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) Outward Invoice issued is a source document of
(a) Purchase Book
(b) **Sales Book**
(c) Return Inward Book
(d) Return Outward Book

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

(iii) If any stock is taken by a co-venturer, it will be treated as
(a) **an income of the joint venture.**
(b) an expense of the joint venture.
(c) to be ignored from joint venture.
(d) it will be treated in the personal books of the co-venturer.

(iv) In the hire purchase system interest charged by vendor is calculated on the basis of
(a) **Outstanding cash Price**
(b) Hire purchase Price
(c) Installment amount
(d) None of the above

(v) The person in whose favour the bill is endorsed is known as __________.
(a) **Endorsee**
(b) Drawee
(c) Drawer
(d) None of the above

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

(vii) Which of the following is not a feature of Trial Balance
(a) It is a list of debit and credit balances which are extracted from various ledger accounts;
(b) It does not prove arithmetical accuracy which can be determined by audit;
(c) It is not an account. It is only a statement of account;
(d) All the transactions are primarily recorded in this book, hence it is the primary book of entry.

(viii) Accounting standards in India are issued by
(a) Comptroller and Auditor general of India
(b) Reserve bank of India

(c) The Institute of Accounting standards of India
(d) **The Institute of Chartered Accountants of India**

(ix) Bad debts Recovered ₹750. It will be
(a) Credited to Bad debts A/c
(b) Credited to debtor's personal A/c
(c) Debited to creditor's personal A/c
(d) **Credited to bad debts recovered A/c**

(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:

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

Column-I		Column-II	
(i)	**Garner Vs. Murray case**	**(A)**	**AS-10**
(ii)	**Purchases day book**	**(B)**	**Bills of Exchange**
(iii)	**Provision for unrealized profit**	**(C)**	**Insolvency of a partner**
(iv)	**Property, Plant and Equipment**	**(D)**	**Royalty Accounts**
(v)	**Noting Charges**	**(E)**	**Subsidiary Book**
		(F)	**Inter-departmental transfer at invoice price**
		(G)	**Retirement of a Partner**

Answer:

Column-I		Column-II	
(i)	Garner vs. Murray case	**(C)**	Insolvency of a partner
(ii)	Purchases day book	**(E)**	Subsidiary Book
(iii)	Provision for unrealized profit	**(F)**	Inter-departmental transfer at invoice price
(iv)	Property, Plant and Equipment	**(A)**	AS - 10
(v)	Noting Charges	**(B)**	Bills of Exchange

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

(i) According to AS-2 inventories should be valued at lower of cost and ________ value.
(ii) The withdrawal of money by the owner of business is called __________.
(iii) An allowance by a creditor to debtor for prompt payment is _________ ________.
(iv) Income & Expenditure Account is similar to _________ _________ A/c.
(v) Profit means excess of ___________ over _____________.

Answer:

(i) Net Realisable
(ii) Drawings
(iii) Cash Discount
(iv) Profit and Loss
(v) income, expenditure

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

(i) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.
(ii) Minimum rent is also called dead rent or fixed rent.
(iii) Hybrid Basis of Accounting is the combination of both Cash as well as Accrual basis.
(iv) Revenue expenditure is the outflow of funds to acquire an asset that will benefit the business for more than one accounting period.
(v) Honour of a Bill means that the acceptor refuses to honour his commitment on due date and for this, payment of the bill on presentation does not take place.

Answer:

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

Section - B

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

2. (a) A company purchased some machineries for ₹1,00,000 on 1st April, 2007. It charges depreciation @ 10% p.a. on reducing balance method every year. On 30th September 2011, a part of the machinery was sold for ₹14,000, the original cost of the machine was ₹ 20,000. Calculate the profit or loss on sale of machinery if the company closes its books on 31st March every year. [5]

Solution:

