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) The following account has a credit balance.
- (a) Plant and Equipment A/c
- (b) Purchase return A/c
- (c) Purchase A/c
- (d) None of the above

(ii) AS-10 is not applicable on
- (a) Biological assets related to agricultural activity
- (b) Produce on bearer plants
- (c) Wasting assets
- (d) All of the above

(iii) Excess of minimum rent over royalty is known as
- (a) Maximum rent
- (b) Excess workings
- (c) Short workings
- (d) Deficiency of actual royalty

(iv) Realization account is a
- (a) Representative personal account
- (b) Artificial personal account
- (c) Real account
- (d) Nominal account

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

(vi) The additional commission payable to the consignee in order to cover the risk of collection from customer on account of credit sales is known as
- (a) Del Credere Commission
- (b) Ordinary Commission
- (c) Over-riding Commission
- (d) None of the above

(vii) Income statement of a charitable institute is known as
- (a) Profit and loss A/c
- (b) Receipts and payment A/c
- (c) Income and expenditure A/c
- (d) Statement of Affairs

(viii) Realisation account is opened at the time of
- (a) Admission of a new partner
- (b) Retirement of a partner

(c) Dissolution of a firm
(d) In all the situations

(ix) 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 ₹18,000,then the amount of stock reserve on closing stock will be
(a) ₹ 6,000
(b) ₹ 4,500
(c) ₹ 9,000
(d) None of the above

(x) In hire purchase system cash price plus interest is known as
(a) Capital value of asset
(b) Book value of asset
(c) Hire purchase price of asset
(d) Hire purchase charges

Answer:

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

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

	Column 'A'		Column 'B'
1.	Disclosure of Accounting Policies	A	Summarised cash book
2.	Contra transaction	B	Nominal account
3.	Income and expenditure A/c	C	Charge against profit
4.	Depreciation	D	Adverse balance
5.	Receipts and payment account	E	AS 1

Answer:

	Column 'A'		Column 'B'
1.	Disclosure of Accounting Policies	E	AS 1
2.	Contra transaction	D	Adverse balance
3.	Income and expenditure A/c	B	Nominal account
4.	Depreciation	C	Charge against profit
5.	Receipts and payment account	A	Summarised cash book

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

(i) _____________is the agent to whom goods are sent for selling.
(ii) Book-keeping is considered as ________.
(iii) Bill of exchange must be properly _______.
(iv) Inventories are valued at the lower of cost or _________.
(v) _______ is usually market value which determined by appraisal.

Answer:

(i) Consignee;
(ii) End;
(iii) Stamped;
(iv) Net realizable value;
(v) Fair value.

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

(i) Business transaction are always recorded at the actual cost at which they are actually undertaken.
(ii) Trade bill is drawn not to settle a trade transaction.
(iii) Ownership of installment sale passes at the time of sale.
(iv) The debts which cannot be realized at all are called bad debts.
(v) Single entry system is hard and tough to maintain.

Answer:

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

Section - B

Answer any five questions out of seven questions.
Each question carries 15 marks . [5x15=75]

2. (a) The trial balance of Preeti on 31st December,2011,showed a difference of ₹580 (excess debit). It was put to a Suspense Account and the books were closed. On going through the books in January 2012,the following errors were discovered. You are required to pass suitable rectifying journal entries and prepare the suspense account.
(i) ₹450 recevied from G.Kothari was posted to the debit of his account.
(ii) ₹200 being purchases returns was posted to the debit of purchases account.
(iii) Discount ₹400 received,entered in the cash book was not posted to the ledger.
(iv) ₹574 paid for repairs to motor-car was debited to the motor-car account as ₹174.
(v) A sale of ₹350 to sushmita was entered in the sales book as of ₹530.
(vi) While carrying forward total of one page in koushal's account, the amount of ₹250 was written on the credit side instead of debit side.
(vii) The purchase of machinery on 1st January,2011 for ₹8000 was entered in the purchases account. [7]

Answer:

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SL.NO.	PARTICULARS	L.F.	DR.(₹)	CR.(₹)
i.	Suspense A/c Dr. To G.kothari (Being ₹450 received from G.kothari debited to his account,the error now rectified)		900	 900
ii.	Suspense A/c Dr.		400	

