Paper 5 – Financial Accounting

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Full Marks:100 **Time allowed: 3 hours**

[This paper contains 9 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

1. Answer the following questions **[5 ×1 = 20]**

(a) Multiple choice questions:

(I) Accounting does not record non-financial transactions because of
(a) Entity concept
(b) Cost concept
(c) Accrual concept
(d) Money Measurement Concept

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

(III) Depreciation is a process of
(a) Valuation
(b) Allocation
(c) Both valuation and allocation
(d) None of the above

(IV) Ground Rent or surface rent means
(a) Minimum Royalty payable
(b) Maximum Royalty Payable
(c) Fixed rent payable in addition to minimum rent
(d) Rent recovered at the end of lease term

(V) Goods are sent by the head office to the branch but not received by the branch before the close of financial year are credited by head office to
(a) Branch account
(b) Trading account
(c) Goods sent to branch account
(d) Goods-in-transit account

(b) Match the following: **[5 × 1 = 5]**

	Column 'A'		Column 'B'
1.	AS - 7	A	Revenue Recognition
2.	Remittance in transit	B	Receipts and Payments Account
3.	Entrance fee	C	Work certified
4.	AS - 9	D	Dissolution of Partnership Firm
5.	Garner V Murray Rule	E	Branch Adjustment

(c) State whether the following statements are true or false **[5 × 1 = 5]**
(i) Income and expenditure account is a real account.
(ii) Royalty is the sum paid by lessee to lessor for using the rights of latter.
(iii) Partial Repossession is related to Hire Purchase agreement.
(iv) Realisation account is opened at the time of dissolution of the partnership firm.

(v) Amount spent for white washing the factory building is treated as Revenue Expenditure.

(d) Answer the following: **[5 × 2 = 10]**

(i) A fire damaged in the premises of a trader resulting in loss of stock of ₹ 1,10,000. The goods salvaged from fire was ₹ 40,000. The policy was for ₹ 50,000 eligible for average clause. Decide the quantum of claim to be lodged with the insurance company.

(ii) The following information has been extracted from the books of lessee for the year 2012-13:
Short workings ₹ 8,000
Short workings recovered ₹ 12,000
Actual royalty based on output ₹ 30,000
Calculate Minimum Rent.

(iii) From the following particulars ascertain the value of unsold stock on Consignment.

Goods sent (1,000 kgs.)	₹ 20,000
Consignor's expenses	₹ 4,000
Consignees non-recurring expenses	₹ 3,000
Sold (800 kgs.)	₹ 40,000
Loss due to natural wastage (100 kgs.)	

(iv) From the following particulars, determine Closing Stock at Branch

	₹		₹
Opening stock at the Branch	60,000	Expenses:	
Goods sent to Branch	1,80,000	Salaries	20,000
Sales(Cash)	2,40,000	Other Expenses	8,000

The branch sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

(v) Debtors ledger include ₹9,000 due from Pin top Ltd. whereas creditors ledger include ₹ 5,400 due to Pin top Ltd. Journalise the above.

Section B
Answer any five from the following.
Each question carries 15 marks [5 × 15 = 75]

2. Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry system. No ready figures are available for the total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2013 is given below:

Receipts	₹	Payments	₹
Cash in hand	10,800	Salaries	22,000
Receipts from Customers	2,70,000	Rent	4,400
Cash sales	32,000	Advertising	1,800
		Printing	1,600
		General expenses	19,100
		Payment to Trade Creditors	2,24,000
		Doll's drawings	4,000

		Cash in hand	35,900
	3,12,800		3,12,800

Following balances are available from their books as on 30th June, 2012 and 30th June, 2013.

Particulars	As on 30-06-2012	As on 30-06-2013
Stock in Trade	44,000	50,000
Sundry debtors	?	70,000
Sundry Creditor	46,800	37,000
Furniture	6,000	?

Other information:
(i) Discount allowed ₹ 2,800
(ii) Discount earned ₹ 2,400
(iii) Outstanding printing ₹ 500
(iv) Capital of Doll as on 30th June, 2010 was ₹ 4,000 more than Capital of Dolly.
(v) Provide depreciation of Furniture @ 10% p.a.