Calculation of Profit or Loss on Sale of part of Machinery: -

	₹
Cost of machinery on 01-04-2007	20,000
Less: Depreciation @ 10% on 31-03-2008	(2,000)
Value on 01-04-2008	18,000
(-) Depreciation @ 10% on 31-03-2009	(1,800)
Value on 01-04-2009	16,200
(-) Depreciation @ 10% on 31-03-2010	(1,620)
Value on 01-04-2010	14,580
(-) Depreciation @ 10% on 31-03-2011	(1,458)
Value on 01-04-2011	13,122
(-) Depreciation @ 10% on 30.09.2011 for 6th months (13,122 × 10% × 6/12)	(656)
Value at the time of sale on 30.09.11	12,466
Profit on sale (bal. fig)	1,534
Sales value	14,000

(b) Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1stApril. Sunil accepts it and returns it to Anil. On 15th April, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges ₹ 100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July. Before the new bill become due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil. [10]

Answer:

Journal entries in the books of Anil

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
April, 1	Bills Receivables A/c Dr. To, Sunil's A/c (Being acceptance by Sunil)		80,000	 80,000
April, 15	Bank A/c Dr. Discount A/c Dr. To, Bills Receivables A/c (Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)		78,000 2,000	 80,000
June, 30	Sunil's A/c Dr. To, Bank A/c (Being dishonour of the bill & noting charges paid by bank)		80,100	 80,100
June, 30	Bank A/c Dr. To, Cash A/c (Being cash paid to bank)		80,100	 80,100
July, 1	Sunil's A/c Dr. To, Interest A/c (Being interest due from Sunil)		3,000	 3,000
July, 1	Bills Receivables A/c Dr. To, Sunil's A/c (Being new acceptance by Sunil for ₹ 80,100 & interest of ₹ 3,000)		83,100	 83,100
July, 1	Bank A/c Dr. Rebate A/c Dr. To, Bills Receivables A/c (Being the amount received on retirement of the bill)		82,600 500	 83,100

3. The Income and Expenditure Account of the Enjoy Club for the year 2014 is as follows:

Expenditure	₹	Income	₹
To Salaries	**1,20,000**	**By Subscriptions**	**1,70,000**
To Printing & Stationery	**6,000**	**By Entrance Fee**	**4,000**
To Postage & Telephone	**2,000**	**By Contribution for Dinner**	**36,000**
To General Expenses	**12,000**		
To Interest and Bank Charges	**5,500**		
To Audit Fees	**2,500**		
To Annual Dinner Expenses	**25,000**		
To Depreciation	**7,000**		
To Surplus	**30,000**		
	2,10,000		**2,10,000**

The account has been prepared after the following adjustments:

Subscriptions outstanding on 31.12.2013	**16,000**	**The club owned a building since 2013**	**1,90,000**
Subscriptions outstanding on 31.12.2014	**18,000**	**The club had sports equipments on 31.12.2013 valued at**	**52,000**
Subscriptions received in advance on 31.12.2013	**13,000**	**At the end of the year after depreciation of ₹ 7,000**	
Subscriptions received in advance on 31.12.2014	**8,400**	**equipments amounted to**	**63,000**
		In 2013, the club had raised a	
Salary outstanding on 31.12.2013	**6,000**	**bank loan which is still unpaid**	**30,000**
Salary outstanding on 31.12.2014	**8,000**		**28,500**

Audit fees for 2013 paid during 2014	**2,000**	**Cash in hand on 31.12.2014** **Audit fees for 2014 not paid**	**2,500**

Prepare the Receipts and Payments Account of the Club for 2014 and the Balance Sheet as on 31st December, 2014. All workings should form part of your answer. [15]

Answer:

Enjoy Club
Receipts and Payments Account for the year ended 31.12 2014

Receipts	₹	Payments	₹
To Balance b/d (balancing figure)	13,600	By Salaries (WN)	1,18,000
		By Printing and Stationery	6,000
	1,63,400	By Postage & Telephone	2,000
To subscriptions (WN)	4,000	By General Expenses	12,000
To Entrance Fees	36,000	By Audit Fees	2,000
To Contribution for Dinner		By Annual Dinner Expenses	25,000
		BY Interest and Bank Charges	5,500
		By Sports Equipment (WN)	18,000
		By Balance c/d	28,500
	2,17,000		2,17,000

