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

**(ii)** Noting charges on bills receivable dishonoured will appear on the __________side of General Ledger Adjustment Account under __________ Ledger.
(a) Debit side, Debtors' Ledger
(b) **Credit side, Debtors' Ledger**
(c) Debit side, Creditors' Ledger
(d) Credit side, Creditors' Ledger

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

**(iv)** Which account is used for transactions concerned with head office supplying resources to the branch?
(a) Capital account
(b) Current account
(c) **Branch account**
(d) Joint venture account

**(v)** _________ A/c is used for the reassessment of the assets and liabilities.
(a) General Reserve
(b) Profit & Loss
(c) **Revaluation**
(d) Both (b) & (c)

**(vi)** Repairs and Maintenance of Delivery Trucks is
(a) Selling and Distribution Expenses
(b) Indirect Expenses
(c) Administration Expenses
(d) **Both (a) & (b)**

**(vii)** Internal Liability represents _____________.
(a) **Proprietor's Equity**
(b) Loans from Banks
(c) Debtors
(d) None of the above

**(viii)** The cost of a Fixed Assets of a business has to be written off over its
(a) Natural Life
(b) Accounting Life
(c) Physical Life
(d) **Estimated Economic Life**

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

**(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

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

| | Column 'A' | | Column 'B' |
|---|---|---|---|
| **1.** | **Consumable stores** | **A** | **Expenditure for Business** |
| **2.** | **Trial Balance** | **B** | **State of deterioration due to old age** |
| **3.** | **Dilapidation** | **C** | **Journal Proper** |
| **4.** | **Opening Entry** | **D** | **Not a part of the final statements** |
| **5.** | **Interest on Capital** | **E** | **Revenue Expenditure** |

**Answer:**

| | Column 'A' | | Column 'B' |
|---|---|---|---|
| 1. | Consumable stores | E | Revenue Expenditure |
| 2. | Trial Balance | D | Not a part of the final statements |
| 3. | Dilapidation | B | State of deterioration due to old age |
| 4. | Opening Entry | C | Journal Proper |
| 5. | Interest on Capital | A | Expenditure for Business |

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

**(i) Every debit must have its corresponding and equal __________.**
**(ii) _________ is drawn to settle a trade transaction.**
**(iii) _____________ is the agent to whom goods are sent for selling.**
**(iv) If the credit side of Trading Account is greater than its debit ______ ______ will arise.**
**(v)________ ________is a summary of Cash Book.**

**Answer:**

(i) Credit;
(ii) Trade Bill;
(iii) Consignee;
(iv) Gross Profit;
(v) Receipts and Payments Account.

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

**(i)** Bad debt recovery will not appear in self balancing ledger system.

**(ii)** Book-keeping is considered as the end and Accountancy is considered as the beginning.
**(iii)** Drawee is the buyer or debtor, he has to pay the amount of the bill to the drawer on the due date.
**(iv)** Legacy received is a kind of donation.
**(v)** All capital incomes and expenditures are excluded from Income and Expenditure Account.

**Answer:**

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

## Section - B

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

**2. (a) Mr. Mitra could not tally his Trial Balance on 31.3.2017. He transferred ₹596 being excess of debit side to Suspense Account, The following errors were subsequently discovered:**

**(i) Sales Book was overcast by ₹500.**
**(ii) Purchases of Machinery ₹730 passed through Purchases Day Book.**
**(iii) An amount of ₹99 received from Mr. Young was posted to his account as ₹990.**
**(iv) A cash sale of ₹2,235 duly entered in Cash Book but posted to Sales Account ₹235.**
**(v) Salary Account was debited with ₹3,000 in place of ₹2,000.**

