# 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)** _________ liabilities represent proprietor's equity, i.e. all those amount which are entitled to the proprietor
(a) External;
(b) Debenture;
(c) Internal;
(d) None of the above.

**(ii)** A transaction without immediate cash settlement is known as
(a) Cash Transaction
(b) Credit Transaction
(c) Deferred Transaction
(d) None of the above

**(iii)** The Accommodation bill is drawn
(a) to finance actual purchase or sale of goods
(b) to facilitate trade transmission
(c) when both parties are in need of funds
(d) None of the above

**(iv)** The Receipts and Payments Account generally begins with
(a) Credit Balance
(b) Debit Balance
(c) Both Debit and Credit Balance
(d) None of the above

**(v)** Goods are transferred from Department A to Department B at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department B is ₹90,000, then the amount of stock reserve on closing stock will be
(a) ₹30,000
(b) ₹22,500
(c) ₹45,000
(d) None of the above

**(vi)** 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

**(vii)**____________ ____________ contains the transactions relating to goods that are returned by us to our creditors
(a) Return Inward
(b) Return Outward
(c) Sales Daybook
(d) None of the above

**(viii)** The basic principles of __________ concept is that business is assumed to exist for an indefinite period
(a) Going Concern
(b) Business Entity
(c) Money Measurement
(d) None of the above

**(ix)** Capital Profit arises from which of the following?
(a) Sale of goods
(b) Premium received on issue of shares
(c) Profit made on re-issue of forfeited shares
(d) Both (b) and (c)

**(x)** Contingent liability would appear
(a) on the liability side of the Balance Sheet
(b) on the assets side of the Balance Sheet
(c) do not shown in the books of accounts
(d) as a note in Balance Sheet

**Answer:**

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

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

| | **Column 'A'** | | **Column 'B'** |
|---|---|---|---|
| **1.** | **Timing of recognition of Revenue** | **A** | **Income and Expenditure Account** |
| **2.** | **Art of recording business transactions** | **B** | **Balance Sheet** |
| **3.** | **Statement of financial position of the business entity on a particular date** | **C** | **Account Sales** |
| **4.** | **Periodical statement prepared by consignee** | **D** | **Book-keeping** |
| **5.** | **It follows Nominal Account** | **E** | **AS 9** |

**Answer:**

| | **Column 'A'** | | **Column 'B'** |
|---|---|---|---|
| 1. | Timing of recognition of Revenue | E | AS 9 |
| 2. | Art of recording business transactions | D | Book-keeping |
| 3. | Statement of financial position of the business entity on a particular date | B | Balance Sheet |
| 4. | Periodical statement prepared by consignee | C | Account Sales |
| 5. | It follows Nominal Account | A | Income and Expenditure Account |

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

**(i) _____________ are uncollectable or irrecoverable debt or debts.**
**(ii) The ___________ discount is never entered in the books of accounts.**
**(iii) Outstanding subscription is shown in the ___________ side of Balance Sheet.**
**(iv) According to AS-2 inventories should be valued at lower of cost and ______ value.**
**(v) Realisation account is opened at the time of __________ of firm.**

**Answer:**

**(i)** Bad Debt;
**(ii)** trade
**(iii)** Assets
**(iv)** Net realizable
**(v)** Dissolution of the firm

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

**(i) Depreciation indicates diminution in service potential.**
**(ii) Shortworkings refer to the amount by which the actual royalty exceeds the minimum rent.**
**(iii) Drawer is the seller or a creditor.**
**(iv) Closing stock will be posted to Trading A/c as well as in the Balance Sheet as a liability.**
**(v) Assets are classified into fixed and current assets as per cost principle.**

**Answer:**

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

## Section - B

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

**2. (a) Classify the following between Capital and Revenue giving reasons.**

**(i) Heavy expenditure incurred on advertisement at the time of introducing a new product.**
**(ii) Accrued Dividend or Interest included in the cost price of investment.**
**(iii) Cost of imported goods confiscated by Customs Authority for non-disclosure of material facts.**
**(iv) Construction of College common room for students.** **[2+2+1+1=6]**

**Answer:**

**(i)** Usually the benefit of this type of advertisement is enjoyed over more than one accounting period. As such it is deferred revenue expenditure. As per AS-26, it is a part of other expenses which is shown in the Profit and Loss A/c and to be treated as revenue expenditure.