Balance Sheet of Bombay Club as at 31.12 2014

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			**Fixed Assets**		
Opening Balance	2,20,600		Building		1,90,000
Add: Surplus	30,000	2,50,600	Sports Equipment		
Bank Loan		30,000	Opening Balance	52,000	
Current Liabilities			Addition	18,000	
Creditors for expenses				70,000	
Salaries	8,000		Less: Depreciation	7,000	63,000
Audit Fees	2,500	10,500	**Current Assets**		
Subscription received in advance		8,400	Cash in Hand		28,500
			Subscriptions Due		18,000
		2,99,500			2,99,500

Working Notes:

Balance Sheet as at 31.12 2014

Liabilities	₹	Assets	₹
Capital Fund (balancing Figure)	2,20,600	Building	1,90,000
Bank Loan	30,000	Sports Equipment	52,000
Creditors for expenses:		Cash in Hand	13,600
Salaries	6,000	Subscriptions Due	16,000
Audit Fees	2,000		
Subscription received in advance	13,000		
	2,71,600		2,71,600

Subscriptions Accounts

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Balance b/d(31.12.13) - Opening Outstanding	 16,000	To, Balance b/d (31.12.13) - Opening Received in Advance	13,000
To, Income and Expenditure	1,70,000	To, Receipts and Payments (b.f)	1,63,400
To, Balance c/d (31.12.14) - Received for 2015	8,400	By , Balance c/d - Closing Outstanding	18,000
	1,94,400		1,94,400

Salaries

As per Income and Expenditure A/c	1,20,000
Add: outstanding of 2013	6,000
	1,26,000
Less: outstanding of 2014	8,000
	1,18,000

Sports Equipment

Closing Balance	63,000
Add: Depreciation	7,000
	70,000
Less: Opening balance	52,000
Purchases	18,000

4. Amit and Sumit are Partners sharing Profit and Losses as 3:2. Their Balance Sheet as on 31st March 2011is given below:

Equity & Liabilities	**₹**	**Assets**	**₹**
Capital Accounts:		**Non-Current Assets:**	
- Amit	**1,76,000**	**Land & Building**	**3,20,000**
- Sumit	**2,54,000**	**Investments (Market Value ₹ 55,000)**	**50,000**
General Reserve	**30,000**	**Current Assets:**	
Non-Current Liabilities:		**Stock**	**1,10,000**
Loan from Puneet	**3,00,000**	**Debtors**	
Current Liabilities:		**Less: Provision for Doubtful Debts**	**2,90,000**
Employer's Provident d Fund	**10,000**	**[3,00,000 – (10,000)]**	
Creditors	**50,000**	**Cash at Bank**	**50,000**
Total	**8,20,00**	**Total**	**8,20,000**

They decided to admit Puneet as a new Partner from 1st April 2012 on the following terms -

1. **Amit will give 1/3rd of his share and Sumit will give ¼th of his share to Puneet.**
2. **Puneet's Loan Account will be converted into his Capital.**
3. **The Goodwill of the Firm is valued at ₹ 3,00,000. Puneet will bring his share of Goodwill in Cash, and the same was immediately withdrawn by the Partners.**
4. **Land and Building was found undervalued by ₹ 1,00, 000.**
5. **Stock was overvalued by ₹ 60,000.**
6. **Provision for Doubtful Debts will be made equal to 5% of Debtors.**
7. **Investments are to be valued at their Market Price.**

It was decided that the Capital of the Firm after admission of New Partner would be ₹ 10,00,000. Capital Accounts of Partners will be re-adjusted on the basis of their Profit Sharing Ratio and excess or deficiency will be adjusted in Cash.

