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) Management Accounting is primarily based on the data available from ___________ ____________.
(a) Cost Accounting
(b) Financial Accounting
(c) Book Keeping
(d) Ledgers

(ii) ____________ __________ is the additional commission payable to the consignee for taking over additional responsibility of collecting money from customers.
(a) Del Credre Commission
(b) Over-riding Commission
(c) Ordinary Commission
(d) None of the above

(iii) The provision which is created on Sundry Debtors for allowing discount on receipt of Cash in that accounting period is called_____________ _____________.
(a) Provision for Discount on Debtors
(b) Provisions for Bad Debt
(c) Provision for Discount on Creditors
(d) Provision for Doubtful Debts

(iv) Drawings is shown in the Balance Sheet as ___________ ______________.
(a) As an addition to the Capital Account
(b) A deduction from the Capital Account
(c) Part of Current Liabilities
(d) Part of Current Assets

(v)

Sales	: ₹45,000
Opening Stock	: ₹18,000
Purchases	: ₹30,000
Cost of Goods Sold	: ₹27,000
Trading Expenses	: ₹12,000

Net Profit is ______________________.

(a)₹6,000
(b)₹18,000
(c)₹12,000
(d)None of the above

(vi) The retiring partner becomes entitled to get back which of the following?
(a) Balance of his capital and current account at the time of retirement.
(b) Share of goodwill, undistributed profit or loss, reserves and profit or loss on revaluation of assets and liabilities
(c) Salary, commission, interest on capital, if any and all other dues till the date of retirement
(d) All of the above

(vii) ____________ ____________ refers to the fixed yearly or half-yearly rent payable by the lessee to the landlord in addition to the minimum rent.
(a) Surface Rent
(b) Dead Ren
(c) Minimum Rent
(d) Excess working

(viii) Which of the following is not a step under Partial Repossession?
(a) Calculate Book value of Goods Repossessed
(b) Calculate Agreed Value of Goods Repossessed
(c) Loss on default = Book Value + Agreed Value
(d) None of the above

(ix) Which one is the correct Fundamental accounting assumptions as per AS 1?
(a) Going Concern, Matching and Consistency
(b) Money Measurement, Going Concern and Prudence
(c) Accounting Period, Going Concern and Entity Concept
(d) Going Concern, Consistency and Accruals

(x) Which of the following is not an advantage of Computerised Accounting?
(a) Easy to Install
(b) Relatively Inexpensive
(c) Simple Backup Procedure
(d) Lack of Security

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

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

	Column 'A'		Column 'B'
1.	A software which is developed on the basis of specific requirements of the organisation.	A	Live Stock
2.	Construction Contracts	B	Capital Receipt
3.	Real Account	C	Customised Accounting
4.	Amount received towards Endowment Fund	D	Expenditure
5.	Debit balance in Nominal Account	E	AS 7

Answer :

	Column 'A'		Column 'B'
1.	A software which is developed on the basis of specific requirements of the	C	Customised Accounting

	organisation.		
2.	Construction Contracts	E	AS 7
3.	Real Account	A	Live Stock
4.	Amount received towards Endowment Fund	B	Capital Receipt
5.	Debit balance in Nominal Account	D	Expenditure

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

(i) Depreciation Account is ____________ Account.
(ii) Joint Ventures do not follow ____________ Basis of Accounting
(iii) Outstanding subscription is shown in the ___________ side of Balance Sheet.
(iv) Profit or loss on consignment is retained/paid by the _______________.
(v) Loss on sale of old car is shown on the ___________ side of the Profit and Loss Account.

Answer:

(i) Nominal
(ii) Accrual
(iii) Asset
(iv) Consignor
(v) Debit

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

(i) Royalty agreements contain a provision for carrying forward of short workings in the subsequent years, which is adjusted against the surplus royalty. This process of adjustment is called excess workings.
(ii) Bearer plant is a plant that is expected to bear produce for more than a period of twelve months.
(iii) Garner vs. Murray principle does not apply if there are only two partners.
(iv) Branches in respect of which the whole of the accounting records are kept at Head Office only, are known as Dependent Branch.
(v) The profit or loss on joint venture is shared between the co-venturers in an equal ratio.

