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 / are the characteristic/s of depreciation
(a) It is a charge against profit.
(b) It indicates diminution in service potential.
(c) It is an estimated loss of the value of an asset. It is not an actual loss.
(d) All of the above.

(ii) An amount spent for replacement of worn out part of machine is
(a) Capital Expenditure
(b) Revenue Expenditure
(c) Deferred revenue
(d) Capital Loss

(iii) The additional commission payable to the consignee for taking over additional responsibility of collecting money from customers is known as
(a) Del Credre Commission
(b) Ordinary Commission
(c) Over – riding commission
(d) None of the above

(iv) At the year end, an amount outstanding for electricity consumed during that year will be dealt in the Accounts for the year by following the accounting concept of
(a) Realisation
(b) Accrual
(c) Conservatism
(d) None of the above

(v) In the case of non-profit organization donations received by the organization are reflected in
(a) Income and Expenditure Account
(b) Capital Account
(c) Receipts and Payments Account
(d) None of the above.

(vi) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹54,000, then the amount of stock reserve on closing stock will be
(a) ₹18,000
(b) ₹13,500
(c) ₹9,000
(d) None of the above

(vii) _________ A/c is used for the reassessment of the assets and liabilities.
- (a) Realisation
- (b) Profit & Loss
- (c) Revaluation
- (d) Both (b) & (c)

(viii) Repairs and Maintenance of Delivery Vans is
- (a) Selling and Distribution Expenses
- (b) Indirect Expenses
- (c) Administration Expenses
- (d) Both (a) & (b)

(ix) Capital Accounts of the co-venturers are of the nature of
- (a) Personal Account
- (b) Nominal Account
- (c) Real Account
- (d) None of the above

(x) Receipts and Payments account is a
- (a) Nominal Account
- (b) Real Account
- (c) Personal Account
- (a) Artificial Personal Account

Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
d	b	a	b	a	b	c	d	a	b

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

	Column 'A'		Column 'B'
1.	Endowments	A	Royalties
2.	Gaining Ratio	B	Asset A/c
3.	Bills Receivable A/c	C	Expenditure for Business
4.	Interest on Capital	D	Retirement of partnership
5.	Ground Rent	E	Capital Receipts

Answer:

	Column 'A'		Column 'B'
1.	Endowments	E	Capital Receipts
2.	Gaining Ratio	D	Retirement of partnership
3.	Bills Receivable A/c	B	Asset A/c
4.	Interest on Capital	C	Expenditure for Business
5.	Ground Rent	A	Royalties

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

(i) Transaction means exchange of money or money's worth for __________.

(ii) _________ bill is drawn to settle a trade transaction.

(iii) _________ ratio = Share of an existing partner under Old Ratio – his Share under new ratio.

(iv) Consumption of raw material = Opening Stock + ___________ – Direct Expenses – Purchase Returns – Closing Stock.

(v) Amount spent on the travelling expenses of a partner to a foreign trip for purchase of an asset to be used for the business is __________ expenditure.

Answer:

(i) Value;
(ii) Trade;
(iii) Sacrificing;
(iv) Purchase;
(v) Capital.

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

(i) Contingent Liability represents an amount of cash, goods or any other assets which the owner withdraws from business for his or her personal use.
(ii) Carriage of ₹7,500 spent on machinery purchased and installed is a Revenue expenditure.
(iii) Drawee is the buyer or debtor. He has to pay the amount of the bill to the drawer on the due date.
(iv) Bad debts are apportioned among departments in the proportion of sales of each department.
(v) Joint Venture is a permanent form of business organization.

Answer:

(i)	(ii)	(iii)	(iv)	(v)
F	F	T	T	F

Section - B

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

2. (a) The following errors were discovered in the books of a trader for the year ended December 31, 2022:

(i) The total of the Purchase Day Book had been under cast by ₹ 100.
(ii) The discount column of the debit side of the Cash Book had been posted to the credit of the Discount Received Account ₹ 20.
(iii) ₹ 76 paid for Repairs of Motor Van had been taken to Motor Van Account.
(iv) A cheque received from B ₹ 39 had been debited in Cash Book but the double entry had not been completed.
(v) The Returns Outward Book had been overcast by ₹ 50.