Prepare - (a) Revaluation A/c,
(b) Partners' Capital A/cs, and
(c) Balance Sheet of the Firm after admission of New Partner. [15]

Answer:

Computation of New PSR and Goodwill Adjustment				
Particulars	**Amit**	**Sumit**	**Puneet**	**Total**
(a) Old Ratio	$\frac{3}{5}=\frac{6}{10}$	$\frac{2}{5}=\frac{4}{10}$	-	3:2
(b) New Ratio after Puneet's Admission	$\frac{3}{5}-\frac{1}{5}=\frac{2}{5}=\frac{4}{10}$	$\frac{2}{5}-\frac{1}{10}=\frac{3}{10}$	$\left[\frac{3}{5}\times\frac{1}{3}\right]+\left[\frac{2}{5}\times\frac{1}{4}\right]=\frac{3}{10}$	4:3:3
(c) Sacrifice Ratio = (a) - (b)	$\frac{2}{10}$	$\frac{1}{10}$	-	2:1

Puneet's Share of Goodwill = ₹3,00,000 x 3/10 = ₹ 90,000, to be shared by Amit and Sumit in the Sacrifice Ratio 2:1, i.e.₹ 60,000 and ₹ 30,000 respectively.

Revaluation Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Stock	60,000	By Land and Building	1,00,000
To Provn. for Doubtful Debts (5% on ₹ 3,00,000 - ₹ 10,000)	5,000	By Investments (55,000 - 50,000)	5,000
To Gain on Revaluation shared in 3:2 ratio			
- Amit 24,000			
- Sumit 16,000	40,000		
Total	1,05,000	Total	1,05,000

Partners' Capital Account

Dr. **Cr.**

Particulars	**Amit**	**Sumit**	**Puneet**	**Particulars**	**Amit**	**Sumit**	**Puneet**
To, Amit & Sumit Cap.	-	-	90,000	By, Balance b/d	1,76,000	2,54,000	-
To, Bank – Goodwill	60,000	30,000	-	By, Revaluation Profit	24,000	16,000	-
				By, Puneet's Loan	-	-	3,00,000
				By, Bank (goodwill)	-	-	90,000
				By, Puneet's Cap. (G/w)	60,000	30,000	-
				By, General Res. (3:2)	18,000	12,000	-
To, Balance c/d	4,00,000	3,00,000	3,00,000	By, Bank (Bal.Figure)	1,82,000	18,000	-

Total	4,60,000	3,30,000	3,90,000	Total	4,60,000	3,30,000	3,90,000

Note: It is assumed that Goodwill contributed by Puneet is first withdrawn by Amit and Sumit. At the end, Balance Cash is contributed to maintain the Capital at the desired level ₹ 10,00,000. Alternatively, it can also be assumed that such Goodwill is not withdrawn first, and net balance Capital requirement is contributed by Partners.

Cash/Bank Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	50,000	By Amit (Goodwill withdrawn)	60,000
To Puneet Goodwill	90,000	By Sumit (Goodwill withdrawn)	30,000
To Amit - Capital Contribution (WN 3)	1,82,000	By Balance c/d (balancing figure)	2,50,000
To Sumit - Capital Contribution (WN 3)	18,000		
Total	3,40,000	Total	3,40,000

Balance Sheet of Firm on 31st March 2013 (after Admission)

Equity & Liabilities	**₹**	**Assets**	**₹**
Capital Accounts:		Non- Current Assets;	
Amit	4,00,000	Fixed Assets: Land and Buildings (3,20,000 +1,00,000)	4,20,000
Sumit	3,00,000	Investments: at Market Value	55,000
Puneet	3,00,000	Current Assets:	
		Stock (1,10,000 – 60,000)	50,000
Current Liabilities:		Debtors 3,00,000	
Employers' PF Contribution Payable	10,000	Less: Provision for Doubtful Debts (15,000)	2,85,000
Creditors	50,000	Cash/bank (WN 4)	2,50,000
Total	10,60,000	Total	10,60,000

5. (a) ABC Ltd. has 3 departments, A, B, C. The following information is provided:

	A ₹	**B** ₹	**C** ₹
Opening Stock	**6,000**	**8,000**	**12,000**
Consumption of direct materials	**16,000**	**24,000**	**-**
Wages	**10,000**	**20,000**	**-**
Closing Stock	**8,000**	**28,000**	**16,000**
Sales	**-**		**68,000**

Stock of each department is valued at cost to the department concerned. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were: Salaries ₹4,000, Printing & Stationery ₹2,000, Rent ₹12,000, Interest paid ₹ 8,000, Depreciation ₹ 6,000, Allocate expenses in the ratio of departmental gross profit. Opening figures of reserves for unrealised profits on departmental stocks were; Department B ₹2,000; Department C ₹ 4,000.

