,000** |
| **Furniture less depreciation** | **30,000** | **27,900** |
| **Prepaid Insurance** | **—** | **150** |

**Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2016 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2017 cash in hand amounted to ₹ 850 and the rest was Bank balance.**

**Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2017. [15]**

**Answer:**

**Receipts and Payments Account**
**for the year ended 31.3.2017**

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

| **Particulars** | ₹ | **Particulars** | ₹ | ₹ |
|---|---|---|---|---|
| To Subscription A/c (W.N.1) | 67,050 | By Balance b/d (Bank overdraft) | | 15,000 |
| To Donation A/c | 5,000 | By Salary | 19,500 | |
| To Entrance Fees A/c | 4,000 | Add: Outstanding of last year | 1,200 | |
| To Furniture A/c (Sale of furniture)(7,000 -2,500) | 4,500 | Less: Outstanding of this year | (350) | 20,350 |
| | | By Rent | 4,500 | |
| | | Add: Outstanding of last year | 500 | |
| | | Less: Outstanding of this year | (800) | 4,200 |
| | | By Printing | | 750 |
| | | By Insurance | 500 | |
| | | Add: Prepaid in this year | 150 | 650 |
| | | By Audit Fees | 750 | |
| | | Add: Outstanding of last year | 500 | |
| | | Less: Outstanding of this year | (750) | 500 |
| | | By Games & Sports | | 3,500 |
| | | By Miscellaneous Expenses | | 14,500 |
| | | By Sports Equipment(Purchased)(W.N. 2) | | 5,000 |
| | | By Furniture (Purchased)(W.N.3) | | 8,000 |
| | | By Balance c/d | | |
| | | Cash | | 850 |
| | | Bank (bal. fig.) | | 7,250 |
| | **80,550** | | | **80,550** |

**Working Notes:**

1. **Calculation of subscription received during the year 2016-2017**

| **Particulars** | ₹ | ₹ |
|---|---|---|
| Subscription as per Income & Expenditure A/c | | 68,000 |
| Less: Arrears of 2016-2017 | 3,700 | |
| Advance in 2015-2016 | 1,000 | (4,700) |
| | | 63,300 |

| | | |
|---|---|---|
| Add: Arrears of 2015-2016 | 2,600 | |
| Advance for 2017-2018 | 1,500 | 4,100 |
| | | 67,400 |
| Less: Written off during 2016-2017 | | (350) |
| | | **67,050** |

2. **Calculation of Sports Equipment purchased during 2016-2017**

**Sports Equipment Account**

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

| **Particulars** | ₹ | **Particulars** | ₹ |
|---|---|---|---|
| To Balance b/d | 25,000 | By Income & Expenditure A/c (Depreciation) | 6,000 |
| To Receipts & Payments A/c (Purchases) (bal. fig.) | 5,000 | By Balance c/d | 24,000 |
| | **30,000** | | **30,000** |

3. **Calculation of Furniture purchased during 2016-2017**

**Furniture Account**

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

| **Particulars** | ₹ | **Particulars** | ₹ |
|---|---|---|---|
| To Balance b/d | 30,000 | By Receipts & Payments A/c | 4,500 |
| To Receipts & Payments A/c (Purchases) (bal. fig.) | 8,000 | By Income & Expenditure A/c (Loss on sale) | 2,500 |
| | | By Income & Expenditure A/c (Depreciation) | 3,100 |
| | | By Balance c/d | 27,900 |
| | **38,000** | | **38,000** |

**4. Sakshee, Prachi and Vara who are presently sharing profits & losses in the ratio of 5:3:2, decide to admit Sushmita for 1/6th share with effect from 1st April, 2012. An extract of their Balance Sheet as at 31st March, 2012 is as follows:**

| **Laibilities** | ₹ | **Assets** | | ₹ |
|---|---|---|---|---|
| **Sundry Creditors** | **3,00,000** | **Land & Building** | | **2,50,000** |
| **Outstanding Rent** | **10,000** | **Plant & Machinery** | | **1,00,000** |
| | | **Stock** | | **80,000** |
| | | **Debtors** | **3,00,000** | |
| | | ***Less:* Provision** | **10,000** | **2,90,000** |