Answer:

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

Section - B

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

2. (a) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.
(i) No adjustment entry was passed for an amount of ₹5,000 relating to outstanding rent.
(ii) Purchase book was overcast by ₹2,000.
(iii) ₹3,500 depreciation of Machinery has been omitted to be recorded in the book.
(iv) ₹600 paid for purchase of stationary has been debited to Purchase A/c.

(v) ₹3,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet. [5]

(b) For mutual benefit of Mr. A and Mr. B on 1st April, 2021. Mr. A drew a four months' bill on Mr. B for ₹6,000. Mr. B returned the bill after acceptance on the same date. Mr. A discounted the bill from his banker @ 5% per annum and remit 50% of the proceed to him. On due date Mr. A failed to send the amount due and therefore Mr. B draws a bill for ₹10,500, which is duly accepted by Mr. A. Mr. B discounted the bill for ₹9,900 and sent ₹1,950 to Mr. A. Before the bill is due for payment Mr. A became insolvent. Later 30% was received from his estate.

[10]

Answer:

(a)

	Profit & Loss A/c		Balance Sheet
(i)	Profit was overstated by ₹5,000.	(i)	Capital was also overstated by ₹5,000 & outstanding Liability was understated by ₹5,000.
(ii)	Gross profit was under stated by ₹2,000 & also the Net Profit.	(ii)	Capital was understated by ₹ 2,000
(iii)	Net Profit was overstated by ₹ 3,500.	(iii)	Machinery was overstated by ₹ 3,500 & so the Capital A/c was also overstated by ₹ 3,500.
(iv)	No effect on Net Profit.	(iv)	No effect in Balance Sheet.
(v)	Gross Profit & Net Profit were overstated by, ₹ 3,000.	(vi)	Capital & Sundry Debtors were overstated by ₹ 3,000.

(b)

In the books of Mr. A
Journal

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
1.4.2021	Bills Receivable A/c Dr. To, B's A/c (Being, acceptance received from Mr. B for mutual accommodation)		6,000	 6,000
1.4.2021	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Being, bills discounted for ₹5,900)		5,900 100	 6,000
	B's A/c Dr. To, Cash A/c To, Discount A/c (Being ½ of the proceed remitted to Mr. B)		3,000	 2,950 50
04.08.2021	B's A/c Dr. To, Bills Payable A/c (Being, Acceptance received from Mr. B and discount amount credited to him)		10,500	 10,500
	Bank A/c Dr. Discount A/c ₹[(3,000+1,950)/9,900]x600 Dr. To, Mr. B's A/c (Being, the amount received from Mr. B and		1,950 300	 2,250

	discount amount credited to him)			
	Bills Payable A/c Dr. To, Mr. B's A/c (Being , acceptance to Mr. B dishonoured for insolvency)		10,500	 10,500
	Mr. B's A/c Dr. To, Bank A/c To, Deficiency A/c (Being amount paid @ 30% and balance credited to deficiency account as being unable to pay)		5,250	 1,575 3,675

3. (a) ABB School maintains separate building fund. As on 31.3.2021, balance of building fund was ₹10,00,000 and it was represented by 15% Fixed Deposit of ₹6,00,000 and current account balance of ₹4,00,000. During the year 2021-2022, the school collected as donations towards the building fund ₹5,60,000 and transferred 40% of development fees collected ₹22,56,500 to Building Fund. Capital work in progress as on 31st March, 2021 was ₹8,25,000 for which contractors' bill upto 75% was paid on 30.09.2021. The extension of building was finished on 31.12.2021 costing ₹7,25,000 for which contractors' bill was fully met. It was decided to transfer the cost of completed building (₹15,50,000) to the corresponding asset account.

Pass journal entries to incorporate the above transactions in the books of ABB School for the year 2021-2022 and show the trial balance of Building Fund Ledger.