	To purchases A/c To purchases returns A/c (Being purchases returns of ₹200 posted to the debit of purchases A/c, the error now rectified)			200 200
iii.	Suspense A/c Dr. To Discount A/c (Being discount received not posted to discount A/c, the error now rectified)		400	 400
iv.	Repairs A/c Dr. To motor car A/c To suspense A/c (Being repairs to motor car, ₹574, debited to motor car A/c as ₹174 wrongly,the error now rectified)		574	 174 400
v.	Sales A/c Dr. To Sushmita (Being sales of ₹350 to sushmita entered in the sales book as of ₹530,the error now rectified)		180	 180
vi.	Koushal Dr. To suspense A/c (being koushal's A/c credited by ₹250 instead of being debited by ₹250, the error now rectified)		500	 500
vii.	Machinery A/c Dr. To purchases A/c (Being purchases of machinery debited to purchases A/c instead of machinery A/c, the error now rectified)		8000	 8000

(b) B and K entered into a joint venture as dealers in land with effect from 1st july,2010. On the same day B advanced ₹90,000 and a plot of land measuring 9000square yards, was purchased with this money. It was decided to sell the land in smaller plots and a plan was got prepared at a cost of ₹1,000 paid by K. In the said plan 1/3 of the total area of the land was left over for public roads and the remaining land was divided into 6 plots of equal size. On 1st October,2010, two of the plots were sold at ₹30 per square yard, the buyer deducting ₹1,000 per plot for stamp duty and registration expenses agreed to be borne by the sellers. The remaining plots were sold at a net price of ₹25 per square yard on 1st December ,2009. The sale proceeds of all the plots were received by B. After charging interest at 6% p.a. on the investments of B (allowing for money received by him) and allowing 1% on the net sales proceeds of plots as commission to K, the net profit of the joint venture is to be shared in portion of 3/4 to B and 1/4 to K.

Draw up the memorandum joint venture and personal accounts in the books of B and K Showing the balance payable to one to the other.

Assume joint venture was completed on December 1. **[8]**

Answer:

B's Books

Dr. Joint Venture with K Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To bank (advance)	90,000	By bank (sale) (2,000×30)= 60,000	58,000

		Less @ ₹1,000 per plot 2,000	
To interest(see working notes)	1,670		
To P&L A/c (Share of profit)	47,812.50		
To bank (Final settlement)	18,517.50	By bank (sales) 4000×25	1,00,000
	1,58,000		1,58,000

K's Books

Dr. Joint venture with B Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To bank (expense)	1,000	By bank (final settlement)	18,517.50
To commission	1,580		
To P&L A/c (share of profit)	15,937		
	18,517.50		

Dr. Memorandum joint venture account Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Purchases (B)		90,000	By sales	1,58,000
To Interest (B)		1,670		
To Expenses (K)		1,000		
To Commission (K)		1,580		
To profit				
B	47,812.50			
K	15,937.50	63,750		
		1,58,000		1,58,000

Working Notes:

1. Interest receivable by B :

July 1, 2010 to dec 1,2010

$$= ₹90,000 \times \frac{6}{100} \times \frac{5}{12} \qquad = ₹2,250$$

Interest payable by B:

1st october,2010 to December 1,2010

$$= ₹58,000 \times \frac{6}{100} \times \frac{2}{12} \qquad = ₹580$$

Net interest receivable by B =1,670

3. The following is the Balance Sheet of the retail business of Sri KALI as at 31st March 2012

Liabilities	₹	Assets	₹
Sri KALI's capital	**1,00,000**	**Furniture**	**10,000**
Liabilities for goods	**20,500**	**Stock**	**70,000**
Rent	**1,000**	**Debtors**	**25,000**
		Cash at bank	**14,500**
		Cash in hand	**2,000**
	1,21,500		**1,21,500**

You are furnished with the following information:

(i) Sri KALI sells his goods at a profit of 20% on sales.

(ii) Goods are sold for cash and credit. Credit customers pay by cheques only.

(iii) Payments for purchases are always made by cheques.

(iv) It is the practice of Sri KALI to send to the bank every weekend the collections of the week after paying every week, salary of ₹300 to the clerk, Sundry expenses of ₹50 and personal expenses ₹100.