**Rectify the above errors through the Journal Entries. [6]**

**Answer:**

| Date | Particulars | Dr.(₹) | Cr.(₹) |
|---|---|---|---|
| | Sales A/c Dr.<br>To Suspense A/c<br>(Being Sales Book overcast, now rectified) | 500 | <br>500 |
| | Machinery A/c Dr.<br>Creditors A/c Dr.<br>To Purchases A/c<br>To Creditors for Machinery A/c<br>(Being purchases of machinery wrongly passed through Purchases Day Book, now rectified) | 730<br>730 | <br><br>730<br>730 |
| | Mr. Young A/c Dr.<br>To Suspense A/c<br>(Being amount received from Mister Young Y of ₹99, wrongly posted to his account as ₹990, now rectified) | 891 | <br>891 |
| | Suspense A/c Dr.<br>To Sales A/c<br>(Being cash sale of ₹2,235 duly entered in Cash Book but posted to Sales Account as ₹235, now rectified) | 2,000 | <br>2,000 |
| | Suspense A/c Dr.<br>To Salaries A/c<br>(Being Salaries A/c wrongly debited with ₹3,000 in place of ₹2,000, now rectified) | 1,000 | <br>1,000 |

**(b) S Ltd. of Surat consigned 5,000 litres of liquor costing ₹32 each to M Ltd. of Mumbai on 01.02.17. S Ltd. paid ₹5,000 as freight and insurance charges. During transit 200 litres were destroyed for which the insurance company agreed to pay ₹5,000 in full settlement.**
**M Ltd. paid clearing charges ₹6,100; godown rent ₹300 and Salesman's salary ₹900. It was entitled to 6% ordinary commission and 4% del credere commission on sales.**
**On 30.6.17 M Ltd. reported that 4,000 litres were sold at ₹1,65,000 and 100 litres were lost due to evaporation. A customer who bought liquor for ₹1,500 could pay only 40% of his amount. M Ltd. paid its balance due by a cheque.**
**Show the Consignment Account in the books of S. Ltd. [9]**

**Answer:**

**Books of S. Ltd.**
**Dr. Consignment to Mumbai Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 01.2.17 | To Goods sent on Consignment A/c [₹5,000 × ₹32] | 1,60,000 | 30.6.17 | By M. Ltd. A/c [Sale] | 1,65,000 |
| 01.2.17 | To Bank A/c [Expenses incurred] - Freight and Insurance charges | 5,000 | 30.6.17 | By Goods Destroyed-in-Transit A/c [WN:1] | 6,600 |
| **30.6.17** | To M. Ltd. A/c [Expenses incurred by consignee] - Clearing Charges 6,100 - Godown Rent 300 - Salesman's salaries 900 | 7,300 | 30.6.17 | By Consignment Stock A/c [WN: 1] | 24,500 |
| 30.6.12 | To M. Ltd. A/c [Commission due] - Ordinary commission [1,65,000 X 6%] 9,900 - Del credere commission [1,65,000 X 4%] 6,600 | 16,500 | | | |
| 30.6.12 | To P/L A/c [Profit on consignment — transferred] | 7,300 | | | |
| | | 1,96,100 | | | 1,96,100 |

**WORKINGS:**

1. Value of Goods Destroyed-in-Transit and Unsold Stock

| Particulars | Litres | Amount (₹) |
|---|---|---|
| Cost of goods sent [₹5,000 × ₹32] | 5,000 | 1,60,000 |
| **Add:** Consignor's expenses (being, freight and insurance charges) | | 5,000 |
| | 5,000 | 1,65,000 |
| **Less:** Goods destroyed -in-transit [₹1,65,000 × 200/5,000] | 200 | 6,600 |
| Goods received by consignee | 4,800 | 1,58,400 |
| Add: Non-recurring expenses incurred by consignee (being, clearing charges) | | 6,100 |
| | 4,800 | 1,64,500 |
| **Less:** Normal loss | 100 | |
| Unsold Stock = [5,000 - 200 - 100 - 4,000] = 700 litres | 4,700 | 1,64,500 |
| Hence, Value of 700 litres $1,64,500 \times \frac{700}{4,700}$ | | 24,500 |

**3. Namita started a grocery business on Jan. 1, 2017 with a capital of ₹ 10,000. She spent ₹1,500 on furniture and fixtures in cash. She maintains her books under single entry. Following figures are extracted from her books:**

| | | | |
|---|---|---|---|
| **Sales [inclusive of cash sales ₹8,000]** | **₹20,000** | **Bad debts written off** | **₹750** |
| **Purchase [inclusive of cash purchases ₹2,500]** | **₹12,000** | **Business expenses** | **₹1,050** |