Prepare Departmental Trading and Profit & Loss Account for the year ended on March 31, 2015. [10]

Answer:

Departmental Trading and Profit & Loss Account
Dr. for the year ended on 31st March, 2015 Cr.

Particulars	A ₹	B ₹	C ₹	Total ₹	Particulars	A ₹	B ₹	C ₹	Total ₹
To Opening Stock	6,000	8,000	12,000	26,000	By internal t/f	36,000	66,000	-	1,02,000
To Direct —					By Sales	-	-	68,000	68,000
					By Closing Stock	8,000	28,000	16,000	52,000
Material consumed	16,000	24,000	-	40,000					
To Wages	10,000	20,000	-	30,000					
To Internal Transfer	-	36,000	66,000	1,02,000					
To gross Profit c/d	12,000	6,000	6,000	24,000					
	44,000	94,000	84,000	2,22,000		44,000	94,000	84,000	2,22,000
To Salaries	2,000	1,000	1,000	4,000	By Gross Profit b/d	12,000	6,000	6,000	24,000
To Printing & Stationery	1,000	500	500	2,000	By Net Loss c/d	4,000	2,000	2,000	8,000
To Rent	6,000	3,000	3,000	12,000					
To Depreciation	3,000	1,500	1,500	6,000					
To Interest paid	4,000	2,000	2,000	8,000					
	16,000	8,000	8,000	32,000		16,000	8,000	8,000	32,000
To Net Loss b/d				8,000					
To Provision for unrealized profit on Closing Stock				7,836		By Provision for unrealised profit on opening Stock			6,000
						By Balance transferred to Profit & Loss A/c			9,836
				15,836					15,836

Working Notes:

(i) FIFO method for stock issue has been assumed.

(ii) Calculation of unrealized profit on Closing Stock of Deptt B

		₹
(A)	Current cost incurred by Dept. B (₹24,000 + ₹20,000 + ₹36,000)	80,000
(B)	Profit included in Above (₹36,000 × 50/150)	12,000
(C)	Profit included in closing Stock of ₹28,000 (₹12,000 × ₹28,000/₹80,000)	4,200

(iii) Calculation of unrealised profit on Closing Stock of Dept C

		₹
(A)	Current cost incurred by Dept. C	66,000
(B)	Profit of Dept. B included in Above (₹66,000 × 10/110)	6,000
(C)	Cost element of Dept. B included in current cost (₹66,000 – 6,000)	60,000
(D)	Profit of Dept, A included in above cost (₹12,000 × ₹60,000/ ₹80,000)	9,000
(E)	Total Profit included in current cost of Dept. C (₹6,000 + ₹9,000)	15,000
(F)	Unrealised profit included in closing stock of ₹16,000 (₹15,000 × ₹16,000/₹66,000)	3,636

Total unrealized profit (₹4,200 + ₹3,636)

(b) The following information is available from the books of the trader for the period 1st Jan. to 31st March 2015:

- **I. Total Sales amounted to ₹76,000 including the sale of old furniture for ₹10,000 (book value is ₹ 12,300). The total cash sales were 80% less than total credit sales.**
- **II. Cash collection from Debtors amounted to 60% of the aggregate of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹2,600.**
- **III. Cheques received from customer of ₹5,000 were dishonoured; a sum of ₹ 500 is irrecoverable.**
- **IV. Bad Debts written-off in the earlier year realized ₹ 2,500.**
- **V. Sundry debtors on 1st January stood at ₹ 40,000.**

You are required to show the Debtors Ledger Adjustment Account in the General Ledger.
[5]

Answer:

In the General Ledger

Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2015 Jan1 March.31	To Balance b/d " General Ledger Adjustment A/c : - Sales Dishonoured - Cheque Dishonoured	 40,000 55,000 5,000	2015 Jan1 March.31	By, General Ledger Adjustment A/c : Cash Discount Allowed Bad Debts " Balance c/d	 57,000 2,600 500 39,900
		1,00,000			1,00,000
April 1	To Balance b/d	39,900			