Analysis of the Bank Pass-book for the 13 week period ending on 30th June, 2013 disclosed the following:

Particulars	₹
Payments to creditors	75,000
Payments of rent upto 30th June 2013	4,000
Amounts deposited into the bank	1,25,000
(include ₹30,000 received from debtors by cheques)	

The following are the balances on 30th June 2013:

Particulars	₹
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 30th June 2013 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

Required: Prepare a Account showing the amount of cash defalcated by the Cashier and also a Trading & Profit and Loss Account for the period ended 30th June, 2013 and a Balance Sheet as on that date. [15]

Answer:

ACCOUNT SHOWING DEFALCATION OF CASH

As at 30th June, 2013

Dr. Cr.

Receipts	₹	Payments	₹
To Balance b/d	2,000	By Salary to Clerk (₹300 × 13)	3,900
To Cash Sales	1,16,250	By Sundry Expenses (₹50 × 13)	650
		By Drawing (₹100 × 13)	1,300 95,000
		By Bank (₹1,25,000 – ₹30,000)	17,400
		By Defalcation (balancing figure)	
	1,18,250		1,18,250

TRADING AND PROFIT & LOSS ACCOUNT

For the period ended 30th June 2013

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	70,000	By Sales (116250 + 35000)	1,51,250
To Purchases	91,000	By Closing Stock	40,000
To Gross Profit c/d	30,250		
	1,91,250		1,91,250

To Salary to Clerk To Sundry Expenses To Rent 4,000 Less: Outstanding at beg. 1,000 To Defalcation To Net Profit t/f to Capital A/c	3,900 650 3,000 17,400 5,300	By Gross Profit b/d	30,250
	30,250		30,250

BALANCE SHEET OF SRI KALI AT 30TH JUNE, 2013

Liabilities		₹	Assets	₹
Capital	1,00,000		Furniture	10,000
Add: Net Profit	5,300		Stock	40,000
	1,05,300		Debtors	30,000
Less: drawing	1,300	1,04,000	Cash at bank	60,500
Creditors		36,500		
		1,40,500		1,40,500

Working Notes:

(i) Purchases = Payment to Creditors + Closing balance of Creditors - Opening balance of Creditors

Purchases = ₹ 75,000 + ₹ 36,500 – ₹20,500 = ₹91,000

(ii) Cost of Goods Sold = Purchases + Opening Stock - Closing Stock

= ₹ 91,000 + ₹ 70,000 – ₹40,000 = ₹ 1,21,000

(iii) Sales = Cost of Goods sold + Gross Profit

= 1,21,000 + 25% on cost = ₹ 1,51,250

(iv) Credit Sales = Cash Received from debtors + Closing balance - Opening balance

= ₹ 30,000 + ₹30,000 – ₹ 25,000 = ₹ 35,000

(v) Cash Sales = Total Sales - Credit Sales = ₹1,51,250 – ₹35,000 = ₹ 1,16,250

Dr. **BANK ACCOUNT** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c	95,000	By Balance c/d (balancing fig.)	60,500
	1,39,500		1,39,500

4. A, B and C were carrying on a business in partnership sharing profits in the ratio of 5 : 3: 2 respectively. On 31st March, 2012 their balance Sheet stood as follows:

Liabilities	₹	Assets	₹	₹
Capital A/c:		**Goodwill**		**80,000**
A	**6,25,000**	**Land & Building**		**7,00,000**
B	**3,75,000**	**Furniture**		**1,65,000**
C	**2,50,000**	**Stock**		**2,86,000**
		Trade Debtor	**1,80,000**	
General reserves	**1,00,000**	**Less: Prov for DD**	**3,600**	**1,76,400**
Trade Creditors	**2,10,000**	**Cash at bank**		**1,52,600**
	15,60,000			**15,60,000**

A retired on the above mentioned date and partners agreed that:

(i) The current value of goodwill be taken to be equal to the book value of the asset.
(ii) Land and Buildings be considered worth ₹9,00,000.
(iii) The provision for bad debts on trade debtors be raised to 5%.
(iv) Provision be made for compensation of ₹5,000 to an ex-employee.
(v)Half of the amount due to A be paid immediately in cash and the balance be treated as 10% loan, repayable with in 3 years.
In order to facilitate cash payment to A, B and C brought in ₹3,00,000 in the ratio of 3 : 2 respectively.
Prepare Revaluation Account, the Capital Accounts of all the partners and Bank Account. Also draw the Initial Balance Sheet of B and C, immediately after A's retirement after writing off goodwill. [15]

Answer:

Dr. Revaluation Account Cr.