**it is decided that:**

1. **Land & Building be valued at ₹ 2,85,000.**
2. **Plant & Machinery be depreciated by 15%.**
3. **Stock is found overvalued by ₹ 38,000.**
4. **Provision for doubtful debts is to be made equal to 5% of the debtors.**
5. **An item of ₹ 30,000 included in Sundry Creditors is not likely to be claimed.**
6. **Rent of ₹ 4,000 still Outstanding.**
7. **Out of the amount of insurance which was debited entirely to P&L A/c, ₹ 5,000 be carried forward as an unexpired insurance.**
8. **Out of total commission received ₹ 3,000 is to be treated as advance commission. This amount was earlier credited to Profit & Loss Account.**
9. **An unaccounted accrued income of ₹ 1,000 be provided for.**
10. **A debtor whose dues of ₹ 5,000 were written off as bad debts paid ₹ 4,000 in full settlement.**

**Required: Pass the necessary Journal Entries and prepare Revaluation Account. [15]**

**Answer::**

**JOURNAL**

| Date | Particulars | L.F | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| 1. | Land & Building A/c Dr.<br>To Revaluation A/c<br>(Being the increase in value of Land & Building recorded) | | 35,000 | <br>35,000 |
| 2. | Revaluation A/c Dr.<br>To Plant & Machinery A/c<br>(Being the decrease in value of Plant & Machinery recorded) | | 15,000 | <br>15,000 |
| 3. | Revaluation A/c Dr.<br>To Stock A/c<br>(Being the decrease in value of Stock recorded) | | 38,000 | <br>38,000 |
| 4. | Revaluation A/c [₹15,000 - ₹10,000] Dr.<br>To Provision for Doubtful Debts A/c<br>(Being the short provision now created) | | 5,000 | <br>5,000 |
| 5. | Creditors Dr.<br>To Revaluation A/c<br>(Being the decrease in the amount of Creditors recorded) | | 30,000 | <br>30,000 |
| 6. | Revaluation A/c Dr.<br>To Outstanding Rent A/c<br>(Being the Outstanding Rent recorded) | | 4,000 | <br>4,000 |
| 7. | Prepaid Insurance Dr.<br>To Revaluation A/c<br>(Being the prepaid insurance recorded) | | 5,000 | <br>5,000 |
| 8. | Revaluation A/c Dr.<br>To Commission received in advance A/c<br>(Being the commission received in advance recorded) | | 3,000 | <br>3,000 |
| 9. | Accrued Income A/c Dr.<br>To Revaluation A/c<br>(Being the Accrued Income recorded) | | 1,000 | <br>1,000 |
| 10. | Bad Debts Recovered A/c Dr.<br>To Revaluation A/c<br>(Being the Bad Debts recovered, recorded) | | 4,000 | <br>4,000 |
| 11. | Revaluation A/c Dr.<br>To X's Capital A/c<br>To Y's Capital A/c<br>To Z's Capital A/c<br>(Being the transfer of profit on revaluation to old partners' capital accounts in their old profit sharing ratio) | | 10,000 | <br>5,000<br>3,000<br>2,000 |

*Dr.* **REVALUATION ACCOUNT** *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Stock | 38,000 | By Land & Building | 35,000 |
| To Provision for Doubtful Debts | 5,000 | By Sundry Creditors | 30,000 |
| To Plant & Machinery A/c | 15,000 | By Prepaid Insurance | 5,000 |

| | | | |
|---|---|---|---|
| To Outstanding Rent A/c | 4,000 | By Accured Income | 1,000 |
| To Commission received in adv. A/c | 3,000 | By Bad Debts Recovered | 4,000 |
| To Profit on Revaluation t/f to: | | | |
| Sakshee's Capital A/c | 5,000 | | |
| Prachi's Capital A/c | 3,000 | | |
| Vara's Capital A/c | 2,000 | | |
| | 75,000 | | 75,000 |