**(ii)** The accrued interest or dividend must be related to a period before the date of purchase of the investment. For this it has been included in the cost price of investment. The cost of Investment minus accrued Interest or Dividend is a capital Expenditure. It is the cost of acquisition of asset. The payment for the accrued interest or dividend is a revenue expenditure.

**(iii)** It is a revenue loss. It has arisen in course of the normal business activities. Though it is an abnormal loss which is non-regular and non-recurring in nature.

**(iv)** It will cause an addition to the College building, a fixed asset. Hence, it is Capital Expenditure in nature.

**(b) M and N entered into a one joint venture agreement to share the profits and losses in the ration 2:1. M supplied goods worth ₹1,20,000 to N incurring expenses amounting to ₹4,000 for freight and insurance. During transit goods costing 10,000 became damaged and a sum of 6,000 was recovered from the insurance company. N reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance Inventories lying unsold with N was damaged. The goods were not insured and N agreed to compensate M by paying in cash 80% of the aggregate amount of the original cost of such goods plus proportionate expenses incurred by M. Apart from the share of profit N was also entitled to a commission of 5% of net profit of joint venture after charging such commission as per the agreement. Selling expenses incurred by N totaled ₹2,000. N had earlier remitted an advance of ₹20,000. N duly paid the balance due to M by Bank Draft.**
**Prepare Joint Venture Account and N's Account in the books of M. [9]**

**Answer:**

**Dr. Joint Venture Account Cr.**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To, Purchases ( Cost of goods supplied) | 1,20,000 | By, Bank (Insurance Claim) | 6,000 |
| To, Bank (Expenses) | 4,000 | By, N (Sales) | 1,28,700 |
| To, N (Expenses) | 2,000 | By, N (agreed value for damaged goods) | 9,093 |
| To, N (Commission – 1/21 of ₹17,793) | 847 | | |
| To, Profit transferred to:<br>Profit & Loss A/c<br>N | 11,297<br>5,649 | | |
| | 1,43,793 | | 1,43,793 |

**Dr. N'sAccount Cr.**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To, Joint Venture A/c (Sales) | 1,28,700 | By Bank (Advance) | 20,000 |
| To, Joint Venture A/c (Claim Portion) | 9,093 | By Joint Venture A/c (Expenses) | 2,000 |
| | | By, Joint Venture A/c (Commission) | 847 |
| | | By Joint Venture A/c (Share of Profit) | 5,649 |
| | | By Bank (Balance received) | 1,09,297 |
| | 1,37,793 | | 1,37,793 |

**Working Notes:**

**1. It has assumed that the damaged goods during transit have no residual value.**

**2. Computation of Sales:**

| Particulars | Amount (₹) |
|---|---|
| Cost of goods sent | 1,20,000 |
| Less: Cost of damaged goods | (10,000) |
| | 1,10,000 |
| Less: Cost of goods remaining unsold | (11,000) |
| Cost of goods sold | 99,000 |
| Add: Profit @30% | 29,700 |
| Sales | 1,28,700 |

**3. Claim for loss of fire admitted by N**

| Particulars | Amount (₹) |
|---|---|
| Cost of goods | 11,000 |
| Add: Proportionate expenses [(4,000 × 11,000)/1,20,000] | 366 |
| | 11,366 |
| Less: 20% | 2,273 |
| | 9,093 |

**3. The statement of Affairs of Mr. M on 31st December 2017 was as follows:**

| | ₹ | | ₹ |
|---|---|---|---|
| **Capital** | **50,000** | **Fixed Assets** | **30,000** |
| **Sundry Creditors** | **10,000** | **Stock** | **10,000** |
| **Liability for Expenses** | **1,000** | **Debtors** | **15,000** |
| | | **Bank** | **5,000** |
| | | **Cash** | **1,000** |
| | **61,000** | | **61,000** |