Particulars		Amount	Particulars	Amount
To Prov for DD [(5% of 1,80,000) – 3,600]		5,400	By land & Bldg	2,00,000
To Prov for Compen.		5,000		
To Partner's Cap A/c A B C	 94,800 56,880 37,920	1,89,600		
		2,00,000		**2,0,00**

Dr. Partner's Capital Account Cr.

Particulars	A	B	C	Particulars	A	B	C
To Goodwill	40,000	24,000	16,000	By bal B/d	6,25,000	3,75,000	2,50,000
To Cash A/c	3,84,900			By gen Res.	50,000	30,000	20,000
To 10% loan	3,84,900			By Rev A/c	94,800	56,880	37,920
To A Cap		24,000	16,000	By B A/c	24,000		
To Bal C/d		5,93,880	3,95,920	By C A/c	16,000		
				By Cash A/c		1,80,000	1,20,000
	8,09,800	6,41,880	4,27,920		8,09,800	6,41,880	4,27,920

Dr. Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Balance B/d	1,52,600	By A's Cap A/c	3,84,900
To B's Cap A/c	1,80,000	By Balance C/d	67,700
To C's Cap A/c	1,20,000		
	4,52,600		**4,52,600**

Balance Sheet of B and C
as at 31.03.2012 (after A's retirement)

Liabilities	₹	Assets	₹	
Capital A/c:		Land & Bldg		9,00,000
B	5,93,880	Furniture		1,65,000
C	3,95,920	Stock		2,86,000
10% loan from A	3,84,900	Trade Debtors	1,80,000	

Trade Creditors	2,10,000	Less: Prov for DD	9,000	1,71,000
Prov for Compensation	5,000	Cash at Bank		67,700
	15,89,700			15,89,700

5.(a) Chennai Ltd, invoices goods to its branch at cost plus 33-1/3%. From the following particulars, prepare the Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of the Head Office.

Particulars	₹	Particulars	₹
Stock in hand at commencement at Branch	**1,50,000**	**Return of goods to Head Office**	**50,000**
		Credit Sales at Branch	**3,80,000**
Stock in hand at close at Branch	**1,20,000**	**Invoice value of goods pilfered**	**10,000**
Goods sent to branch (Including goods invoiced at ₹20,000 to branch on 31st March but not received by branch before close of the year)	**10,00,000**	**Normal loss at Branch due to wastage and deterioration of Stock at invoice value**	**15,000**
		Cash Sales at Branch	**60% Of Net sales**

Chennai Ltd closes its books on 31st March 2013. [9]

Answer:

Dr. **BRANCH STOCK ACCOUNT** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	1,50,000	By Bank A/c (Cash sales) [₹ 3,80,000 × 60/40]	5,70,000
To Goods Sent to Branch A/c	10,00,000		
To Branch Adjustment A/c (Surplus)	15,000	By Branch Debtors A/c (Credit Sales)	3,80,000
		By Goods Sent to Branch A/c (Return to H. O.)	50,000
		By Branch Adjustment A/c (₹10,000 × 25/100)	2,500
		By Branch P & L A/c (cost of Abnormal Loss)	7,500
		By Branch Adjustment A/c (Invoice Price of Normal Loss)	15,000
		By Balance c/d: In hand In transit	 1,20,000 20,000
	11,65,000		11,65,000

Dr. **BRANCH ADJUSTMENT ACCOUNT** **Cr.**

Particulars	₹	Particulars	₹
To Branch Stock A/c (Load on Abnormal Loss)	2,500	By Stock reserve A/c (₹1,50,000 × 25/100)	37,500
To Branch Stock A/c (Normal Loss)	15,000	By Goods Sent to Branch A/c [₹10,00,000 – ₹50,000 × 25/100]	2,37,500
To Stock reserve A/c (₹1,40,000 × 25/100)	35,000	By Branch Stock A/c (Surplus)	15,000
To Gross Profit t/f to General P & L A/c	2,37,500		

	2,90,000		2,90,000

Dr. Branch Profit and Loss Account Cr.

Particulars	₹	Particulars	₹
To Branch Stock A/c [Cost of Abnormal Loss]	7,500	By Branch Adjustment A/c [Gross Profit]	2,37,500
To Net Profit t/f to general P & L A/c	2,30,000		
	2,37,500		2,37,500

(b) M. Sunder keeps self balancing ledgers. Record the following transactions in the General Ledger Adjustment Account in the Sales Ledger.