**5. (a) The proprietors of Virat Departmental store wish to ascertain approximately separate net profits of their two particular departments P and Q for the year ended 31st March, 2017. It is not possible to take stock on that date. However, normal rates of Gross Profit (before charging direct expenses) for the department concerned were 40% and 30% on sales respectively. There are six departments in the stores. The following figures were extracted from the books for the year ending 31st March, 2017:**

| | Department P (₹) | Department Q (₹) |
|---|---|---|
| **Stock (April 1, 2016)** | **3,00,000** | **2,80,000** |
| **Sales** | **14,00,000** | **12,00,000** |
| **Purchases** | **9,00,000** | **7,20,000** |
| **Direct Expenses** | **1,83,000** | **2,84,000** |

**The total indirect expenses of all the six departments for the period were ₹3,60,000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹14,00,000. The Manager of each department is also entitled to a commission of 2 % on the turnover of his department. Prepare Departmental Trading and Profit& Loss Account in columnar form for the year ending 31st March,2017 making a stock reserve of 5% for each department on the estimated value of stock on 31st March,2017. [9]**

**Answer:**

**Departmental Trading and Profit & Loss Account**
**For the year ending 31st March, 2017**

(₹ in '000)

| Particulars | Dept. P (₹) | Dept. Q (₹) | Total (₹) | Particulars | Dept. P (₹) | Dept. Q (₹) | Total (₹) |
|---|---|---|---|---|---|---|---|
| To Opening Stock | 300 | 280 | 580 | By Sales | 1,400 | 1,200 | 2,600 |
| To Purchases | 900 | 720 | 1,620 | By Closing Stock | 360 | 160 | 520 |
| To Direct Exp. | 183 | 284 | 467 | (Balancing Figure) | | | |
| To G.P. C/d | 377 | 76 | 453 | | | | |
| | **1,760** | **1,360** | **3,120** | | **1,760** | **1,360** | **3,120** |
| To Indirect Exp. | | | | By G.P. b/d | 377 | 76 | 453 |
| -Equal Allocation: | 20 | 20 | 40 | By Net Loss | -- | 48 | 48 |
| -Sales basis Allocation | 84 | 72 | 156 | | | | |
| To Manager's commission @ 2% on Sales | 28 | 24 | 52 | | | | |
| To Stock Reserve @ 5% on Closing Stock | 18 | 8 | 26 | | | | |
| To Net Profit | 227 | -- | 227 | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **377** | **124** | **501** | | **377** | **124** | **501** |

**Working Notes:**

A. Gross profit before direct expenses:

| | **Dept. P (₹)** | **Dept. Q (₹)** |
|---|---|---|
| P – 40% of ₹14,00,000 | 5,60,000 | --- |
| Q – 30% of ₹12,00,000 | --- | 3,60,000 |
| Less: Direct Expenses | 1,83,000 | 2,84,000 |
| Net Gross Profit | 3,77,000 | 76,000 |

B. Allocation of Indirect Expenses:

Equal Allocation – 3,60,000 × 1/3 = 1,20,000 × 1/6 = ₹ 20,000 for each department.
Sales Basis – Sales Ratio for P, Q and other 4 departments = 14,00,000 : 12,00,000 : 14,00,000 or 7 : 6 : 7.
Indirect expenses for this basis = 3,60,000 × 2/3 = ₹ 2,40,000.
Share of Dept. P = 2,40,000 × 7/20 = ₹ 84,000
Share of Dept. Q = 2,40,000 × 6/20 = ₹ 72,000.

**(b) Prepare the Sales Ledger Control Account from the following particulars:**

| | **Sales Ledger** | **Purchase Ledger** |
|---|---|---|
| **Debit balance as on 1.1.2017** | **1,50,000** | **1,000** |
| **Credit balance as on 1.1.2017** | **200** | **1,25,000** |
| **Credit sales and purchases** | **4,00,000** | **3,80,000** |
| **Cheques received and paid** | **4,50,000** | **3,50,000** |
| **Advance paid to creditors** | **-** | **20,000** |
| **B/R received and B/P Accepted** | **50,000** | **50,000** |
| **Discounts allowed and received** | **5,000** | **3,000** |
| **Returns** | **10,000** | **5,000** |
| **Transfer from Purchases to Sales Ledger** | **10,000** | **10,000** |
| **Bad Debts** | **2,000** | **-** |
| **Reserves for Discounts** | **10,000** | **5,000** |
| **B/R BP Dishonoured** | **5,000** | **5,000** |
| **Debit Balance as on 30.06.2017** | **30,000** | **1,000** |
| **Credit Balance as on 30.06.2017** | **?** | **72,000** |