**Mr. M did not maintain his books on the Double Entry System. But he carefully follows the following system:**

**(a) Every week he draws ₹ 250.**

**(b) After meeting his weekly sundry expenses (₹ 100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.**

**(c) No cash purchase is made and creditors are paid by cheques.**

**(d) Sales are at fixed price which include 20% profit on sales.**

**(e) Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.**

**(f) Expenses other than sundries and other special drawings are made in cheques.**

**(g) All unpaid bills are kept in a file carefully.**

**The following are his bank transactions for 13 weeks:**

| | ₹ | | ₹ |
|---|---|---|---|
| **Balance on Jan. 1** | **5,000** | **Creditors paid** | **40,000** |
| **Cheques deposited** | **2,000** | **Rent paid** | **600** |
| **Cash deposited** | **42,000** | **Expenses (other than Sundry Expenses)** | **3,000** |
| | | **Balance on April 1** | **5,400** |
| | **49,000** | | **49,000** |

**After 13 weeks on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:**

**(a) Stock on that day was valued at ₹ 4,000;**

**(b) Sundry Debtors amounted to ₹ 20,000 as per diary;**

**(c) Sundry Creditors were ₹ 8,000 as per unpaid bills file. Find out the amount of cash missing. [15]**

**Answer:**

**Sundry Debtors Account**

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/f | 15,000 | By Bank | 2,000 |
| To Credit Sales (balancing figure) | 7,000 | " Balance c/f | 20,000 |
| | 22,000 | | 22,000 |

**Sundry Creditors Account**

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank | 40,000 | By Balance b/f | 10,000 |
| To Balance c/f | 8,000 | By Credit Purchases [balancing figure] | 38,000 |
| | 48,000 | | 48,000 |

**Cash Account**

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/f | 1,000 | By Drawings: (13 × ₹ 250) | 3,250 |
| " Cash Sales | 48,000 | Sundry Expenses: (13 × ₹ 100) | 1,300 |
| | | " Bank | 42,000 |
| | | Balance being cash missing | 2,450 |
| | 49,000 | | 49,000 |

**Note: Calculation of Cash Sales**

| Particulars | ₹ |
|---|---|
| Opening Stock | 10,000 |
| Add: Purchases | 38,000 |
| | 48,000 |
| Less: Closing Stock Cost of goods sold | 4,000 |
| | 44,000 |
| Add : Gross Profit @ 20% on Sales i.e., 25% on cost | 11,000 |
| Total Sales | 55,000 |
| Less: Credit Sales | 7,000 |
| Cash Sales | 48,000 |

**4. Red, White and Blue give you the following Balance Sheet as on 31st March.**

| Capital and Liabilities | | ₹ | Properties and Assets | | ₹ |
|---|---|---|---|---|---|
| **Red's Loan** | | **15,000** | **Plant and Machinery at Cost** | | **30,000** |
| **Capital Accounts:** | | | **Fixtures and Fittings** | | **2,000** |
| **Red** | **30,000** | | **Stock** | | **10,400** |
| **White** | **10,000** | | **Debtors** | **18,400** | |
| **Blue** | **2,000** | **42,000** | **Less: Provision** | **400** | **18,000** |
| **Sundry Creditors** | | **17,800** | | | |
| **Loan on Hypothecation of Stock** | | **6,200** | **Joint Life Policy** | | **15,000** |
| **Joint Life Policy Reserve** | | **12,400** | **Patents and Trademarks** | | **10,000** |
| | | | **Cash at Bank** | | **8,000** |
| **Total** | | **93,400** | **Total** | | **93,400** |

**The Partners shared Profits and Losses in the ratio of Red 4/9, White 2/9 and Blue 1/3. The Firm was dissolved on the above date, and you are given the following information –**

**(a) Blue had taken a Loan from Insurers for ₹ 5,000 on the security of Joint Life Policy. The Policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹5,000 for**

**Blue's Loan and ₹ 300 as Interest thereon.**

**(b) One of the Creditors took some of the Patents whose Book Value was ₹ 6,000 at a valuation of ₹4,500. The balance due to that Creditor was paid in cash.**

**(c) The Firm has previously purchased some Shares in a Joint Stock Company and had written them off on finding them useless. The Shares were now found to be worth ₹ 3,000 and the Loan Creditor agreed to accept the Shares at this value.**