Date	Particulars
01.04.2016	**Received ₹475 from Mr. X in full settlement. He was allowed a discount of ₹ 25.**
02.04.2016	**Received ₹ 2,000 from Mr Y towards his dues in full.**
03.04.2016	**Goods supplied to Mr T ₹ 700 and received ₹ 300 after adjustment of an advance of ₹ 400.**
04.04.2016	**Bad debts recovered from Mr Q ₹ 1,000**
05.04.2016	**Goods sold to the following: Mr A ₹ 1,000, Mr B ₹ 1,500, Mr C ₹ 2,000.**
15.04.2016	**Mr P paid ₹ 750 towards dues. Balances thereafter due was ₹ 250.**
25.04.2016	**Amounts received from Mr A ₹ 750, Mr B ₹1,000, Mr C ₹ 2,000.**
30.04.2016	**Advance received from Mr R for supply ₹ 2,000**

[6]

Answer:

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT (IN SALES LEDGER) Cr.

Date	Particulars	₹	Date	Particulars	₹
2016			2016		
Apr. 01	To Balance b/d [See Note (ii)]	400	Apr. 01	By Balance b/d [See Note (i)]	3,500
Apr. 01	To Sales Ledger Adjustment A/c (X)	475	Apr. 03	By Sales Ledger Adjustment A/c (Sales)	700
Apr. 01	To Sales Ledger Adjustment A/c (Disc.)	25	Apr. 05	By Sales Ledger Adjustment A/c (Sales) [₹ 1,000 + ₹ 1,500 + ₹ 2,000]	4,500
Apr. 02	To Sales Ledger Adjustment A/c (Y)	2,000			
Apr. 02	To Sales Ledger Adjustment A/c (T)	300	Apr. 30	By Balance c/d [See Note (iii)]	2,000
Apr. 15	To Sales Ledger Adjustment A/c (P)	750			
Apr. 25	To Sales Ledger Adjustment A/c (A,B,C)	3,750			
Apr. 30	To Sales Ledger Adjustment A/c (R)	2,000			
Apr. 30	To Balance c/d (A,B & P) [See Note (iv)]	1,000			
		10,700			10,700
May 01	To Balance b/d	2,000	May 01	By Balance b/d	1,000

Working Notes:

(i) Opening credit balance = ₹ 500 (X) + ₹2,000 (Y) + ₹ 1,000 (P) = ₹ 3,500

(ii) Opening debit balance ₹ 400, is advance from T.

(iii) Closing debit balance represents advance from R, ₹2,000.

(iv) Closing credit balance = ₹ 250 (A) + ₹ 500 (B) + ₹ 250 (P) = ₹ 1,000.

6. (a) From the following information, compute the amount of claim under the loss of profit policy:

Sum Insured	**₹1.95 Lakh**
Indemnity Period	**6 Months**
Reason for Damage	**Due to Fire Accident on1.3.2013**
Period of Interruption	**1.3.2013 to 31.7.2013**
Accounting Year	**Calender Year**
Net Profit	**₹ 0.60 Lakh**
Increase in Cost of working	**₹ 0.15 Lakh**
Turnover For the year ended 31st December, 2012	**₹ 5.250 Lakh**
Turnover For the period from 1.3.2012 to 28.2.2013	**₹ 5.850 Lakh**
Turnover For the period from 1.3.2012 to 31.7.2012	**₹ 1.275 Lakh**
Turnover For the period from 1.3.2013 to 31.7.2013	**₹ 0.600 Lakh**
Sales were evenly throughout the period Standing Charges	**₹ 1.50 Lakh**
No clause for upward/downward trend	

[8]

Answer:

STATEMENT OF CLAIM

	₹
a. Gross Profit on Turnover lost in claim period	27,000
b. Add: Net claim for the Increased Cost of Working	15,000
c. TOTAL Claim (A + B)	42,000
d. Net Claim = Total Claim × $\frac{\text{Sum Insured}}{\text{Sum Insurable}} = \frac{₹42,000 \times ₹1,95,000}{₹2,34,000}$	35,000

Working Notes:

(i) Agreed G.P. Ratio = G.P. Ratio as per last accounting year + Agreed Increase/Decrease

$$\text{G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Trunover of last accounting year}} \times 100$$

$$= \frac{₹60,000 + ₹1,50,000}{₹5,25,000} \times 100 = 40\%$$

(ii) Claim Period being the least of the Indemnity Period (6 months) & Dislocation Period (5 months) is 5 months.