Show the Rectification entries considering that the Final Accounts had already been prepared and the net profit arrived at amounted ₹ 24,320 (before corrections). Show the calculation of the net profit for the year. [8]

Answer:

Books of ………………..

Journal

Date	Particulars	L. F.	Dr. Amount (₹)	Cr. Amount (₹)
	(a) Profit & Loss Adjustment A/c Dr. To Suspense A/c [Being, urchase Day Book undercast, now rectified]		100	100
	(b) Profit & Loss Adj. A/c (Disc. Allowed and Disc Received) Dr. To Suspense A/c [Being, Disc. Received credited instead of Disc. allowed debited, now rectified]		40	40
	(c) Profit & Loss Adjustment A/c Dr. To Motor Van A/c [Being, Repairs of Motor Van debited to Motor Van Account, now rectified]		76	76
	(d) Suspense A/c Dr. To B A/c [Being, Cash Received from B not credited to his account, now rectified]		39	39
	(e) Profit & Loss Adjustment A/c Dr. To Suspense A/c [Being, Overcasting of Return Outward Book, now rectified]		50	50

Dr. Profit and Loss Adjustment Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Suspense A/c	100	By Net Profit b/d	24,320
To Suspense A/c	40		
To Motor Van A/c	76		
To Suspense A/c	50		
To Capital A/c (Adjusted Net Profit)	24,054		
	24,320		24,320

(b) IRANI & CO., of Chennai had consigned 6000 shirts to Vikram of Jaipur at cost of ₹425 each. Irani & Co., paid freight ₹50,000 and insurance ₹7,500. During the transit 550 shirts were totally damaged by fire. Vikram took delivery of the remaining shirts and paid ₹82,000 on custom duty. Vikram had sent a bank draft to Irani & Co., for ₹3,50,000 as advance payment. 5000 shirts were sold by him at ₹550 each. Expenses incurred by Vikram on godown rent and advertisement, etc., amounted to ₹12,000. He is entitled to a commission of 5%. One of the customer to whom the goods were sold on credit could not pay the value of 40 shirts which is not recoverable. Vikram settled his account immediately. Nothing was recovered from the insurer for the damaged goods. You are required to prepare:

(i) Consignment to Vikram Account.

(ii) Vikram Account – in the book of IRANI & CO. **[(4+1)+2=7]**

Answer:

In the Books of Irani & Co.
Consignment to Vikram Account

(i)

Dr. Cr.

Particulars	₹	Particulars	₹
To Goods sent on consignment A/c	25,50,000	By Vikram A/c (Sales) (5,000x550)	27,50,000
" Bank A/c (freight & insurance)	57,500	" Abnormal loss A/c (W-1)	2,39,021
" Vikram A/c:		" Stock on consignment A/c (W-2)	2,02,333
Custom duty 82,000			
Godown rent, Adv. Etc. 12,000			
Commission (5,000×550×5%)			
1,37,500	2,31,500		
Debtors A/c (bad debts)	22,000		
Profit on consignment	3,30,354		
	31,91,354		31,91,354

(ii) Vikram Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Consignment A/c	27,50,000	By Brank draft A/c	3,50,000
		" Consignment A/c (2,31,500+22,000)	2,53,500
		" Bank A/c	21,46,500
	27,50,000		27,50,000

Working note:

(1) Abnormal loss: $\frac{[(425 \times 6000) + (57500)] \times 550}{6000}$ = ₹239021

(2) Valuation of Unsold Stock:

Cost Value (450×425)	₹ 1,91,250.00
Freight & insurance (57,500/6,000×450)	₹4,312.50
Customs (82,000/5450×450)	₹6,770.64
	₹2,02,333.14

3. The following is the Balance Sheet of MR. SILGARDO as on March 31, 2022.

Liabilities	₹	Assets	₹
Capital Account	**4,80,000**	**Buildings**	**3,25,000**
Loan	**1,50,000**	**Furniture**	**50,000**
Trade Creditors	**3,10,000**	**Motor car**	**90,000**
		Stock	**2,00,000**
		Trade Debtors	**1,70,000**
		Cash in hand	**20,000**
		Cash at bank	**85,000**
	9,40,000		**9,40,000**

A fire occurred on the night of 31st March, 2023 in which all books and records were lost. The cashier had absconded with the available cash. MR. SILGARDO gives you the following information:

(a) His sales for the year ended March 31, 2023 were 20% higher than the previous years. He always sells his goods at cost plus 25%. 20% of the total sales for the year ended March 31, 2023 was for cash. There were no cash purchases.