**Namita used groceries worth ₹1,500 and took ₹13,000 in cash for personal use. On Dec. 31, 2017 her Sundry Debtors were ₹1,250 and Sundry Creditors were ₹1,500, Stock-in-hand on Dec. 31,2017 was ₹1,500.**

**Prepare a Trading and Profit & Loss Account for the year ended on 31st December, 2017 and Balance Sheet as on that date after writing off 10% Depreciation on furniture and fixtures.**

**[15]**

**Answer:**

**Books of Namita**

**Dr. Trading and Profit & Loss Account for the year ended 31.12.2017 Cr.**

| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
|---|---|---|---|---|---|
| To Purchases: | | | By Sales: Cash | 8,000 | |
| Cash | 2500 | | Credit | 12,000 | 20,000 |
| Credit | 9500 | | By Closing Stock | | 1,500 |
| | 12,000 | | | | |
| Less: Drawings [Groceries used for personal use] | 1,500 | 10,500 | | | |
| To Gross Profit c/d | | 11,000 | | | |
| | | 21,500 | | | 21,500 |
| To Business Expenses | | 1,050 | By Gross Profit b/d | | 11,000 |
| To Bad debts | | 750 | | | |
| To Depreciation on furniture [₹1,500 X 10%] | | 150 | | | |
| To Capital [Net Profit transferred] | | 9,050 | | | |
| | | 11,000 | | | 11,000 |

**Balance Sheet as on 31.12.2017**

| Liabilities | ₹ | ₹ | Assets | ₹ | ? |
|---|---|---|---|---|---|
| Capital | 10,000 | | Furniture & Fixture | 1,500 | |
| **Add:** Net profit | 9,050 | | **Less:** Depreciation @10% | 150 | 1,350 |
| | 19,050 | | | | |
| **Less:** Drawings | | | Stock-in-Trade Sundry | | 1,500 |
| [₹1,500 + 13,000] | 14,500 | 4,550 | Debtors | | 1,250 |
| | | | Cash[WN:3] | | 1,950 |
| Sundry Creditors | | 1,500 | | | |
| | | 6,050 | | | 6,050 |

**Collection form Debtors**

**Dr. Sundry Debtors Account Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Sales [₹20,000 - ₹8,000) | 12,000 | By Cash **[B/Fig.]** | 10,000 |
| | | By Bad Debts A/c | 750 |
| | | By Balance c/f | 1,250 |
| | 12,000 | | 12,000 |

**Payment to Creditors**

**Dr. Sundry Creditors Account Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To **Cash** [B/Fig.]<br>To Balance c/f | 8,000<br>1,500 | By Purchases [₹12,000 - ₹2,500] | 9,500 |
| | 9,500 | | 9,500 |

**Cash balance on 31.12.2017**

**Dr. Cash Account Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Capital [Capital introduction] | 10,000 | By Furniture & Fixture | 1,500 |
| To Sales | 8,000 | By Purchases | 2,500 |
| To Debtors [WN: 1] | 10,000 | By Creditors [WN: 2] | 8,000 |
| | | By Business Expenses | 1,050 |
| | | By Drawings | 13,000 |
| | | By Balance c/f [B/Fig.] | 1,950 |
| | **28,000** | | **28,000** |

**4. A, B and C are partners in a firm sharing profits and losses as to 5 : 3 : 2. Their Balance Sheet as on 31st March, 2017 was as follows:**

**Balance Sheet as at 31st March, 2017**

| | ₹ | | ₹ |
|---|---|---|---|
| **Sundry Creditors** | **3,00,000** | **Cash in hand** | **80,000** |
| **General Reserve** | **1,60,000** | **Bills Receivable** | **1,00,000** |
| **Partners' Loan Accounts:** | | **Sundry Debtors** | **1,20,000** |
| **A** | **80,000** | **Stock-in-trade** | **2,40,000** |
| **B** | **60,000** | **Furniture** | **40,000** |
| **Partners' Capital Accounts:** | | **Buildings** | **5,20,000** |
| **A** | **2,00,000** | | |
| **B** | **1,60,000** | | |
| **C** | **1,40,000** | | |
| | **11,00,000** | | **11,00,000** |