**(d) The remaining assets realized the following amounts: Plant and Machinery ₹ 17,000, Fixtures and Fittings ₹ 1,000, Stock ₹ 9,000, Debtors ₹ 16,500, and Patents 50% of their Book Value.**

**(e) The Liabilities were paid and a total discount of ₹ 500 was allowed by the Creditors.**

**(f) The Expenses of Realisation amounted to ₹ 2,300.**

**Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form. [15]**

**Answer:**

**Realisation Account**

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

| **Particulars** | | ₹ | **Particulars** | | ₹ |
|---|---|---|---|---|---|
| To Plant & Machinery A/c | (transfer) | 30,000 | By Provn. for Doubtful Debts | (transfer) | 400 |
| To Fixtures & Fittings A/c | (transfer) | 2,000 | By Creditors A/c (Note) | (transfer) | 17,800 |
| To Stock A/c | (transfer) | 10,400 | By Loan A/c | (transfer) | 6,200 |
| To Debtors A/c (Gross Value) | (transfer) | 18,400 | By Bank - (Joint Life Policy amt received) | | 10,200 |
| To Joint Life Policy A/c | (transfer) | 15,000 | By Blue's Capital (towards JLP Loan) | | 5,300 |
| To Patents & Trademarks | (transfer) | 10,000 | By Bank - Plant & Machinery | | 17,000 |
| To Bank (Payments made) | | | - Furniture | | 1,000 |
| - Creditors (Note below Bank A/c) | | 12,800 | - Stock | | 9,000 |
| - Expenses | | 2,300 | - Debtors | | 16,500 |
| - Loan (Due 6,200 less Shares 3,000) | | 3,200 | - Patents (50% of 4,000) | | 2,000 |
| | | | By Partners' Capital A/c (Loss on Rsn) | | |
| | | | -Read | 8,311 | |
| | | | - Write | 4,156 | |
| | | | -Add | 6,233 | 18,700 |
| Total | | 1,04,100 | Total | | 1,04,100 |

Note: Patents A/c and Creditors A/c balances can also be transferred net of takeover of Book Value Patents ₹ 6,000.

**Partners' Capital Account**

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

| **Particulars** | **Red ₹** | **White ₹** | **Blue ₹** | **Particulars** | **Red ₹** | **White ₹** | **Blue ₹** |
|---|---|---|---|---|---|---|---|
| To Joint Life Policy | — | — | 5,300 | By balance c/d | 30,000 | 10,000 | 2,000 |
| To Realisation A/c | 8,311 | 4,156 | 6,233 | By JLP Reserve (4:2:3) | 5,511 | 2,756 | 4,133 |
| To Bank (WN 3) | 27,200 | 8,600 | — | By Bank (WN 3) | — | — | 5,400 |
| **Total** | **35,511** | **12,756** | **11,533** | **Total** | **35,511** | **12,756** | **11,533** |

**Bank Account**

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

| **Receipts** | ₹ | **Payments** | ₹ |
|---|---|---|---|
| To balance c/d | 8,000 | By Realisation - Sundry Creditors (Note) | 12,800 |
| To Realisation - Joint Life Policy | 10,200 | - Expenses | 2,300 |
| - Plant & Machinery | 17,000 | - Loan against Stock settled | 3,200 |
| - Furniture | 1,000 | By Red's Loan A/c (Loan Settlement) | 15,000 |
| - Stock | 9,000 | By Partners' Capital A/c (Final Settlement) | |
| - Debtors | 16,500 | - Red | 27,200 |
| - Patents | 2,000 | - White | 8,601 |
| To Partners' Capital A/c - Blue's A/c | 5,400 | | |
| **Total** | **69,100** | **Total** | **69,100** |

Note: Payment to Creditors = Due 17,800 less Patents valued at 4,500 less Discount Received 500 = Net 12,800

5. **(a) The following details are extracted from the records of M/S Buddha & Co., a trader for the year ended March 31, 2018.**
   - **(i) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.**
   - **(ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.**
   - **(iii) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.**
   - **(iv) Bad Debt written off in the earlier years was realised ₹ 11,000.**
   - **(v) Sundry Debtors as on 01.04.2017 stood of ₹ 50,000.**