(b) **On April 1, 2022 the stock level was raised to ₹3,00,000 and the stock was maintained at this level throughout the year.**

(c) **Collection from Debtors amounted to ₹14 lakh of which ₹3.50 lakh was received in cash. Business expenses amounted to ₹2,00,000 of which ₹50,000 was outstanding on march 31, 2023 and ₹60,000 was paid by cheques.**

(d) **Analysis of the pass books revealed on the following:**
Payment creditors ₹13.75 lakh, Personal drawings ₹75,000. Cash deposited in bank ₹7.15 lakh. Cash withdrawn from bank ₹1,20,000.

(e) **Gross Profit as per last year's audited accounts was ₹3,00,000.**

(f) **Provide depreciation on building and furniture at 5% and on motor car at 20%.**

(g) **The amount defalcated by the cashier may be treated as recoverable from him.**

Required:

(i) **Prepare Trading and Profit and Loss Account for the year ended March 31,2023.**

(ii) **Prepare Balance Sheet as on 31.03.2023.** **[5+5+(2+1+1+1)=15]**

Answer:

(i) MR. SILGARDO

Trading and Profit and Loss Account for the year ended March31, 2023

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock A/c	2,00,000	By Sales A/c(Note 4):	
To Purchase (Balancing figure) A/c	15,40,000	Credit (80%) 14,40,000	
To Gross Profit c/d (20% of ₹18,00,000)	3,60,000	Cash (20%) 3,60,000	18,00,000
		By Closing Stock	3,00,000
	21,00,000		21,00,000
To Business Expenses	2,00,000	By Gross Profit b/d	3,60,000
To Depreciation on:			
Building 16,250			
Furniture 2,500			
Motor car 18,000	36,750		
To Net Profit (transferred to capital)	1,23,250		
	3,60,000		3,60,000

(ii)

MR. SILGARDO

Balance Sheet as at March 31, 2023

Liabilities		₹	Assets		₹
Capital: opening Balance	4,80,000		Buildings	3,25,000	
Add: Net Profit	1,23,250		Less: Depreciation	16,250	3,08,750
	6,03,250		Furniture	50,000	
Less: Drawings	75,000	5,28,250	Less: Depreciation	2,500	47,500
Loan		1,50,000	Motor Car	90,000	
Trade Payables		4,75,000	Less: Depreciation	18,000	72,000
Outstanding business expenses		50,000	Stock-in-trade		3,00,000
			Trade Receivables		2,10,000
			Cash at Bank Amount due		2,20,000
			from employee (for deduction)		45,000
		12,03,250			12,03,250

Working notes:

(1) Cash Book

Dr. Cr.

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	20,000	85,000	By Business Expenses	90,000	60,000
To Sales (Note 4)	3,60,000	-	By Drawings	-	75,000
To Trade Receivables	3,50,000	10,50,000	By Trade payables	-	13,75,000
To Cash (C)	-	7,15,000	By Bank (C)	7,15,000	-
To Bank (C)	1,20,000	-	By Cash (C)	-	1,20,000
			By Balance c/d	*45,000	2,20,000
	8,50,000	18,50,000		8,50,000	18,50,000

*Recoverable from Cashier

(2) Trade Receivables Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance c/d	1,70,000	By Bank ₹ (14,00,000-3,50,000)	10,50,000
To Sales (Note 4)	14,40,000	By Cash	3,50,000
		By Balance c/d	2,10,000
	16,10,000		16,10,000

(3) Trade Payables Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Bank A/c	13,75,000	By Balance c/d	3,10,000
To Balance c/d	4,75,000	By Purchase A/c (Note 5)	15,40,000
	18,50,000		18,50,000

(4) Computation of Total Sales:

	₹
Last year's gross profit @20% on sales (cost +25%)	3,00,000
Last year's sales (3,00,000x5)	15,00,000
Current year's sales (₹15,00,000+20%)	18,00,000
Gross Profit: 20% of Sales	3,60,000
Cash Sales: 20% of Total Sales	3,60,000
Credit Sales: 80% of Total Sales	14,40,000

(5) Calculation of Purchase:

(Sales + Closing Stock) – (Opening Stock + Gross Profit)

= (18,00,000+3,00,000) – (2,00,000+20% of 18,00,000)

= (21,00,000-5,60,000)

= ₹15,40,000.