(b) What is the accounting treatment of a Specific Fund maintained by a club? [8+4+3=15]

Answer:

(a) **Journal Entries for Building Fund Ledger**

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
(i)	Bank A/c Dr. To, Building Fund A/c (Being the receipt of donations)		5,60,000	 5,60,000
(ii)	Bank A/c Dr. To, Building Fund A/c (Being the transfer of 40% of the development fees directly.)		9,02,600	 9,02,600
(iii)	Fixed Deposit A/c Dr. To, Interest A/c (Being the accrual of interest on F.D.)		90,000	 90,000
(iv)	Interest A/c Dr. To, Building Fund A/c (Being the transfer of interest accrued on fixed deposit.)		90,000	 90,000
(v)	Capital work in progress A/c Dr. To, Contractors' A/c (Being the work completed and certified during the year.)		7,25,000	 7,25,000
(vi)	Contractors' A/c Dr. (8,25,000 x 75% + 7,25,000)		13,43,750	 13,43,750

	To, Bank A/c (Being the payments made to contractors)			
(vii)	Building A/c Dr. To, Capital work-in-progress A/c) (Being the transfer of completed buildings to Asset A/c)		15,50,000	15,50,000
(viii)	Building Fund A/c Dr. To, General Fund A/c (Being the transfer of corresponding Building Fund to General Fund.)		15,50,000	15,50,000

Trial Balance of Building Fund as on 31.03.2022

Particulars	Dr.(₹)	Cr.(₹)
Building Fund [₹10,00,000 + ₹5,69,000 + ₹9,02,600 + ₹90,000 - ₹15,50,000]		10,02,600
Contractors' A/c [₹8,25,000 x 25%]		2,06,250
12% Fixed Deposit A/c [₹6,00,000 + ₹90,000]	6,90,000	
Current A/c [₹4,00,000 + ₹5,60,000 + ₹9,02,600 - ₹13,43,750]	10,37,700	
	12,08,850	**12,08,850**

(b) In case of Specific Funds, funds may be created out of special donation or subscription or out of a portion of the "Surplus". A club may have a "Building Fund". It may be used for meeting some specific expenses or for acquiring an asset. If any income is derived out of investments made against this fund or if any profit or loss occurs due to sale of such investments, such income or profit or loss is transferred to this fund only.

4. P and Q are partners sharing profits in the ratio of 3:2. They admit R as a new partner from 1st April. They decide to share future profits in the ratio of 4:3:3. The Balance Sheet as at 31st March, 2022 is given below:

Liabilities	₹	Assets	₹
P's Capital	**17,600**	**Goodwill**	**1,000**
Q's Capital	**25,400**	**Land & Building**	**6,000**
Workmen Compensation Fund	**2,000**	**Investments [Market Value ₹ 4,500]**	**5,000**
Investment Fluctuation Fund	**1,000**	**Debtors**	**10,000**
Employees' Provident Fund	**1,000**	**Stock**	**30,000**
Provision for Doubtful Debts	**1,000**	**Bank Balance**	**25,000**
R's Loan	**30,000**	**Advertisement Suspense A/c**	**1,000**
	78,000		**78,000**

Terms of R's admission are:

i. **R contributes proportionate capital and 60% of his share of goodwill in cash.**

ii. **Goodwill will be valued at 2 years' purchase of super profit of last three completed years The profits were - 2019-2020 ₹48,000, 2020-2021 ₹93,000, 2021-2022 ₹1,38,000. The normal profits are ₹53,000. No Goodwill will appear in the books of new firm.**

iii. **Land & Building was found undervalued by ₹10,000.**

iv. **Stock was overvalued by ₹7,000.**

v. **Provision for doubtful debts is to be made equal to 5% of the debtors.**

vi. **Claim on account of workmen compensation is ₹1,000.**

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet. [15]

Answer:

Dr. **Revaluation Account** **Cr.**

Particulars	₹	Particulars	₹	₹
To, Stock	7,000	By, Land & Building		10,000
To, Profit on Revaluation t/f to: P's Capital A/c Q's Capital A/c	 2,100 1,400	By, Provision for Doubtful Debts Existing Less: Required [₹10,000 x 5%]	 1,000 500	 500
	10,500			10,500