   **You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger. [10]**

**Answer:**

**In The General Ledger of M/S Buddha & Co.**
**Debtors Ledger Adjustment Account for the year ended 31st March, 2018**

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

| **Date** | **Particulars** | ₹ | **Date** | **Particulars** | ₹ |
|---|---|---|---|---|---|
| 1.4.17 | To Balance b/d | 50,000 | 2017-18 | By General Ledger Adj. A/c | |
| | To General Ledger Adj. A/c | | | Cash & Bank [70% of (50,000 + 1,46,000)] | 1,37,200 |
| | Credit Sales | 1,46,000 | | Discount allowed | 20,000 |
| | Dish. of Endorsed B/R | 6,000 | | B/R Drawn | 30,000 |
| | | | | Bad Debts (Drawee of endorsed B/R) | 6,000 |
| | | | | By Balance c/d | 8,800 |
| | | 2,02,000 | | | 2,02,000 |

**Working:** Credit Sales = (1/1.20) × (1,80,000 – 4,800) = ₹ 1,46,000.
**Note:** Cash Sales, bad debts recovered do not appear in the total debtors account.

**(b) Give Journal Entries in the books of Head Office to rectify or adjust the following:**

i. **Goods sent to Branch ₹12,000 stolen during transit. Branch Manager refused to accept any liability.**

ii. **Branch paid ₹ 20,000 as Salary to the Officer of Head Office on his visit to the Branch.**

iii. **On 28th March, the HO despatched goods to the Branch invoiced at ₹32,000 which was not received by Branch till 31st March, being end of the financial year.**

iv. **A remittance of ₹ 8,000 sent by the Branch on 30th March, received by the Head Office on 1st April (in the next financial year).**

v. **Head Office made payment of ₹24,000 for purchase of goods by Branch and wrongly debited its own Purchase Account. [5]**

**Answer:**

**Journal Entries in the Books of Head Office**

| | Particulars | | Dr.(₹) | Cr.(₹) |
|---|---|---|---|---|
| 1. | Loss in Transit A/c<br>To Branch A/c<br>(Being, goods sent to Branch lost in transit) | Dr. | 12,000 | <br>12,000 |
| 2. | Salary A/c<br>To Branch A/c<br>(Being, Salary Expense relatable to HO paid by the Branch)<br>(assuming Salary = HO related) | Dr. | 20,000 | <br>20,000 |
| 3. | Branch A/c<br>To Goods sent to Branch A/c<br>(Being, goods in transit from Head Office to Branch) | Dr. | 32,000 | <br>32,000 |
| 4. | Cheques in Transit A/c<br>To Branch A/c<br>(Being, Cheques in Transit as on 31st March and reached HO only on 1st April) | Dr. | 8,000 | <br>8,000 |
| 5. | Branch A/c<br>To Purchases A/c<br>(Being, Purchases made by Branch wrongly debited to Head Office Purchases A/c) | Dr. | 24,000 | <br>24,000 |

6. **(a) X Ltd has taken out a fire policy of ₹ 2,40,000 covering its stock. A fire occurred on 31st March, 2019. The following particulars are available:**

| | ₹ |
|---|---|
| **Stock as on 31-12-2018** | **90,000** |
| **Purchases to the date of fire** | **3,90,000** |
| **Sales to the date of fire** | **2,70,000** |
| **Carriage inwards** | **2,400** |

**Commission on purchase to be paid @ 2%.**

**Gross Profit Ratio @ 50% on cost.**

**You are asked to ascertain**

**(i) total loss of stock**

**(ii) amount of claim to be made against the insurance company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 62,040.**

**[5]**

**Answer:**

**In the books of X Ltd.**

**Memorandum Trading Account for the period ended 31.03.2019**

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

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To Opening Stock | 90,000 | By Sales | 2,70,000 |
| To, Purchases 3,90,000<br>(+) Carriage Inward 2,400<br>(+) Commission 7,800 | 4,00,200 | By Closing Stock b/f | 3,10,200 |
| To Gross Profit<br>(50% on Cost or 33 $\frac{1}{3}$ on Sales) | 90,000 | | |
| | 5,80,200 | | 3,86,800 |