(III) CALCULATION OF TURNOVER LOST IN CLAIM PERIOD

A. Turnover for the corresponding claim period in the preceding year	1,27,500
B. Add: Agreed Increase	-
C. Less: Actual Turnover during the claim period	60,000
D. Turnover lost in claim period (A + B - C)	67,500

(iv) Gross Profit lost = Turnover lost during the claim period × Agreed G.P. Ratio
= ₹ 67,500 × 40% = ₹ 27,000

(v) Sum Insurance = Adjusted Turnover during 12 months immediately preceding the fire x Agreed G.P. Ratio = ₹ 5,85,000 × 40% = ₹ 2,34,000

(VI) CALCULATION OF THE NET CLAIM FOR THE INCREASED COST OF WORKING

A. Gross claim for Increased Cost of Working (being the least of the following three amounts)	15,000
1. Actual Expenses	₹15,000
2. Proportionate Increased Cost of Working Increased Cost of Working × $\frac{\text{Gross Profit on Adjusted turnover}}{\text{Gross Profit as above + Unisured Standing Charges}}$ $= 15,000 \times \frac{40\% \text{ of } 5,85,000}{2,34,000}$	₹15,000
3. Maximum saving of liability of the insurer = Reduction in Turnover avoided through Increased Cost of Working × Agreed G. P. Ratio = ₹ 60,000 × 40%	₹24,000
B. Less: Saving In Insured Standing Charges	-
C. Net claim for Increased Cost of Working (A - B)	₹15,000

(vii) In the absence of information, it has been assumed that the Actual Turnover during the claim period has been effected as a result of additional expenses.

(viii) In the absence of information, it has been assumed that all standing charges are insured.

(b) From the following particulars calculate:

(i) Value of plant taken back by the vendor.

(ii) Value of plant left with the purchaser.

(iii) Profit or loss on plant taken back.

(iv) Profit or loss on plant repossessed when sold by vendor.

Particulars:

(i) X purchased 3 plants from Y costing ₹ 1,00,000 each.

(ii) Purchaser charged depreciation @ 20% on diminishing balance method.

(iii) 2 plants were seized by the vendor when second installment was not paid at the end of second year and vendor valued the plants at cost less 30% depreciation annually charged at diminishing balance method.

(iv) The vendor spent ₹40,000 on overhauling the plants and sold for ₹ 1,60,000. [7]

Answer:

(i) VALUE OF PLANT TAKEN BACK BY THE VENDOR

Particulars	₹
A. Cost of 2 plants [₹ 1,00,000 × 2]	2,00,000
B. Less: Depreciation @ 30%	60,000
C. Agreed value [A - B]	1,40,000
D. Less: Depreciation @ 30%	42,000
E. Agreed value [C - D]	98,000

(ii) BOOK VALUE OF PLANT LEFT WITH THE PURCHASER AND TAKEN BACK BY VENDOR

Particulars	1 left ₹	2 Repossessed ₹
A. Cost of Plants	1,00,000	2,00,000
B. Less: Depreciation @ 20%	20,000	40,000
C. Book value [A - B]	80,000	1,60,000
D. Less: Depreciation @ 20%	16,000	32,000
E. Book Value [C - D]	64,000	1,28,000

(iii) Loss = Agreed Value - Book Value = ₹98,000 – ₹1,28,000 = ₹30,000

(iv) Profit or Loss on Plant repressed when sold by vendor

Profit = Sale Proceeds - (Value of Plant taken back + Repairs) = ₹1,60,000 - (₹ 98,000 + ₹40,000) = ₹22,000.

7. (a) A Ltd. entered into a contract with B Ltd. to dispatch goods valuing ₹25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹1,00,000 and A Ltd. started dispatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to dispatch goods until further notice though A Ltd. is holding the remaining goods worth ₹50,000 ready for dispatch. A Ltd. accounted ₹50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9. [6]

Answer:

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred all significant risks and rewards of ownership to the buyer.