Workings:

i. Computation of Credit Sales

Cash Sales were 80% less than Credit Sales. So, if credit sales are ₹ 100 Cash Sales will be ₹ 20; Total Sales (Cash + Credit) will be ₹120. Total Sales (₹ 76,000 - ₹ 10,000) = ₹ 66,000

Amount of Credit sales will be ₹ $\frac{66{,}000 \times 100}{120}$ = ₹ 55,000.

ii. Cash received

Cash received is 60% of opening Debtors plus Credit sales i.e. ₹40,000 + ₹55,000 = ₹95,000

Cash received $95{,}000 \times \frac{60}{100}$ = ₹57,000.

6. (a) A fire occurred on 1st July 2014 in the premises of A. Ltd. and business was practically disorganised up to 30th November 2014. From the books of account, the following information was extracted:

		₹
(1)	**Actual turnover from 1st July 2014 to Nov.2014**	**60,000**
(2)	**Turnover from 1st July to 30th Nov.2013**	**2,00,000**
(3)	**Net Profit for the last financial year**	**90,000**
(4)	**Insured Standing Charges for the last financial year**	**60,000**
(5)	**Turnover for the last financial**	**5,00,000**
(6)	**Turnover for the year ending 30th June 2014**	**5,50,000**
(7)	**Total standing Charges for the year**	**72,000**

The company incurred additional expenses amounting to ₹9,000 which reduced the loss in turnover. There was also a sayings during the indemnity period of ₹2,486.

The company holds a 'Loss of Profit' policy for ₹1,65,000 having an indemnity period for 6 months. There has been a considerable increase in trade and it has been agreed that an adjustment of 20% be made in respect of upward trend in turnover.

Compute claim under 'Loss of Profit Insurance'. [7]

Answer:

Particulars		₹
Short Sales:		
Standard Turnover (from 01.07.2013 to 30.11.2013)		2,00,000
Add: Increase @ 20%		40,000
		2,40,000
Less: Actual sale during indemnity period (i.e., from 01.07.2014 to 30.11.2014)		60,000
		1,80,000
∴ Gross Profit @ 30% on Short Sales		54,000
Additional Expenses:		
Least of the following:		
(a) Actual amount	9,000	
(b) Gross profit on additional sales @ 30% $\left(₹60,000 \times \frac{30}{100}\right)$	18,000	
$\left[\frac{\text{Gross Profit on Adjusted Annual Turnover}}{\text{Gross Profit on Adjusted Annual Turnover + Uninsured Standing Charges}}\right]$ × Additional Expenses $\frac{₹1,98,000}{₹2,10,000} \times ₹9,000 = 8,486$		8,486
		62,486
Less: Saving in Expenses		2,486
		60,000

$$\text{Net claim} = \text{Amount of Claim} \times \frac{\text{Amount of Policy}}{\text{G.P. on Annual Adjusted Turnover}}$$

$$= ₹60,000 \times \frac{1,65,000}{₹1,98,000} = ₹50,000$$

Note:

A. Rate of Gross Profit: $\frac{₹1,50,000}{₹5,00,000} \times 100 = 30\%$

B. 30% on ₹6,60,000 (i. e., ₹5,50,000 + 20%).

(b) Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st year, 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year. [8]

Answer:

1. Calculation of Interest for each year:

Interest for 1st year	₹ 3,00,000 x 150/360	₹ 1,25,000
Interest for 2nd year	₹ 3,00,000 x 108/360	₹ 90,000
Interest for 3rd year	₹ 3,00,000 x 69/360	₹ 57,500
Interest for 4th year	₹ 3,00,000 x 33/360	₹ 27,500
		₹ 3,00,000

Working Notes:

1. Hire Purchase Price = Down Payment + Installments
   = ₹ 3,00,000 +(₹ 4,20,000 + ₹ 3,90,000 + ₹ 3,60,000 + ₹ 3,30,000) = 18,00,000
2. Total Interest = H.P. Price - Cash Price
   = 18,00,000 - ₹ 15,00,000 = ₹ 3,00,000
3. Calculation of ratio of hire purchase price outstanding in the beginning of each year