Dr. **Partner's Capital Account** **Cr.**

Particulars	P(₹)	Q(₹)	R(₹)	Particulars	P(₹)	Q(₹)	R(₹)
To, Goodwill A/c	600	400	-	By, Balance b/d	17,600	25,400	-
To, Adv. Sus A/c	600	400	-	By, R's Loan A/c	-	-	30,000
To, Balance c/d	35,400	34,600	30,000	By, Premium for Goodwill A/c (WN 3)	9,600	4,800	-
				By, R's Current A/c (WN 3)	6,400	3,200	-
				By, Revaluation A/c	2,100	1,400	-
				By, Workmen Compensation Fund	600	400	-
				By, Investment Fluctuation Fund	300	200	-
	36,600	35,400	30,000		36,600	35,400	30,000

Balance Sheet as at April 1, 2022

Liabilities	₹	Assets		₹
P's Capital	35,400	Land & Building		16,000
Q's Capital	34,600	Investments		4,500
R's Capital	30,000	Debtors	₹10,000	
Employee Provident Fund	1,000	Less: Provision	₹500	1,500
Workmen Compensation Fund	1,000	Stock (₹30,000 – ₹7,000)		23,000
R's Loan	30,000	Bank Balance (WN 5)		69,400
		R's Current A/c		9,600
	1,32,000			1,32,000

Working Note:

1. **Calculation of Income Partner's Share, Sacrificing Ratio**

Particulars	P	Q
A. Their old shares	3/5	2/5

B. Their New Shares (A-B)	4/10	3/10
C. Share surrendered by old partners	3/5 – 4/10=2/10	2/5 – 3/10=1/10
D. R's Share = 3/10		
E. Sacrificing Ratio = 2/10: 1/10=2/1		

2. Calculation of Incoming Partner's Share of Goodwill

A. Average Profit = ₹(48,000+93,000+1,38,000)/3=₹93,000
B. Normal Profits = ₹53,000
C. Super Profit = ₹93,000 - ₹53,000= ₹40,000
D. Firm's Goodwill = ₹40,000 x 2 = ₹80,000
E. R's share of Goodwill = ₹80,000 x 3/10 = ₹24,000

3. Journal Entry with Respect to Goodwill

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
(i)	Bank A/c Dr. To, Premium on Goodwill A/c		14,400	 14,400
(ii)	Premium on Goodwill A/c Dr. To,P's Capital A/c To, Q's Capital A/c		14,400	 9,600 4,800
(iii)	R's Current A/c Dr. To, P's Capital A/c (₹9,600 x 2/3) To, Q's Capital A/c (₹9,600 x 1/3)		9,600	 6,400 3,200

4. Calculation of R's Capital

Let, Total Capital of New Firm be X
X = Adjusted Old Capitals of P & Q + 3/10X
X = ₹35,400 + ₹34,600 + 3/10X
X – 3/10X = ₹70,000
X =₹70,000 x 10/7 = ₹1,00,000
R's Capital = ₹1,00,000 x 3/10 = ₹30,000

5. Calculation of Closing Bank Balance

Dr. **Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To, Balance b/d	25,000	By, Balance	69,400
To, Premium for Goodwill A/c	14,400		
To, R's Capital A/c	30,000		
	69,400		69,400

5. (a) The following information provided by the Shobha Departmental Store for the year ended 31st March, 2023:

Department	Purchase(units)	Sales	Closing Stock(units)
X	**2500**	**2550 units @ ₹ 160 per unit**	**250**
Y	**5000**	**4800 units @ ₹180 per unit**	**400**
Z	**6000**	**6240 units @ ₹ 200 per unit**	**140**

The total value of purchases is ₹15 Lakh. It is observed that the rate of gross profit is the same in each department.

You are required to prepare the Departmental Trading Account for the year ended 31st March, 2023.

[9]

(b) Following information is available from the books of S & Co. for the year ended 31st March, 2023:

- **(i) Total Sales amounted to ₹ 560 Lakh including the sale of old Machinery for ₹ 8 Lakh (Book Value ₹ 15 Lakh). The total Cash Sales were 80% less than the total Credit Sales.**
- **(ii) Cash collection from debtors amounted to 75% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for ₹ 15.60 Lakh.**
- **(iii) Bills Receivable drawn during the year totaled ₹45 Lakh of which bills amounting to ₹ 28 Lakh were endorsed in favour of Credito₹ Out of these endorsed B/R, some bills for ₹ 4.60 Lakh were dishonoured for non-payment as the parties became insolvent, their estate realizing nothing.**
- **(iv) Cheques received from Sundry Customers for ₹41 Lakh were dishonoured; a sum of ₹ 5 Lakh is irrecoverable.**
- **(v) Bad Debts written off in the earlier years was recovered of ₹ 7.50 Lakh.**
- **(vi) Transfers from Creditors Ledger to Debtors Ledger were of ₹ 38 Lakh.**
- **(vii) Sundry Debtors, as on 1st April, 2022, stood at ₹ 128 Lakh.**