4. The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2023:

Liabilities	₹	Assets	₹
Capital Accounts		**Plant and Machinery**	**24,00,000**
Kamal	**20,00,000**	**Building**	**18,00,000**
Rani	**10,00,000**	**Sundry Debtors**	**6,00,000**
Reserves	**18,00,000**	**Stock**	**8,00,000**
Sundry Creditors	**8,00,000**	**Cash**	**2,00,000**
Bills Payable	**2,00,000**		
	58,00,000		**58,00,000**

They agreed to admit 'Nisha' into the partnership on the following terms:

(i) The Goodwill of the firm was fixed at ₹2,10,000.

(ii) That the value of Stock and Plant & Machinery were to be reduced by 10%.

(iii) That a provision of 5% was to be created for Doubtful Debts.

(iv) That the Building Account was to be appreciated by 20%.

(v) There was an unrecorded liability of ₹20,000.

(vi) Investments worth ₹40,000 (Not mentioned in the Balance Sheet) were taken into account.

(vii) That the value of Reserve, the values of Liabilities and the values of Assets other than Cash are not to be altered.

(viii) 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital Account of the partners and the Balance Sheet of the newly reconstituted firm. [15]

Answer:

Memorandum Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Stock	80,000	Building	3,60,000
To Plant & machinery	2,40,000	Investments	40,000
To Provision for doubtful debts	30,000		
To Unrecorded liability	20,000		
To Profit transferred to Partners' Capital A/cs (in old ratio) Kamal = 20,000 Rani = 10,000	30,000		
	4,00,000		4,00,000
To Building	3,60,000	By Stock	80,000
To Investments	40,000	By Plant & machinery	2,40,000
		By Provision for doubtful debts	30,000
		By Unrecorded liability	20,000
		By Loss transferred to Partners' Capital A/cs (in new ratio) Kamal = 15,000 Rani = 7,500 Nisha = 7,500	30,000
	4,00,000		4,00,000

Partners' Capital Accounts

Dr. Cr.

	Kamal	Rani	Nisha		Kamal	Rani	Nisha
To Memorandum Revaluation	15,000	7,500	7,500	By Balance b/d	20,00,000	10,00,000	------
To Reserve Fund	9,00,000	4,50,000	4,50,000	By Reserve	12,00,000	6,00,000	------
To Kamal (W.N.3)	------	-----	35,000	By Nisha (W.N.3)	35,000	17,500	------
To Rani (W.N.3)	------	-----	17,500	By Memorandum Revaluation A/c	20,000	10,000	
To Balance c/d (Refer W.N.2)	23,40,000	11,70,000	11,70,000	By Cash (Bal. Fig.)			16,80,000
	32,55,000	16,27,500	16,80,000		32,55,000	16,27,500	16,80,000

Balance Sheet of newly reconstituted firm as on 31.12.2023

Liabilities	₹	Assets	₹
Capital Accounts		Plant & Machinery	24,00,000
Kamal	23,40,000	Building	18,00,000
Rani	11,70,000	Sundry Debtors	6,00,000
Nisha	11,70,000	Stock	8,00,000
Reserve Fund	18,00,000	Cash (2,00,000 + 16,80,000)	18,80,000
Sundry Creditors	8,00,000		
Bills Payable	2,00,000		
	74,80,000		74,80,000

Working Notes:

1. Calculation of new profit and loss sharing ratio Nisha will get 1/4th share in the new profit sharing ratio.
   Therefore, remaining share will be 1-1/4 = 3/4
   Share of Kamal will be 3/4 × 2/3 = 2/4 i.e. 1/2
   Share of Rani will be 3/4 × 1/3 = 1/4
   New ratio will be
   Kamal: Rani: Nisha
   1/2 : 1/4 ; 1/4
   2:1:1