A Year	B Outstanding Hire Purchase Price in the beginning of each year	C Installment Paid	D = B-C Outstanding Hire Purchase Price at the end of each year
1	15,00,000	4,20,000	10,80,000
II	10,80,000	3,90,000	6,90,000
III	6,90,000	3,60,000	3,30,000
IV	3,30,000	3,30,000	Nil

Ratio of Outstanding Hire Purchase Price at the beginning of year = 150:108:69:33

7. (a) J C Ltd. undertook a contract on 1st January,2016 to construct a building for ₹80 lakhs. The company found on 31st March,2016 that it had already spent ₹58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹31,50,000.

What amount should be charged to revenue and what amount of contract value to be recognized as turnover in the final account for the year ended 31st March,2016 as per provisions of AS-7 (revised)? [7]

Answer:

Particulars	₹
Cost incurred till 31st March,2016	58,50,000
Prudent estimate of additional cost for completion	31,50,000
Total cost of construction	90,00,000
Less: Contract Price	(80,00,000)
Total foreseeable loss	10,00,000

As per AS 7 (Revised) Construction Contracts when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

Accordingly, the loss of ₹10,00,000 is required to be recognized as on expense in the year 2015-16.

Also as per AS-7 when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Accordingly,

Contract work in progress = (58,50,000 × 100)/₹90,00,000 = 65%
Proportion of total contract value to be recognized as turnover
= 65% of ₹80,00,000 = ₹52,00,000.

(b) Discuss the salient features of Computerised Accounting System. [8]

Answer:

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:

- The processing of information will be by one or more computers.
- The computer or computers may be operated by the entity or by a third party.
- The processing of financial information by the computer is done with the help of one or more computer softwares.
- 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.
- The computer software used for the accounting system may be an acquired software or may be developed specifically for the business.
- Acquired software may consist of a spread sheet package or may be prepackaged accounting software.

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

(a) Difference between Sale and Consignment;
(b) Capital and Revenue Losses;
(c) Types of Cash Book;
(d) Elements of cost as per AS – 10.

Answer:

(a) Difference between Sale and Consignment:

(i) In sale the property in goods is transferred to the buyer immediately whereas in consignment the property is transferred to the buyer only when goods are sold by the consignee. The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.

(ii) In sale, the risk attached with the goods passes with ownership to the buyer. In case of a consignment, the risk attached with the goods does not pass to the consignee who acts as a mere agent. If there is any damage or loss to the goods it is borne by the consignor provided the consignee has taken reasonable care of the goods and the damage or loss is not due to his negligence.

(iii) The relationship of consignor and consignee is that of a principal and an agent as in a contract of agency whereas the relationship of buyer and seller is governed by the Sale of Goods Act.

(iv) Unsold goods on consignment are the property of the consignor and may be returned if not saleable in the market whereas goods sold on sale basis are normally not returnable unless there is some defect in them.

(b) Capital and Revenue Losses:

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

(c) Types of Cash Book:

There are different types of Cash Book as follows:

(i) Single Column Cash Book- Single Column Cash Book has one amount column on each side. All cash receipts are recorded on the debit side and all cash payments on the payment side, this book is nothing but a Cash Account and there is no need to open separate cash account in the ledger.

(ii) Double Column Cash Book- Cash Book with Discount Column has two amount columns, one for cash and other for Discount on each side. All cash receipts and cash discount allowed are recorded on the debit side and all cash payments and discount received are recorded on the credit side.

(iii) Triple Coulmn Cash Book- Triple Column Cash Book has three amount columns, one for cash, one for Bank and one for discount, on each side. All cash receipts, deposits into book and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on the credit side. In fact, a triple-column cash book serves the purpose of Cash Account and Bank Account both. Thus, there is no need to create these two accounts in the ledger.

(d) Elements of cost as per AS – 10:

The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non –refundable purchase taxes,, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'decommissioning, restoration and similar liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.