You are required to show the General Ledger Adjustments Accounts in the Debtors Ledger. [6]

Answer:

(a)

(i) Computation of Opening Stock Quantity (units):

Particulars	Dept. X	Dept. Y	Dept. Z
Sales- units	2550	4800	6240
Add: Closing Stock- units	250	400	140
	2800	5200	6380
Less: Purchases-units	2500	5000	6000
Opening Stock- units	300	200	380

(ii) Computation of Gross Profit Ratio:

Particulars	₹
Sales value of Total Purchase Quantity:	
Department – X = ₹160 × 2,500	4,00,000
Department – Y = ₹ 180 × 5,000	9,00,000
Department – Z = ₹200 × 6,000	12,00,000
Sale value of total purchase Quantity	25,00,000
Less: total purchase price	15,00,000
Gross profit	10,00,000
Rate of gross profit = (₹10 lakh/25 lakh) × 100 = 40%	

(iii) Computation of Cost per unit for each Department

Particulars	Dept. X (₹)	Dept. Y (₹)	Dept. Z (₹)
Selling Price per unit	160	180	200
Less: G. P. @ 40%	64	72	80
Cost per unit	96	108	120

(iv) Departmental Trading Account for the year ended 31st march, 2023

Particulars	Dept. X (₹)	Dept. Y (₹)	Dept. Z (₹)	Particulars	Dept. X (₹)	Dept. Y (₹)	Dept. Z (₹)
To op. Stock	28,800	21,600	45,600	By Sales	4,08,000	8,64,000	12,48,000
To purchases	2,40,000	5,40,000	7,20,000	By Cl. Stock	24,000	43,200	16,800

To G. P.	1,63,200	3,45,600	4,99,200				
	4,32,000	9,07,200	12,64,800		4,32,000	9,07,200	12,64,800

(b)

In the Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

(₹ in Lakhs)

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.23	To Debtors Led. Adj. A/c in G.L:		1.4.22	By Balance b/d	128
	Bank	441	31.03.23	By Debtors Led. Adj. A/c in G.L:	
	B/R	45		Sales (Credit)	460
	Discount Allowed	15.6		B/R Dishonored	4.60
	Bad Debts (4.6 + 5)	9.6		Cheque Dishonored	41
	Transfer	38			
	To Balance c/d	84.4			
		633.6			633.6

Note: Cash Sales, B/R endorsed and Bad Debts recovered are not shown in Gen. Led. Adj. A/c. Workings: Computation Credit Sales and Collection from Debtors:
Net Total Sales = ₹560 Lakh – ₹8 Lakh (Sale of Machinery) = ₹552 Lakh
Cash Sales 80% less than Total Credit Sales, Hence, Cash Sales and Total Credit Sales ratio = 1:5, then Credit Sales = ₹552 Lakh × 5/6 = ₹460 Lakh.
Collection from Debtors = (128 +460) × 75% = ₹441 Lakh.

6. (a) On 31st January, 2023 the premises of Pali Textiles Limited were destroyed by fire. The records of the company revealed the following particulars:

Particulars	₹
Stock on 01.04.2021	**11,35,000**
Stock on 31.03.2022	**12,64,100**
Purchase Less returns, during the year ended 31st March, 2022	**65,45,000**
Sales Less returns, during the year ended 31st March, 2022	**91,00,000**
Purchase Less return, from 01.04.2022 to 31.01.2023	**56,64,000**
Sales Less returns, from 01.04.2022 to 31.01.2023	**78,24,000**

In valuing stock on 31st March, 2022 ₹ 45,900 had been written off out of certain stock which was of a poor selling line, having cost ₹1,37,700. A portion of these goods were sold in October, 2022 at a loss ₹11,080 on the original cost of ₹ 55,080. The remaining stock of this goods on the date of fire was to be valued at 80% of its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged from fire was ₹1,23,800. You are required to compute the amount of claim to be lodged for loss of stock. The stock was insured for ₹12,50,000. **[7]**

(b) The following particulars relate to hire purchase transactions:

(i) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.