2. Calculation of closing capital of Nisha
   Closing capitals of Kamal & Rani after all adjustments are: Kamal = ₹23,40,000
   Rani = ₹ 11,70,000
   Since Rani's capital is less than Kamal's capital, therefore Rani's capital is taken as base.
   Hence, Nisha's closing capital should be ₹11,70,000 (46,80,000 × 1/4) i.e. at par with Rani (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
Kamal	1,40,000	1,05,000	+35,000	-
Rani	70,000	52,500	+17,500	-
Nisha	-	52,500	-	52,500
	2,10,000	2,10,000	52,500	52,500

Adjustment entry will be:

Nisha's Capital A/'c	Dr.	52,500	
To Kamal's Capital A/c			35,000
To Rani's capital A/c			17,500

5. (a) Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2023 assuming that H.O. supplied goods at cost plus 25%.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Stock on 1.4.2022 (LP.)	**12,500**	**Bad Debts**	**2,000**
Debtors	**5,000**	**Allowances to customers**	**1,000**
Petty Cash	**1,000**	**Returns Inwards**	**1,000**
Goods sent to branch (LP.)	**40,000**	**Cheques sent to Branch for expenses:**	
Goods return to H.O. (LP.)	**5,000**	**Rates & Taxes**	**3,000**
Cash Sales	**12,000**	**Salaries**	**8,000**
Cash received from debtors	**30,000**	**Misc. Exps.**	**1,000**
		Stock on 31.03.2023 (LP.)	**15,000**
		Debtors	**4,000**
		Petty Cash	**1,000**

[8]

Answer:

In the books of H.O.

Dr. Branch Account Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
By Balance b/d			By Stock Reserve (Loading)		2,500
Stock	12,500		— Bank A/c:		
Debtors	5,000		— Cash Sales	12,000	
Petty Cash	1,000	18,500	— Cash Received from Debtors	30,000	42,000
Goods sent to branch A/c		40,000	— Goods sent to branch (Return to H.O.)		5,000
Bank A/c			— Goods sent to branch (Loading)		8,000
Rates & taxes	3,000		By Balance c/d		
Salaries	8,000		Stock	15,000	
Misc. Expenses	1,000	12,000	Debtors	4,000	
Goods sent to Branch (Loading on returns)		1,000	Petty Cash	1,000	20,000
Closing Stock Reserve (₹ 15,000 × $\frac{1}{5}$)		3,000			
General P & L A/c		3,000			
		77,500			77,500

Note: Here loading is $\frac{25}{125} = \frac{1}{5}$ of invoice price. Hence, loading on opening stock will be ₹ 12,500 × $\frac{1}{5}$ = ₹ 2,500 and so on.

(b) **The following information is extracted from a book of MR. ANUBHAV MS GOYAL, a trader for the month of March 2023:**

Date March 2023	Particulars
1.	**Purchased from Mr. Akash ₹7,500.**
3.	**Paid ₹3,000 after adjusting the initial advance in full to Mr. Akash.**
10.	**Paid ₹2,500 to Mr. Dev towards the purchases made in February in full.**
12.	**Paid advance to Mr. Giridhar ₹6,000.**
14.	**Purchased goods from Mr. Akash ₹6,200.**
20.	**Returned goods worth ₹1,000 to Mr. Akash.**
24.	**Settled the balance due to Mr. Akash at a discount of 5%.**
26.	**Goods purchased from Mr. Giridhar against the advance paid already.**
29.	**Purchased from Mr. Nathan ₹3,500.**
30.	**Goods returned to Mr. Prem ₹1,200. The goods were originally purchased for cash in the month of February 2023.**

You are required to prepare the CREDITORS' Ledger Adjustment Account which would appear in the General Ledger for the month of March, 2023. **[7]**

Answer:

In the General Ledger of ANUBHAV MS GOYAL

Creditors Ledger Adjustment Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
01.03.23	To Balance b/d	4,500	01.03.2023	By Balance b/d	2,500
31.03.23	To General Ledger Adjustment A/c:		31.03.2023	By General Ledger Adjustment A/c:	
	Cash paid	16,440		Purchase	23,200
	(3000+2500+6000+4940)			(7,500+6,200+6,000+3,500)	
	(5,200-5% of 5,200)			By Balance c/d	-
	Returns	1,000	31.03.2023		
	Discount (5200 × 5%)	260			
	To Balance c/d	3,500			
		25,700			25,700