**[6]**

**Answer:**

**In General Ledger**

**Dr. Sales Ledger Control Account Cr.**

| **Date** | **Particulars** | **Amount (₹)** | **Date** | **Particulars** | **Amount (₹)** |
|---|---|---|---|---|---|
| 1.1.2017 | To Balance b/d | 1,50,000 | 1.1.2017 | By Balance b/f | 200 |
| 30.06.2017 | To General Ledger Adjustment A/c: Sales | 4,00,000 | 30.06.2017 | By General Ledger Adjustment A/c: Bank (Cheque Received) | 4,50,000 |
| | To Bills Receivable (Dishonoured) | 5,000 | | By Bills Receivable (received) | 50,000 |
| 30.06.2017 | To Balance c/f | 2,200 | 30.06.2017 | Discount Allowed | 5,000 |
| | | | | Returns Inward | 10,000 |
| | | | | Transfer | 10,000 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | Bad Debts | 2,000 |
| | | | | By Balance c/f | 30,000 |
| | | 5,57,200 | | | 5,57,200 |

**6. (a) On 01.01.2017 the balance of Provision for doubtful debts was ₹ 48,000. The Bad Debts during the year were ₹ 9,000. The Sundry Debtors as on 31.12.2017 stood at ₹4,04,000 out of these debtors of ₹4,000 are bad and cannot be realized. The Provision for Doubtful Debts is to be raised to 5% on Sundry Debtors. Show the necessary ledger accounts and the balance sheet. [7]**

**Answer:**

**Dr. Bad Debts Account Cr.**

**In the Books of …………**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---|---|---|---|---|---|
| 2017 Dec 31 | To, Balance b/d | 9,000 | 2017 Dec 31 | By, Provision for Bad debts A/c | 13,000 |
| ,, | To, Sundry Debtors A/c | 4,000 | | | |
| | | 13,000 | | | 13,000 |

**Dr. Provision for Bad Debts Account Cr.**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---|---|---|---|---|---|
| 2017 Dec 31 | To, Bad Debts A/c | 13,000 | 2017 Jan 1 | By, Balance b/d | 48,000 |
| ,, | To, Proft and Loss A/c | 15,000 | | | |
| ,, | To, Balance c/d [5% on (404000-4000)] | 20,000 | | | |
| | | 48,000 | | | 48,000 |

**Dr. Sundry Debtors Account Cr.**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---|---|---|---|---|---|
| 2017 Dec 31 | To, Balance b/d | 4,04,000 | 2017 Dec 31 | By, Bad debts A/c | 4,000 |
| | | | ,, | By Balance c/d | 4,00,000 |
| | | 4,04,000 | | | 4,04,000 |

**Balance Sheet (Extract) As at 31st December, 2017**

| Liabilities | (₹) | (₹) | Assets | (₹) | (₹) |
|---|---|---|---|---|---|
| | | | Debtors<br>Less : Bad debts | 4,04,000<br>4,000 | |
| | | | <br>Less: Provision for Bad debts | 4,00,000<br>20,000 | 3,80,000 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |

**(b) On 1.1.2015, P purchased 5 Machines from Q. Payment was to be made—20% down and the balance in four annual instalments of ₹ 2,80,000, ₹ 2,60,000, ₹ 2,40,000 and ₹ 2,20,000 commencing from 31.12.2015. The vendor charged interest @ 10% p.a. P, writes off depreciation @ 20% p.a. on the original cost.**

**On P's failure to pay the instalment due on 31.12.2016, Q repossessed all the machines on 01.01.2017 and valued them on the basis of 40% p.a. depreciation on W.D.V. basis. Q after incurring ₹ 6,000 on repairs sold the machines for ₹ 2,66,000 on 30th June 2017. Prepare the relevant accounts in the books of P. [8]**