(ii) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(iii) Two cars were seized by on hire vendor when second instalment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(iv) The hire vendor spent ₹10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:
(I) Agreed value of two cars taken back by the hire vendor.
(II) Book value of car left with the hire purchaser.
(III) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
(IV)Profit or loss of cars repossessed, when sold by the hire vendor. [8]

Answer:

(a)

Trading Account
for the year ending 31st March, 2022

Dr. **Cr.**

Particulars	₹	Particulars	₹	₹
To Opening Stock	11,35,000	By Sales Less Returns		91,00,000
To Purchases Less Returns	65,45,000	By Closing Stock as valued	12,64,100	
To Gross Profit	27,30,000	Add: Amount Written off	45,900	13,10,000
	1,04,10,000			1,04,10,000

Rate of Gross Profit = ₹27,30,000/ ₹ 91,00,000 = 30%

Memorandum Trading Account
From 1st April, 2022 to 31st January, 2023

Dr. **Cr.**

Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)	Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)
To Opening Stock	11,72,300	1,37,700	13,10,000	By Sales	77,80,000	44,000	78,24,000
To Purchases	56,64,000	–	56,64,000	By Loss	–	11,080	11,080
To Gross Profit (30% on Normal Sales)	23,34,000	–	23,34,000	By Est. Stock (b/f)	13,90,300	82,620	14,72,920
	91,70,300	1,37,700	93,08,000		91,70,300	1,37,700	93,08,000

Working Notes:
(i) Stock on 1.4.22
Abnormal Items ₹ 1,37,700; and Normal Items = ₹ 13,10,000 - ₹1,37,700 = ₹ 11,72,300
(ii) Sale of Abnormal Items = ₹ 55,080 - ₹ 11,080 = ₹ 44,000
(iii) Sale of Normal Items = ₹ 78,24,000 - ₹ 44,000 =₹77,80,000

Loss of Stock

Particulars	₹
Stock on the date of fire : Normal Items	13,90,300
Value of Abnormal Items (82,620 × 80%)	66,096
Value of Stock	14,56,396
Less: Stock Salvaged	1,23,800
Loss of Stock	13,32,596

Amount of Claim applying Average Clause:
Amount of Claim = (Insured Amount/ Value of Stock at the date of Fire) x Loss of Stock
= (₹ 12,50,000/₹14,56,396) x ₹ 13,32,596 = ₹ 11,43,745

(b) Required calculations

	Particulars	₹
(I)	Price of two cars = ₹ 2,00,000 x 2	4,00,000

	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year =₹2, 80,000 x (30/100)	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(II)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @ 20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
(III)	Book value of one car as calculated in working note (II) above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (I) above	1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000	60,000
(IV)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which cars were taken back ₹ 1,96,000	
	Repair ₹ 10,000	2,06,000
	Loss on resale	36,000

7. (a) (i) List the disclosures required to be made as per AS-10. [7]

(ii) What will be the value of inventory as per AS 2:

On 31.3.2022, the closing stock of GR Ltd. includes 10,000 units costing @ ₹10 each, and the current market price of which as on that date was @ ₹ 9 per unit i.e. ₹ 90,000. [2]

(b) Write down the advantages of Pre-Packaged Accounting Software. [6]

Answer:

(a) (i) The financial statements should disclose, for each class of property, plant and equipment (AS -10):

I. the measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;
II. the depreciation methods used;
III. the useful lives or the depreciation rates used. In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;
IV. the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
V. a reconciliation of the carrying amount at the beginning and end of the period showing:
   (i) additions;
   (ii) assets retired from active use and held for disposal;
   (iii) acquisitions through business combinations;
   (iv) increases or decreases resulting from revaluations under paragraphs 34, 42 and 43 and from impairment losses recognised or reversed directly in revaluation surplus in accordance with AS 28;
   (v) impairment losses recognised in the statement of profit and loss in accordance with AS 28;
   (vi) impairment losses reversed in the statement of profit and loss in accordance with AS 28
   (vii) depreciation;

(viii) non-integral foreign operation in accordance with AS 11, The Effects of Changes in Foreign Exchange Rates; and

(ix) other changes.