**Loss of Stock:**

| | |
|---|---|
| Stock at the date of fire | = ₹3,10,200 |
| (-) Stock Salvage | (62,040) |
| | 2,48,160 |

**Amount of claim applying Average clause:**

Amount of claim $= \frac{\text{Amount of Policy}}{\text{Value of Stock at the date of fire}} \times \text{Actual loss}$

$= \frac{2,40,000}{3,10,200} \times 2,48,160 = 1,92,000$.

**(b) Vasu took a mine on lease from Vamsi at a royalty of ₹12,500 a year. Each year's excess of minimum rent over royalties is recoverable during the first three years of lease. In the event of strike and minimum rent not being reached, it was provided that the actual royalties earned for the year would fulfill all rental obligations.**

**The output for the first four years was as follows:**

**1st year – 2000 tons**

**2nd year – 2500 tons**

**3rd year – 4000 tons**

**4th year – strike (2400 tons)**

**Royalty is ₹4 per ton.**

**Prepare Short workings account and Vamsi account in the books of Vasu. [10]**

**Answer:**

**Royalties Table**

| Year | Output in tons | Royalties @ 4 per ton | Minimum Rent | Short Workings | Surplus | Short workings recouped | Short workings irrecouped transfer to P/L A/c | Amount paid to landlord |
|---|---|---|---|---|---|---|---|---|
| 1 | 2,000 | 8,000 | 12,500 | 4,500 | - | - | - | 12,500 (MR) |
| 2 | 2,500 | 10,000 | 12,500 | 2,500 | - | - | - | 12,500 (MR) |
| 3 | 4,000 | 16,000 | 12,500 | - | 3,500 | 3,500 | 3,500 | 12,500 (R-SWR) |
| 4 | 2,400 | 9,600 | 9,600 | - | - | - | - | 9,600 (R) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | (Strike) | | | | | | | |

**In the Books of Vasu (Lessee)**

**Dr.** **Short Workings Account** **Cr.**

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| 1st year | To Vamsi A/c (arrival) | 4,500 | 1st year | By bal c/d | 4,500 |
| | | **4,500** | | | **4,500** |
| 2nd Year | To Bal b/d | 4,500 | 2nd Year | By Bal c/d | 7,000 |
| | To Vamsi A/c (arrival) | 2,500 | | | |
| | | **7,000** | | | **7,000** |
| 3rd Year | To Bal b/d | 7,000 | 3rd Year | By Vamsi (recovered ) | 3,500 |
| | | | | By P/L A/c (irrecauped) | 3,500 |
| | | **7,000** | | | **7000** |

**Dr.** **Vamsi Account (Lessor)** **Cr.**

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| 1st year | To Bank A/c | 12,500 | 1st year | By Royalties A/c | 8,000 |
| | | | | By Short working A/c | 4,500 |
| | | **12,500** | | | **12,500** |
| 2nd Year | To Bank A/c | 12,500 | 2nd Year | By Royalties A/c | 10,000 |
| | | | | By Short working A/c | 2,500 |
| | | **12,500** | | | **12,500** |
| 3rd Year | To Short workings recovered A/c | 3,500 | 3rd Year | By Royalties A/c | 16,000 |
| | To Bank | 12,500 | | | |
| | | **16,000** | | | **16,000** |
| 4th year | To Bank A/c | 9,600 | 4th year | By Royalties A/c | 9,600 |
| | | **9,600** | | | **9,600** |

**7. (a)An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2017. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. [6]**

**Answer:**

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 recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date.