**Answer:**

**COMPUTATION OF CASH PRICE AND PERIODIC INTEREST**

| A<br>Installment Number | B<br>Closing Balance after the payment of installment | C<br>Installment Amount | D = B + C<br>Closing Balance before the payment of installment | E = D×R/(100 + R)<br>Interest<br>D*10/110 | F=D-E<br>Opening Balance |
|---|---|---|---|---|---|
| IV | — | 2,20,000 | 2,20,000 | 20,000 | 2,00,000 |
| III | 2,00,000 | 2,40,000 | 4,40,000 | 40,000 | 4,00,000 |
| II | 4,00,000 | 2,60,000 | 6,60,000 | 60,000 | 6,00,000 |
| I | 6,00,000 | 2,80,000 | 8,80,000 | 80,000 | 8,00,000 |

Let the cash price by 'X'

X = ₹ 8,00,000 + 20% of X (i.e. down payment)

0.8X = ₹ 8,00,000

X = ₹ 8,00,000/0.8 = ₹ 10,00,000.

**LEDGER ACCOUNTS IN THE BOOK OF P**
**Machinery Account**

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

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 01.01.15 | To Q | 10,00,000 | 31.12.15 | By Depreciation A/c | 2,00,000 |
| | | | | By balance c/d | 8,00,000 |
| | | 10,00,000 | | | 10,00,000 |
| 01.01.16 | To Balance b/d | 8,00,000 | 31.12.16 | By Depreciation A/c<br>By Balance c/d | 2,00,000<br>6,00,000 |
| | | 8,00,000 | | | 8,00,000 |
| 01.01.17 | To Balance b/d<br>To P&L A/c (Profit) | 6,00,000<br>60,000 | 01.01.17 | By Q's A/c | 6,60,000 |
| | | 6,60,000 | | | 6,60,000 |

**Dr.** **Q's Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 01.01.15<br><br>31.12.15 | To Bank A/c<br>(Down Payment)<br>To Bank A/c<br>[₹2,00,000 + ₹80,000]<br>To Balance c/d | 2,00,000<br><br>2,80,000<br><br>6,00,000 | 01.01.15<br>31.12.15 | By Machinery A/c<br>By Interest A/c<br>[(₹10,00,000- ₹2,00,000) ×10/100 | 10,00,000<br>80,000 |
| | | 10,80,000 | | | 10,80,000 |

| | | | | | |
|---|---|---|---|---|---|
| 31.12.16 | To Balance c/d | 6,60,000 | 01.01.15<br>31.12.16 | By Balance b/d<br>By Interest A/c<br>[(₹6,00,000× 10/100)] | 6,00,000<br>60,000 |
| | | 6,60,000 | | | 6,60,000 |
| 01.01.17 | To Machinery A/c | 6,60,000 | 01.01.17 | By Balance b/d | 6,60,000 |

**7. (a) The Company's plant and machinery was ₹ 6,000 lakhs as on 1.4.2017. It provided depreciation at 15% per annum under WDV method. However it noticed that about ₹ 1,000 lakhs worth of imported asset, which is component of above plant and machinery acquired on 1.4.2017, would be obsolete in 2 years. Company wants to write-off this asset over 2 years. Can Company do so? Give comments. [4]**

**Answer:**

As per AS-10, each part of an item of Property Plant and Equipment that has a cost that is significant when compared to the total cost of the item should be depreciated separately. As it appears that imported asset of ₹ 1,000 lakhs, which is component of plant and machinery, has significant cost as compared to the total cost. Therefore, it should be depreciated separately. The company's policy to write off over two years is correct.

**(b) (i) Discuss the disadvantages of a customised accounting package. [8]**

**(ii) Write a note on "Threat to Computerised Accounting System ". [3]**

**Answer:**

**(i)** Following are the disadvantages of a customised accounting package:

1. Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system.
2. Bugs may remain in the software because of Inadequate testing.
3. Documentation may not complete.
4. Frequent changes made to the system with inadequate change management procedure may result in system compromise.
5. Vendor may not be unwilling to give support of the software due to other commitments.
6. Vendor may not be willing to part with the source code or enter into an escrow agreement.
7. Control measures may be inadequate.
8. There may be delay in completion of the software due to problems with the vendor or inadequate project management.