From the above you are required to prepare in the books of Doll and Dolly:
(i) The trading and profit and loss Account for the year ended 30th June, 2013 and
(ii) The Balance Sheet as on the date. **[15]**

3. (a) The following is the summarized balance sheet as at 30th June, 2014 of Breeze and Strom, who were partners sharing profits and losses in the ratio of 3:2

		₹			₹
Creditors		97,500	Land and Buildings		30,000
Capital Accounts :			Motor Vehicles		18,300
Breeze	85,000		Stock		72,800
Strom	63,000	1,48,000	Debtors	1,13,200	
			Less: provision	2,450	1,10,750
			Bank		10,000
			Cash		3,650
		2,45,500			2,45,500

The partners decided to dissolve the firm on and from the date of balance sheet. Motor vehicles and stock were sold for cost at ₹ 16,950 and ₹ 77,600 respectively and all debtors accounts were realised in full. Breeze took over land and buildings at an agreed valuation of ₹ 43,500. Creditors were paid off subject to discount amounting to ₹ 1,700. Expenses of realisation were ₹ 1,250. Show necessary journal entries and ledger accounts to close the books of the firm. **[12]**

(b) On 31.12.2013, Sundry Debtors and Provision for Bad Debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2014, ₹ 3,000 are bad and written off on 30.9.2014, an amount of ₹ 400 was received on account of a debt which was written off as bad last year on 31.12.2014, the debtors left was verified and it was found that sundry debtors stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as bad.
Prepare Provision for bad debts A/c. **[3]**

4. (a) Munni of Mumbai and Chunni of Chennai entered into a Joint Venture of purchase and sale of Jute and cotton .They agreed to share profits and losses in the ratio 3:2 and also to be entitled to an interest of 10% p.a. (on monthly basis) on Capital invested by each of them .

The following transactions took place :

On 1st July 2015, Chunni purchased 800 bales of Cotton @ ₹ 424 per bale, the brokerage being ₹ 12,800 and despatched to Chunni incurring ₹ 6,400 as freight and insurance.

On 15th July 2015 , Munni purchased 1,200 bales of Jute @ ₹ 192 per bale, Brokerage being ₹8 per bale and despached to Munni incurring ₹4,800 as freight and insurance.

On 1st August 2015, Chunni sold 300 bales of Cotton @ ₹ 576 per bale, brokerage being ₹ 16 per bale.
On 1st September 2015, Chunni sold 450 bales of Cotton @ ₹ 580 per bale, brokerage being ₹ 12 per bale.
On 15th August 2015, Munni sold 400 bales of Jute @ ₹ 2,800 per bale, brokerage being ₹ 8 per bale and on 15th September 2015, sold 700 bales of Jute @ ₹ 292 per bale brokerage being ₹4 per bale. Each partner took unsold stock in his hand at cost plus $12\frac{1}{2}$ % on 30th September 2015, on which date venture was closed.
Compute the value of unsold stock held by Munni and that of held by Chunni. **[7]**

(b) State with reasons whether the following are capital or revenue expenditure:

(i) Freight and cartage on the new machine ₹ 150, and erection charges ₹ 500.
(ii) Fixtures of the book value of ₹ 2,500 sold off at ₹ 1,600 and new fixtures of the value of ₹ 4,000 were acquired. Cartage on purchase ₹ 100.
(iii) A sum of ₹ 400 was spent on painting the factory.
(iv) ₹ 8,200 spent on repairs before using a second hand car purchased recently, to put it in usable condition. **[8]**

5. (a) From the following Receipts and Payments Account, prepare Final Accounts of a Sports Club:

Receipts	₹	Payments	₹
To Subscriptions	15,000	By Land	10,000
To Donations	50,000	By Buildings	40,000
To Legacies	10,000	By Furniture	10,000
To Entrance Fees	5,000	By Sports Materials	5,000
To Life Membership Fee	3,000	By Sports Expenditure	6,000
To Sports Income	17,000	By General Expenses	1,000
To Sundries	5,000	By Magazines	1,500
To Sale of Old Papers	500	By Ground expenses and Maintenance	4,000
		By Cl. Balance	28,000
	1,05,500		1,05,500