**They agree to change their profit sharing ratio as 6:5:5 from April 1, 2017. For this purpose, it is decided that:**

**(i) Furniture and Buildings be valued at ₹ 30,000 and ₹ 6,50,000 respectively.**

**(ii) A provision for bad debts be made @ 3 per cent on Sundry debtors and 6 per cent of bills receivable**

**(iii) The value of stock be reduced to ₹ 1,60,000.**

**(iv) The Goodwill of the firm is to be valued at two years' purchase of average net profits of the last five years, profit for these years being ₹ 40,000, ₹ 52,000, ₹ 64,000, ₹ 78,000 and ₹ 86,000 respectively.**

**The book value of the assets and liabilities is not to be altered.**

**Required:**

**(i) Pass Journal Entries to make adjustments in the partners' accounts.**

**(ii) Prepare the partner's Capital Accounts.**

**(iii) Prepare the New Balance Sheet as on April 1, 2017. [15]**

**Answer:**

**AB & C Partnership Firm**
**Journal Entries**

| Date | Particulars | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 2017 April 1 | Memorandum Revaluation A/c Dr.<br>To Provision for Bad Debts A/c (3600+6000)<br>To Furniture A/c<br>To Stock in Trade A/c<br>(Provision for bad debts made and decrease in value of furniture and stock ) | 99,600 | <br>9,600<br>10,000<br>80,000 |
| April 1 | Buildings A/c Dr.<br>To Memorandum Revaluation A/c<br>(Increase in value of Buildings) | 1,30,000 | <br>1,30,000 |
| April 1 | Memorandum Revaluation A/c Dr.<br>To A's Capital A/c<br>To B's Capital A/c<br>To C's Capital A/c<br>(Profit on revaluation of assets credited to partners' capital A/c's in old ratio) | 30,400 | <br>15,200<br>9,120<br>6,080 |
| April 1 | A's Capital A/c Dr.<br>B's Capital A/c Dr.<br>C's Capital A/c Dr.<br>To Memorandum Revaluation A/c<br>(Memorandum Revaluation Account closed by transferring the amounts to partners' capital accounts in new profit-sharing ratio) | 11,400<br>9,500<br>9,500 | <br><br><br>30,400 |
| April 1 | Goodwill A/c Dr.<br>To A's Capital A/c<br>To B's Capital A/c<br>To C's Capital A/c<br>(Goodwill account raised in books by by transferring the amounts to partners' capital accounts in old profit-sharing ratio) | 1,28,000 | <br>64,000<br>38,400<br>25,600 |
| April 1 | A's Capital A/c Dr.<br>B's Capital A/c Dr.<br>C's Capital A/c Dr.<br>To Goodwill A/c<br>(Goodwill account closed by by transferring the amounts to partners' capital accounts in new profit-sharing ratio) | 48,000<br>40,000<br>40,000 | <br><br><br>1,28,000 |
| April 1 | B's Capital A/c Dr.<br>C's Capital A/c Dr.<br>To A's Capital A/c<br>(Adjustment for general reserve made on account of change in profit-sharing ratio) | 2,000<br>18,000 | <br><br>20,000 |

**(ii)**

**Partners' Capital Accounts**

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

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| To Memorandum Revaluation A/c | 11,400 | 9,500 | 9,500 | By Balance b/d | 2,00,000 | 1,60,000 | 1,40,000 |
| To Goodwill A/c | 48,000 | 40,000 | 40,000 | By Memorandum Revaluation A/c | 15,200 | 9,120 | 6,080 |
| To A's capital A/c | - | 2,000 | 18,000 | By Goodwill A/c | 64,000 | 38,400 | 25,600 |
| To Balance c/d | 2,39,800 | 1,56,020 | 1,04,180 | By B's Capital A/c | 2,000 | - | - |
| | | | | By C's Capital A/c | 18,000 | - | - |
| | 2,99,200 | 2,07,520 | 1,71,680 | | 2,99,200 | 2,07,520 | 1,71,680 |

**(iii)**

**Balance Sheet as at April 1, 2017**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Sundry Creditors | 3,00,000 | Cash in hand | 80,000 |
| General Reserve | 1,60,000 | Bills receivable | 1,00,000 |

| | | | |
|---|---|---|---|
| Partners' Loan Accounts | | Sundry debtors | 1,20,000 |
| A | 80,000 | Stock in trade | 2,40,000 |
| B | 60,000 | Furniture | 40,000 |
| Partners' Capital Accounts | | Buildings | 5,20,000 |
| A | 2,39,800 | | |
| B | 1,56,020 | | |
| C | 1,04,180 | | |
| | 11,00,000 | | 11,00,000 |

**Working Notes:**

**(1) Valuation of Goodwill:**

Average profit = $\frac{(40,000+52,000+64,000+78,000+86,000)}{5}$ = ₹ 64,000.