Thus, estimated profit amounting ₹1,88,571 should be recognised as revenue in the Statement of Profit and Loss.

| Particulars | ₹ |
|---|---|
| Expenditure incurred upto 31.03.2015 | 9,90,000 |
| Estimated additional expenses (including provision for contingency) | 60,000 |
| A. Estimated Cost | 10,50,000 |
| B. Contract Price | 12,50,000 |
| C. Total estimated profit [(A-B)] | 2,00,000 |
| D. Percentage of Completion (9,90,000/10,50,000)×100 | 94.29% |
| Computation of estimate of the profit to be taken to Profit and loss Account:<br><br>= Total estimated profit × (Expenses incurred till 31.03.2015/ Total estimated cost)<br>= 2,00,000 × (9,90,000/10,50,000) = ₹1,88,571. | |

**(b) (i) List the advantages of Pre-packaged Accounting Software.**
**(ii)** What is the significance of a Computerised Accounting System? **[6+3=9]**

**Answer:**

(i) 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. |

(ii) Following are the significance of Compurised Accounting System

- The speed with which accounts can be maintained is several fold higher.
- Automatic Correct Balancing of Ledger Accounts
- Automatic Talied Trial balance unless some mistake is made while recording the opening balance.
- Automatic Income Statement

- Automatic Balance Sheet

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

**(a) Feature's of a Trial Balance;**
**(b) Bills - Renewal and Retirement;**
**(c) Differences between Receipts and Payments Account and Income and Expenditure Account;**
**(d) Advantages of Self-Balancing System.**

**Answer:**

**(a)** Following are the features of Trial Balance:

1. It is a list of debit and credit balances which are extracted from various ledger accounts.
2. It is a statement of debit and credit balances.
3. The purpose is to establish arithmetical accuracy of the transactions recorded in the Books of Accounts.
4. It does not prove arithmetical accuracy which can be determined by audit.
5. It is not an account. It is only a statement of account.
6. It is not a part of the final statements.
7. It is usually prepared at the end of the accounting year but it can also be prepared anytime as and when required like weekly, monthly, quarterly or half-yearly.
8. It is a link between books of accounts and the Profit and Loss Account and Balance Sheet.

**(b) Bills - Renewal and Retirement**

Renewal of Bills
Sometimes the drawee of a bill is not able to meet the bill on due date. He may request the drawer to draw a new Bill for the amount due. Sometimes he pays a certain amount out and accepts a first bill for the balance for which he has to pay a certain amount of interest which is either paid in cash or is included with the fresh bill. This bill is known as Renewal of Bills. That, the amount of the new bill will be face value of the original bill minus cash payment, if any, plus interest for the renewed period.

Retirement of Bill
Sometimes the drawee pays the bill before the date of maturity. Under the circumstances, the drawer allows certain amount of rebate or discount which is calculated on certain percentage p.a. basis. The rebate is calculated from the date of payment to the date of maturity.

**(c) Differences between Receipts and Payments Account and Income and Expenditure Account**

| Sl No. | Receipts & Payments Account | Income & Expenditure Account |
|---|---|---|
| 1 | It is a summarised Cash Book | It closely resembles the Profit & Loss Account of a Trading concern |
| 2 | Receipts are debited and Payments | Incomes are credited and |

| | | |
|---|---|---|
| | are credited. | Expenditures are debited. |
| **3** | Transactions are recorded on Cash basis. | Transactions are recorded on Accrual Basis |
| **4** | Amounts related to previous period or future period may remain included. Outstanding amount for current year is excluded. | Transactions are recorded on accrual basis. All amounts not related to the current period are excluded. Outstanding amounts of current period are added. |
| **5** | It records both Capital and Revenue transactions | It records Revenue transactions only. |
| **6** | It serves the purpose of a Real Account. | It serves the purpose of a Nominal Account |
| **7** | It starts with opening Cash and Bank Balances and ends with closing Cash and Bank Balances | It does not record such balances,rather its final balance shows a surplus or a deficit for the period |
| **8** | It does not record notional loss or noncash expenses like bad debts, depreciations etc. | It considers all such expenses for matching against revenues |
| **9** | Its closing balance is carried forward to the same account of the next accounting Period. | Its closing balance is transferred to Capital Fund or General Fund or Accumulated Fund in the same period's Balance Sheet. |
| **10** | It helps to prepare an Income & Expenditure A/c. | It helps to prepare a Balance Sheet |

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

(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.

(e) Committing fraud is minimized as different ledgers are prepared by different clerks.

(f) Internal check system can be strengthened as it becomes possible to check the accuracy of each ledger independently.