**(ii) Threat to Computerised Accounting System:**

The only concerns that has increased today are concerns for controls, security and integrity of the computer system as more and more information is stored not in the hard print but as soft copies inside the computer. Issue like unauthorised access to the data either through the local area network or through the internet by hacking into the company server are becoming potential threat to the computer usage.

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

**(a) Differences between revenue receipts and capital receipts;**

**(b) Calculation of the amount of claim under "loss of Profit" Policy;**

**(c) Debts;**

**(d) Items not included within the definition of "revenue" as per AS 9.**

**Answer:**

**(a)** Differences between revenue receipts and capital receipts

| Sl. No | Revenue Receipt | Sl. No | Capital Receipt |
|---|---|---|---|
| 1 | It has short-term effect. The benefit is enjoyed within one accounting period. | 1 | It has long-term effect. The benefit is enjoyed for many years in future. |
| 2 | It occurs repeatedly. It is recurring and regular. | 2 | It does not occur again and again. It is nonrecurring and irregular |
| 3 | It is shown in Profit and Loss Account on the credit side, as an income for the year | 3 | It is shown in the Balance Sheet on the liability side. |
| 4 | It does not produce capital receipt. | 4 | Capital receipt, when invested, produces revenue receipt e.g. when capital is invested by the owner, business gets revenue receipt (i.e. sale proceeds of goods etc.) |
| 5 | This does not increase or decrease the value of asset or liability. | 5 | The capital receipt decreases the value of asset or increases the value of liability e.g. sale of a fixed asset, loan from bank etc. |
| 6 | Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt. | | Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment. |

**(b) Calculation of the amount of claim under "loss of Profit" Policy:**

1. Find out the rate of Gross Profit [after considering trend of business etc.]
2. Find out the short sales [Standard turnover – Actual turnover of the period of dislocation]
3. Find out Gross Profit on short sales.
4. Find out the Amount Admissible for Additional Expenses
   It should be the minimum of: (a) Actual expenses (b) Gross profit on additional sales generated by additional expenditure

$$\text{and (c) Additional expenses} \times \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}} \text{ or}$$

$$\text{Additional Expenses} \times \frac{\text{Gross Profit on Annual Turnover}}{\text{Gross Profit on Annual Turnover} + \text{Uninsured Standing Charges}}$$

5. Add (3) and (4). From the total deduct saving in any insured standing charge during the period of indemnity. The result is gross claim.
6. Under average clause : Net Claim =

$$\text{Gross Claim} \times \frac{\text{Policy Value}}{\text{Gross Profit on Aannual Turnover}}$$

**(c) Debts:**

The amount which is receivable from a person or a concern for supplying goods or services is called Debt. Debts may be classified into :

(i) Bad debts;
(ii) Doubtful debts and
(iii) Good debts

(i) Bad Debts: Bad debts are uncollectable or irrecoverable debt or debts which are impossible to collect. If it is definitely known that amount recoverable from a customer cannot be realized at all, it should be treated as a business loss and should be adjusted against profit. In short, the amount of bad debt should be transferred to Profit and Loss Account for the current year to confirm the principles of matching.

(ii) Doubtful Debts: The debts which will be receivable or cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realise) is known as doubtful debts. Practically it cannot be treated as a loss on that particular date, as such, it cannot be written off. But, it should be charged against Profit and Loss Account on the basis of past experience of the firm.

(iii) Good Debts: The debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.

**(d) Items not included within the definition of “revenue” as per AS 9:**

(i) Realised gains resulting from the disposal of, and unrealised gains resulting from the holding of, non-current assets e.g. appreciation in the value of fixed assets;
(ii) Unrealised holding gains resulting from the change in value of current assets, and the natural increases in herds and agricultural and forest products;
(iii) Realised or unrealised gains resulting from changes in foreign exchange rates and adjustments arising on the translation of foreign currency financial statements;
(iv) Realised gains resulting from the discharge of an obligation at less than its carrying amount;
(v) Unrealised gains resulting from the restatement of the carrying amount of an obligation.