Goodwill = ₹ 64,000 × 2 = ₹ 1,28,000.

**(2) Amount adjustable for General Reserve:**

| Particulars | A (₹) | B (₹) | C (₹) |
|---|---|---|---|
| General Reserve ₹160000 credited in old ratio (Cr.) 5:3:2 | 80,000 | 48,000 | 32,000 |
| Less: General Reserve debited in new ratio (Dr.) 6:5:5 | 60,000 | 50,000 | 50,000 |
| Net adjustment for General Reserve. | 20,000 | 2,000 | 18,000 |
| | (Cr.) | (Dr.) | (Dr.) |

5. **(a) Avishkar Ltd. carried on a retail business opened a branch A on 1st April, 2017 where all sales were on credit basis. All goods required by the branch were supplied from the head office and were invoiced to the branch at 10% above cost. The following were the transactions:**

| | April | May | June |
|---|---|---|---|
| | ₹ | ₹ | ₹ |
| **Goods sent to Branch (Cost to H.O)** | **80,000** | **1,00,000** | **1,20,000** |
| **Sales as shown by the branch monthly report** | **76,000** | **84,000** | **1,10,000** |
| **Cash received from Debtors and remitted to H.O.** | **40,000** | **1,02,000** | **70,000** |
| **Returns to H.O. (Cost to Branch)** | **2,400** | **1,200** | **4,800** |

**The stock of goods held by the branch on June 30, amounted to ₹ 1,06,800 at invoice price to branch. Record these transactions in the Head Office books, showing balances as on 30th June, 2017 and the branch gross profit for the three months ended on that date. [7]**

**Answer:**

**Dr. Branch Account in the Books of Head Office Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Goods Sent to Branch A/c | | By Bank A/c (remittance) | 2,12,000 |
| (₹ 3,00,000 × 110%) | 3,30,000 | By Goods Sent to Branch A/c | 8,400 |
| To Stock Reserve A/c | | By Goods Sent to Branch A/c | |
| (₹ 1,06,800 × 10/110) | 9,709 | (Loading on net goods sent) | 29,236 |
| To Net Profit t/f to General | | [(₹ 3,30,000 – ₹ 8,400) × 10/110] | |
| P & L A/c | 74,727 | By Balance c/d | |
| | | Debtors (₹2,70,000 – ₹2,12,000) | 58,000 |
| | | Stock | 1,06,800 |
| | 4,14,436 | | 4,14,436 |

**Note :** Branch debtors = Sales – Remittance = ₹2,70,000 - ₹2,12,000 = ₹58,000

**(b) The following information is available from the books of the trader for the period 1st January to 31st March 2017.**

**a) Total sales amounted to ₹1,52,000 including the sale of old furniture for ₹20,000 (book value is ₹24,600). The total cash sales were 80% less than total credit sales.**

**b) Cash collection from Debtors amounted to 75% of the aggregate of the opening Debtors and Credit safes for the period. Discount allowed to them amounted to ₹5,200**

**c) Cheques received from customer of ₹10,000 were dishonoured; a sum of ₹2,000 is irrecoverable.**

**d) Bad Debts written-off in the earlier year realized ₹5,000.**

**e) Sundry debtors on 1st January stood at ₹80,000.**

**You are required to show the Debtors' Ledger Adjustment Account in the General Ledger.**

**[8]**

**Answer:**

**In the General Ledger**

**Dr. Debtors' Ledger Adjustment Account Cr.**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---|---|---|---|---|---|
| 01.01.17 | To Balance b/d | 80,000 | 31.03.17 | By General Ledger Adjustment A/c (In Debtors Ledger) | |
| 31.03.17 | To General Ledger Adjustment A/c (In Debtors Ledger) | | | Cash collected | 1,42,500 |
| | Sales | 1,10,000 | | Discount Allowed | 5,200 |
| | Cheque dishonoured | 10,000 | | Bad debts | 2,000 |
| | | | 31.03.17 | By balance c/d | 50,300 |
| | | 2,00,000 | | | 2,00,000 |