The financial statements should also disclose:

I. the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

II. Expenditures on account of property, plant and equipment in course of construction.

III. Contractual commitment for the acquisition of property, plant and equipment.

(ii) According to AS 2, Valuation of Inventories will be lower of cost and Net Realisable Value. In the present case the cost is ₹(10×10,000) i.e. ₹1,00,000 and the Net Realisable Value is ₹90,000. Therefore the inventories will be valued at ₹90,000 i.e. at Net Realisable Value.

(b) Following are the advantages of Pre-Packaged Accounting Software :

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

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

(a) Basic features of a Joint Venture business;
(b) Difference between Double Entry System and Single Entry System;
(c) Minimum Rent / Dead Rent;
(d) Salient features of Computerized Accounting System.

Answer:

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

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

(b) The distinctions between double entry system and single entry system are as follows:

(i) In double entry system both the aspects (debit and credit) of all the transactions are recorded. But in single entry system, there is no record of some transactions, some transactions are recorded only in one of their aspects whereas some other transactions are recorded in both of their aspects.

(ii) Under double entry system, various subsidiary books such as sales book, purchases book etc. are maintained. Under single entry system, no such subsidiary books except cash book which is also considered as a part of ledger is maintained.

(iii) In the case of double entry system, there is a ledger which contains personal, real and nominal accounts. But in single entry system, the ledger contains some personal accounts only.

(iv) Under double entry system, preparation of trial balance is possible whereas it is not possible to prepare a trial balance in single entry system. Hence accuracy of work is uncertain.

(v) Under double entry system, Trading A/c, Profit & Loss A/c and the Balance Sheet are prepared in a scientific manner. But under single entry system, it is not possible – only a rough estimate of profit or loss is made and a Statement of Affairs is prepared which resembles a balance sheet in appearance but which does not present an accurate picture of the financial position of the business.

(c) Minimum Rent/Dead Rent:

A contract is entered into between the landlord and the lessee for payment of royalty, usually calculated upon the quantum of production or sale at a certain stipulated rate.

So, if there is little or no production or sale, the landlord would receive little or no royalty at all, thus affects the monetary interest of the landlord as well as the lessee. It is normally not acceptable to the owner, since sale or production mostly depends on the capacity of the person to whom the rights have been given. To avoid such a situation, the landlord and the lessee agreed upon a minimum periodical amount that the landlord will receive from the lessee, even if the actual royalty as calculated on the basis of actual production or sale is less than such minimum amount.

This assured and mutually agreed periodical minimum amount is known as “Minimum Rent”.

Example: Suppose royalty per ton of production is ₹10 and the minimum (annual) rent is ₹4,00,000. Now, the actual production is 35,000 tons, then actual royalty would become ₹3,50,000. In this case the minimum rent of ₹4,00,000 will have to be paid by the lessee. On the other hand, if the actual production is 46,000 tons, then the actual royalty would become ₹4,60,000. In this case ₹4,60,000 will have to be paid by the lessee.
Thus, as there is a stipulation for minimum rent, then either the minimum rent or the actual royalty whichever is more shall have to be paid by the lessee.

The minimum rent is also called dead rent, certain rent, fixed rent, etc.

(d) Salient features of Computerised Accounting System:

Computer information system environment exists when one or more computer(s) of any type or size is (are) involved in the processing of any information, whether those computers are operated by the entity or by a third party.

A computerised accounting environment will therefore have the following salient features:

(i) The processing of information will be by one or more computers.

(ii) The computer or computers may be operated by the entity or by a third party.

(iii) The processing of financial information by the computer is done with the help of one or more computer softwares.

(iv) A computer software includes any program or routine that performs a desired function or set of functions and the documentation required to describe and maintain that program or routine.

(v) The computer software used for the accounting system may be an acquired software or may be developed specifically for the business.

(vi) Acquired software may consist of a spread sheet package or may be prepackaged accounting software.