(ii) the seller retains no effective control of the goods; and

(iii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery, has been postponed at buyer's request A Ltd. should recognize the entire sale of ₹ 1,00,000 (₹25,000 × 4) and no part of the same is to be treated as Advance Receipt against Sales.

(b)(i) Discuss the disadvantages of Pre-Packaged Accounting Software. [5]

Answer:

Disadvantages of pre-packaged accounting software-

1. Does not cover Peculiarities of Specific Business -A standard package may not be able to take care of the complexities of a specific business.

2. Does not cover all Functional Areas-These packages may not cover all functional areas such as production process.
3. Customisation may not be Possible: is not Sufficient or Serve the Purpose-These packages may not be customised as per needs of customers.
4. Reports Generated-All reports required for exercising management control may not be available in a standard package.
5. Lack of Security- Security is generally missing in a pre-packaged accounting package since any person can view data of all companies with common access password.
6. Bugs in the software - Certain bugs may remain in the software which takes long to be rectified by the vendor and is common in the initial years of the software.

(b)(ii) Write a note on Classification and Codification of Accounts. **[4]**

Answer:

Some computerised accounting softwares support a coded accounting system and some support even a non-coded accounting system. A coded accounting system is more convenient where there are numerous account heads and the complexity is high. It also to some extent reduces the possibility of the same account existing in several names due to spelling mistakes or abbreviations used.

A proper codification requires a systematic grouping of accounts. The major groups or heads could be Assets, Liabilities, Revenue Receipts, Capital Receipts, Revenue Expenditure, Capital Expenditure. The sub-groups or minor heads could be "Cash" or "Receivables" or "Payables" and so on. The grouping and codification is dependant upon the type of organisation and the extent of sub-division required for reporting on the basis of profit centres or product lines. There could a classification based on geographical location as well.

The main unit of classification in accounts should be the major head which should be divided into minor heads, each of which should have a number of subordinate heads, generally shown as sub-heads. The sub-heads are further divided into detailed heads. Sometimes major heads may be divided into 'sub-major heads' before their further division into minor heads. The Major heads, Minor heads, Sub-heads and Detailed heads together may constitute a four tier arrangement of the classification structure of Accounts.

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

(a) Explain the features of single entry system.
(b) What are the characteristics of depreciation?
(c) Difference between book-keeping and accountancy.
(d) Describe the advantage of Accounting Standard.

Answer:

(a) Single Entry System has the following features:

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

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

(vi) 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) The Characteristics of Depreciation are:

(i) It is a charge against profit.

(ii) It indicates diminution in service potential.

(iii) It is an estimated loss of the value of an asset. It is not an actual loss.

(iv) It depends upon different assumptions, like effective life and residual value of an asset.

(v) It is a process of allocation and not of valuation.

(vi) It arises mainly from an internal cause like wear and tear or depletion of an asset. But it is treated as any expense charged against profit like rent, salary, etc., which arise due to an external transaction.

(vii) Depreciation on any particular asset is restricted to the working life of the asset.

(viii) It is charged on tangible fixed assets. It is not charged on any current asset. For allocating the costs of intangible fixed assets like goodwill. etc, a certain amount of their total costs may be charged against periodic revenues. This is known as amortization.

(c) Difference of Book Keeping and Accountancy

Sl. no.	Points of difference	Book keeping	Accountancy
1.	meanings	Book-keeping is considered as end.	Accountancy is considered as beginning.
2.	functions	The primary stage of accounting function is called Book-keeping.	The overall accounting functions are guided by accountancy.
3.	depends	Book-keeping can provide the base of Accounting.	Accountancy depends on Bookkeeping for its complete functions.
4.	data	The necessary data about financial performances and financial positions are taken from Book-keeping.	Accountancy can take its decisions, prepare reports and statements from the data taken from Book-keeping.
5.	Recording of transaction	Financial transactions are recorded on the basis of	Accountancy does not take any principles, concepts and

		accounting principles, concepts and conventions.	conventions from Bookkeeping.

(d) ADVANTAGES OF ACCOUNTING STANDARD

1. It provides the accountancy profession with useful working rules.
2. It assists in improving quality of work performed by accountant.
3. It strengthens the accountant's resistance against the pressure from directors to use accounting policy which may be suspected in that situation in which they perform their work.
4. It ensures the various users of financial statements to get complete crystal information on more consistent basis from period to period.
5. It helps the users compare the financial statements of two or more organisaitons engaged in same type of business operation.