**Workings:**

1. Computation of credit sales:
   Cash sales were 80% less than credit sales. So, if credit sale is ₹ 100 cash sales are ₹20.
   Hence, total sale is ₹120.
   Here, total sales = ₹(1,52,000 – 20,000) = ₹1,32,000.
   Amount of credit sales = ₹1,32,000 ×100/120 = ₹1,10,000.
2. Cash received:
   Cash received is 75% of opening debtors plus credit sales i.e. ₹(80,000 + 1,10,000) =₹1,90,000
   So, Cash received = 75% of ₹1,90,000 = ₹1,42,500.

**6. (a) The following entries without narration have been recorded. Please write the entries with complete narration. Marks will be awarded only for complete narration. 6**

| | | | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|---|
| **1st year** | **1.** | **Royalty A/c** | **Dr.** | **16,000** | |
| **Dec. 31** | | **Short working A/c** | **Dr.** | **4,000** | |
| | | **To Landlord A/c** | | | **20,000** |
| | **2.** | **Landlord A/c** | **Dr.** | **20,000** | |
| | | **To Bank A/c** | | | **20,000** |
| | **3.** | **P and L A/c** | **Dr.** | **20,000** | |
| | | **To Royalty A/c** | | | **20,000** |
| **2nd year** | **1.** | **Royalty A/c** | **Dr.** | **22,000** | |
| **Dec. 31** | | **To Landlord A/c** | | | **22,000** |

| | | | |
|---|---|---|---|
| **2. Landlord A/c** | **Dr.** | **22,000** | |
| **To Bank A/c** | | | **20,000** |
| **To Short working A/c** | | | **2,000** |
| **3. P and L A/c** | **Dr.** | **24,000** | |
| **To Royalty A/c** | | | **22,000** |
| **To Short working A/c** | | | **2,000** |

**[12]**

**Answer:**

| | | | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|---|
| 1st year Dec. 31 | 1. | Royalty A/c<br>Short working A/c<br>To Landlord's A/c<br>(Royalty amounting of ₹16,000 credited to landlord's account subject to minimum rent of ₹20,000) | Dr.<br>Dr. | 16,000<br>4,000 | <br><br>20,000 |
| | 2. | Landlord's A/c<br>To Bank A/c<br>(Payment of the sum due to landlord) | Dr. | 20,000 | <br>20,000 |
| | 3. | P and L A/c<br>To Royalty A/c<br>(Transfer of royalty to the profit and loss A/c) | Dr. | 20,000 | <br>20,000 |
| 2nd year Dec. 31 | 1. | Royalty A/c<br>To Landlord A/c<br>(Royalty amounting to ₹22,000 credited to landlord's A/c) | Dr. | 22,000 | <br>22,000 |
| | 2. | Landlord's A/c<br>To Bank A/c<br>To Short working A/c<br>(Payment of the amount due to landlord after recovery of ₹2,000 against short working) | Dr. | 22,000 | <br>20,000<br>2,000 |
| | 3. | Profit and Loss A/c<br>To Royalty A/c<br>To Short working A/c<br>(Royalty amounting to ₹22,000 and irrecoverable short working of ₹2,000 transferred to profit and loss A/c). | Dr. | 24,000 | <br>22,000<br>2,000 |

**Note:** In entry 1 of first year, royalty has been debited with ₹ 16,000 whereas in entry 3, transfer of royalty to Profit and Loss Account has been recorded at ₹ 20,000. This implies that another royalty of ₹4,000 (paid/payable) relates to the year 1 which has not been given in the question.