6. **(a)** **MR Ltd. provides the following information. Prepare Provision for Bad and Doubtful Debts Account.**

Opening Balance in Provision for Bad and Doubtful Debts Account	**₹53,600**
Bad Debts written off during the year	**₹40,400**
Balance of Debtors at the end of the year	**₹10,54,000**
Provision for Bad and Doubtful Debts required to be maintained	**5% on Debtors**

[5]

Answer:

Dr. Provision for Bad and Doubtful Debts Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Bad Debt written off A/c (transfer)	40,400	By, Balance b/d (given)	53,600
To, Balance c/d (₹10,54,000 × 5%)	52,700	By, Profit and Loss A/c [Balancing Figure]	39,500
	93,100		93,100

(b) BANSAL COAL LTD., leased land from Mr. BUTCHER. M at a royalty of ₹2.50 per tonne of coal raised. Minimum rent was ₹2,40,000.

Short workings 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	
2019	**80000**	
2020	**90000**	
2021	**60000**	**(Strike for 3 months)**
2022	**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) Short working Account

(iii)Butcher. M Account- in the book of BANSAL COAL LTD. **[(3+1)+3+3 = 10]**

Answer:

Statement Showing Calculation of Short Workings and its Recoupment

Sl.	Year ended March 31	Production (Tonnes)	Royalty @ ₹2.50 per tonne ₹	Minimum Rent ₹	Short workings		
					Caused ₹	Recouped	Transferred to P&L Account
1	2019	80,000	2,00,000	2,40,000	40,000	-	-
2	2020	90,000	2,25,000	2,40,000	15,000	-	-
3	2021	60,000	1,50,000	1,80,000	30,000	-	-
4	2022	1,20,000	3,00,000	2,40,000	-	60,000	25,000

*Minimum rent proportionately reduced in view of strike for 3 months in the year ended March 31, 2021 (₹2,40,000x3/4) = ₹1,80,000.

(i)

BANSAL COAL LTD.

Royalty Account

Dr. Cr.

Year Ended 31st March	Particulars	₹	Particulars	₹
2019	To Butcher M A/c	2,00,000	By Profit & Loss A/c	2,00,000
2020	To Butcher M A/c	2,25,000	By Profit & Loss A/c	2,25,000
2021	To Butcher M A/c	1,50,000	By Profit & Loss A/c	1,50,000
2022	To Butcher M A/c	3,00,000	By Profit & Loss A/c	3,00,000

(ii)

Short Workings Account

Dr. Cr.

Year Ended March 31	Particulars	₹	Year Ended March 31	Particulars	₹
2019	To Butcher M	40,000	2019	By Balance c/d	40,000
		40,000			40,000
2020	To Balance b/d To Butcher	40,000 15,000	2020	By Balance c/d	55,000
		55,000			55,000
2021	To Balance b/d To Butcher M	55,000 30,000	2021	By Balance c/d	85,000
		85,000			85,000
2022	To Balance b/d	85,000	2022	By Butcher M By Profit & Loss A/c	60,000 25,000
		85,000			85,000

(iii)

Butcher M Account

Dr. Cr.

Year Ended March 31	Particulars	₹	Year Ended March 31	Particulars	₹
2019	To Bank A/c	2,40,000	2019	By Royalty A/c By Short Working A/c	2,00,000 40,000
		2,40,000			2,40,000
2020	To Bank A/c	240000	2020	By Royalty A/c By Short Working a/c	2,25,000 15,000
		2,40,000			2,40,000
2021	To Bank	1,80,000	2021	By Royalty A/c By Short Working A/c	1,50,000 30,000
		1,80,000			1,80,000
2022	To Short Working A/c To Bank A/c	60,000 2,40,000	2022	By Royalty A/c	3,00,000
		3,00,000			3,00,000