Capitalize half of donations, legacies, entrance fee and life membership fee. Subscriptions still outstanding amounts to ₹ 5,000. Depreciate fixed assets by 5% and sports material by 10%. **[8]**

(b) A fire occurred on 15th September 2014 in the premises of Sen & Co. from the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

Particulars	Amount (₹)
Stock at cost on 1-1-2013	40,000
Stock at cost on 1-1-2014	60,000
Purchases in 2013	80,000
Purchase from 1-1-2014 to 15-9-2014	1,76,000
Sales in 2013	1,20,000

Sales from 1-1-2014 to 15-9-2014	2,10,000

During the current year cost of purchase has risen by 10% above last year's level. Selling prices have gone up by 5%. Salvage value of stock after fire was ₹ 4,000. **[7]**

6. (a) Ram of Patna consigns to Shyam of Delhi for sale at invoice price or over. Shyam is entitled to a commission @5% on invoice price and 25% of any surplus price realized. Ram draws on Shyam at 90 days sight for 80% of the invoice price as security money. Shyam remits the balance of proceeds after sales, deducting his commission by sight draft.
Goods consigned by Ram to Shyam costing ₹ 20,900 including freight and were invoiced at ₹ 28,400. Sales made by Shyam were ₹ 26,760 and goods in his hand unsold at 31st Dec, represented an invoice price of ₹ 6,920. (Original cost including freight ₹ 5,220). Sight draft received by Ram from Shyam upto 31st Dec was ₹ 6,280. Others were in- transit.
Prepare necessary Ledger Accounts in the books of Ram. **[12]**

(b) TVSM Ltd. has taken a transit insurance policy. Suddenly, in the year 2014-15, the percentage of accident has gone up to 7% and the company wants to recognize insurance claim as revenue in 2014-15. In accordance with relevant accounting standard. Do you agree? **[3]**

7. (a) X purchased a truck for ₹ 2,80,000, payment to be made ₹ 91,000 down and 3 installments of ₹ 76,000 each at the end of each year. Rate of interest is charged at 10% p.a. Buyer depreciates assets at 15% p.a. on written down value method.
Because of financial difficulties, X, after having paid down payment and first installment to the end of 1st year could not pay second installment and seller took possession of the truck. Seller, after spending ₹ 9,200 on repairs of the asset sold for ₹1,50,000. Show the relevant accounts in the books of the purchaser. **[8]**

(b) M/s Chandu stores has three departments viz. A, B and C. At the end of the year 31st March 2013 goods were included in departmental stocks out of inter-departmental transfers loading their own cost as follows:
From A to B ₹ 25,000 and to C ₹ 18,000 respectively at a profit of 25% on cost.
From B to A and C ₹ 9,000 and ₹ 6,000 respectively at a profit of $33^1/_3$% on cost.
From C to A and B ₹ 25,000 and ₹ 27,000 respectively at a profit of 20% on transfer price.
Departmental Managers are entitled to 10% commission on net profit subject to unrealized profit on departmental transfers being eliminated. Departmental profits after charging Manager's commission but before adjustment of unrealised profits are:
A— ₹ 1,57,500; B— ₹ 1,62,000; C— ₹ 2,16,000.
You are required to calculate the amount of unrealised profits, correct amount of Manager's commission and departmental profits after charging Manages commission. **[7]**

8. (a) On 1.1.11 machinery was purchased for ₹ 80,000. On 1.7.12 additions were made to the amount of ₹ 40,000. On 31.3.2013, machinery purchased on 1.7.2012, costing ₹ 12,000 was sold for ₹ 11,000 and on 30.06.2013 machinery purchased on 1.1.2014 costing ₹ 32,000 was sold for ₹ 26,700. On 1.10.2013, additions were made to the amount of ₹ 20,000. Depreciation was provided at 10% p.a. on the Diminishing Balance Method.
Show the Machinery Accounts for three years from 2011-2013. (year ended 31st December. **[12]**

(b) Write down the differences between Revenue Receipt and Capital Receipt. **[3]**

9. Write short notes on any three of the following: [3 × 5 = 15]
(a) Going Concern Concept

(b) Difference between receipts and payments a/c and income and expenditure a/c
(c) Relevant Disclosures of Accounting Policies as per AS 1
(d) Causes for depreciation.