**(b) From the following details find out the amount to be debited to Profit and Loss A/c as fresh provision for doubtful debts during 2017-18.**
**Debtors was ₹ 1,20,000 as on 31.03.2018; Bad debt during the year ₹ 6,000; Provision for bad debts as on 01.04.2017 ₹ 8,000; Provision for doubtful debts to be kept at 5% of total debtors. [3]**

**Answer:**

Provision for Bad Dept is ₹1,20,000×5% = ₹6,000

| Dr. | Provision for Bad Debts Account | | Cr. |
|---|---|---|---|
| **Particulars** | **Amount (₹)** | **Particulars** | **Amount (₹)** |
| To, Bad Debt A/c | 6,000 | 01.04.2017<br>By, Balance c/d | 8,000 |
| 31.03.2018<br>To, Balance c/f | 6,000 | 31.03.2018<br>By, Profit and Loss A/c **[Balancing Figure]** | 4,000 |
| | 12,000 | | 12,000 |

**7. (a) On December 1, 2017, PP Ltd. purchased ₹8,00,000 worth of land for a factory site. PP Ltd. razed an old building on the property and sold the materials it salvaged from the demolition. PP Ltd. incurred additional costs and realized salvage proceeds during December 2017 as follows:**

| | ₹ |
|---|---|
| **Demolition of old building** | **1,00,000** |
| **Legal fees for purchase contract and recording ownership** | **20,000** |
| **Title guarantee insurance** | **24,000** |
| **Proceeds from sale of salvaged materials** | **16,000** |

**In its December 31,2017 Balance Sheet, PP Ltd. should report a balance in the land account. [6]**

**Answer:**

As per AS-10, the cost of land should include all expenditure incurred to prepare it for its ultimate use (such as factory size) is considered part of the cost of land. Before the land can be used as a building site, it must be purchased (which involves costs such as purchase price, legal fees etc.) and the old building must be razed (cost of demolition less proceeds from sale of scrap). The total balance in the land account should be ₹ 9,28,000.

| Particulars | ₹ |
|---|---|
| Purchase price | 8,00,000 |
| Legal Fees | 20,000 |
| Title Insurance | 24,000 |
| Net cost of demolition (₹1,00,000 – ₹16,000) | 84,000 |
| | 9,28,000 |

**(b) Discuss the disadvantages of customized accounting package. [9]**

**Answer:**

Following are the disadvantages of customized accounting package:

1. Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system.

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

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

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

**(a) Advantages of Self-Balancing System;**
**(b) Differences between Branch Account and Departmental Account.**
**(c) GAAP**
**(d) Weaknesses of Single Entry System**

**Answer:**

**(a) Advantages of Self-Balancing System:**

The advantages of Self-Balancing system are:
(a) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.
(b) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the abstruction of individual personal ledger balances.
(c) Various works can be done quickly as this system provides sub-division of work among the different employees.
(d) This system is particularly useful
(i) where there are a large number of customers or suppliers; and
(ii) where it is desired to prepare periodical accounts.

**(b) Differences between Branch Account and Departmental Account:**

| Points | Branch Account | Departmental Account |
|---|---|---|
| Allocation of expenses | In case of branch accounting allocation of common expenses does not arise. | Allocation of common wealth is the fundamental consideration here. |
| Result of the operation | It shows that trading result of each individual branch. | It shows the trading result of each individual department. |
| Maintenance of | Method of Branch Accounting | It is centrally maintained. |

| | | |
|---|---|---|
| accounts | depends on the nature and type of branch whether dependent or independent. | |
| Types of accounting | It is practically a condensation of accounts. | It is a segment of accounts. |
| Control | It is not possible to control all branch by the Head Office | Effective control is possible by the departmental supervisors who is closely related and who is to keep a constant watch over the departments. |

**(c) GAAP :**

A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board are called Generally Accepted Accounting Principles (GAAP). These are the common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information.

GAAP is to be followed by companies so that investors have a optimum level of consistency in the financial statements they use when analyzing companies for investment purposes. GAAP cover such aspects like revenue recognition, balance sheet item classification and outstanding share measurements.

**(d) Weaknesses of Single Entry System**

(a) As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.
(b) Profit or loss can be found out only by estimates as nominal accounts are not maintained.
(c) It is not possible to make a balance sheet in absence of real accounts.
(d) It is very difficult to detect frauds or errors.
(e) Valuation of assets and liabilities is not proper.
(f) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
(g) It is quite likely that the business and personal transactions of the proprietor get mixed.