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

Particulars	₹
Cost of the plant (cost per supplier's invoice plus taxes)	**50,00,000**
Initial delivery and handling costs	**4,00,000**
Cost of site preparation	**12,00,000**
Consultants used for advice on the acquisition of the plant	**14,00,000**
Interest charges paid to supplier of plant for deferred credit	**4,00,000**
Estimated dismantling costs to be incurred after 7 years (PV)	**6,00,000**
Operating losses before commercial production	**8,00,000**

Advise A Ltd. on the costs that can be capitalized in accordance with AS – 10. [7]

Answer:

According to AS-10, these costs can be capitalized:

	(Amt. in ₹)
Cost of the plant	50,00,000
Initial delivery and handling costs	4,00,000
Cost of site preparation	12,00,000
Consultants' fees	14,00,000
Estimated dismantling costs to be incurred after 7 years	6,00,000
	86,00,000

Interest charges paid on "deferred credit terms" to the supplier of the plant (is not a qualifying asset) of ₹ 4,00,000 and operating losses before commercial production amounting to ₹ 8,00,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the income statement in the period in which they are incurred.

The current Standard applies the two basic recognition criteria referred to above to all expenditures. If the two basic criteria are satisfied, then the cost should be recognized as an asset. If the cost of the replaced asset was not separately identifiable, then the cost of the replacement can be used as an Indication of the cost of the replaced item, which should be removed from the asset record.

(b) Discuss the disadvantages of customized accounting package. [8]

Answer:

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.

The choice of customised accounting packages is made on the basis of evaluation of vendor proposals. The proposals are evaluated as to the suitability, completeness, cost and vendor proposals. Generally preference is given to a vendor won has a very good track record of deliverables

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

(a) Features of Single Entry System;
(b) Advantages of Self-Balancing System;
(c) Components of contract revenue as per AS – 7;
(d) Differences between Branch Account and Departmental Account.

Answer:

(a) Features of Single Entry System:

Features of Single Entry System: Single Entry System has the following features.

(a) Maintenance of books by a sole trader or partnership firm: The books which are maintained according to this system can be kept only by a sole trader or by a partnership firm.

(b) Maintenance of cash book: In this system it is very often to keep one cash book which mixes up business as well as private transactions.

(c) Only personal accounts are kept: In this system, it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, sometimes, this is precisely defined as a system where only personal accounts are kept.

(d) Collection of information from original documents: For information one has to depend on original vouchers, example, in the case of credit sales, the proprietor may keep the invoice without recording it anywhere and at the end of the year the total of the invoices gives an idea of total credit sales of the business.

(e) Lack of uniformity: It lacks uniformity as it is a mere adjustment of double entry system according to the convenience of the person.

(f) Difficulty in preparation of final accounts: It is much difficult to prepare trading, profit and loss account and balance sheet due to the absence of nominal and real accounts in the ledger.

(b) Advantages of Self-Balancing System:

The advantages of Self-Balancing system are:

(a) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.

(b) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the abstruction of individual personal ledger balances.

(c) Various works can be done quickly as this system provides sub-division of work among the different employees.

(d) This system is particularly useful
  (i) where there are a large number of customers or suppliers and
  (ii) where it is desired to prepare periodical accounts.

(c) Components of contract revenue as per AS – 7:

As per AS – 7 (Construction Contract) Contract revenue consists of the following —

- Revenue/price agreed as per Contract.
- Revenue arising due to escalation clause.
- Claims - Claims is the amount that contractors seek to collect from the customer as reimbursement of cost not included in contract price.
- Increase in revenue due to increase in units of output.
- Increase or decrease in revenue due to change or variation in scope of work to be performed.
- Incentive payments to the contractors.
- Decrease in contract revenue due to penalties.

(d) Differences between Branch Account and Departmental Account:

Points	Branch Account	Departmental Account
Allocation of expenses	In case of branch accounting allocation of common expenses does not arise.	Allocation of common wealth is the fundamental consideration here.
Result of the operation	It shows that trading result of each individual branch.	It shows the trading result of each individual department.
Maintenance of accounts	Method of Branch Accounting depends on the nature and type of branch whether dependent or independent.	It is centrally maintained.
Types of accounting	It is practically a condensation of accounts.	It is a segment of accounts.
Control	It is not possible to control all branch by the Head Office	Effective control is possible by the departmental supervisors who is closely related and who is to keep a constant watch over the departments.