

**Paper 5- Financial Accounting**

## Paper 5- Financial Accounting

Full Marks : 100

Time allowed: 3 hours

### Section - A

#### 1. Answer the following questions

##### (a) Multiple choice questions:

[10x1=10]

- (i) The out flow of funds to acquire an asset that will benefit the business for more than one accounting period is referred to as —  
(a) Miscellaneous Expenditure  
(b) Revenue Expenditure  
(c) **Capital expenditure**  
(d) Deferred Revenue Expenditure
- (ii) 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**
- (iii) Receipts and Payments Account records  
(a) Only revenue nature receipts  
(b) Only capital nature receipts and payment  
(c) Only revenue nature receipts and payments  
(d) **Both the revenue and capital nature receipts and payments**
- (iv) Excess of minimum rent over royalty is known as  
(a) Maximum rent  
(b) Excess workings  
(c) **Short workings**  
(d) Deficiency of actual royalty
- (v) If any transaction is not recorded in the primary books the same is recorded in \_\_\_\_\_  
(a) **Journal Proper**  
(b) Sales Day Book  
(c) Cash Book  
(d) None of the above
- (vi) 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.**
- (vii) The person in whose favour the bill is endorsed is known as \_\_\_\_\_.  
(a) **Endorsee**  
(b) Drawee  
(c) Drawer  
(d) None of the above

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- (viii) Which of the following is/ are the basic features of a Joint Venture
- The profit or loss on joint venture is shared between the co-venturers in the agreed ratio;
  - The co-venturers may or may not contribute initial capital;
  - The JV is dissolved once the purpose of the business is over;
  - All of the above.**
- (ix) The following account has a credit balance
- Plant and Equipment A/c
  - Purchase Returns A/c**
  - Purchase A/c
  - None of the above
- (x) When Sales = ₹3,60,000, Purchase = ₹3,20,000, Opening Stock = ₹68,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be
- ₹1,00,000
  - ₹44,000
  - ₹46,000
  - None of the above**

(b) Match the following:

[5x1=5]

	Column 'A'		Column 'B'
1.	Maximum Loss	A	Hire Purchase
2.	Partial repossession	B	Bills of Exchange
3.	Purchases day book	C	Credit Balance
4.	Noting Charges	D	Partnership Dissolution
5.	Provision for bad and doubtful debts	E	Subsidiary Book

Answer:

	Column 'A'		Column 'B'
1.	Maximum Loss	A	Partnership Dissolution
2.	Partial repossession	B	Hire Purchase
3.	Purchases day book	C	Subsidiary Book
4.	Noting Charges	D	Bills of Exchange
5.	Provision for bad and doubtful debts	E	Credit Balance

(c) Fill in the blanks:

[5x1=5]

- The \_\_\_\_\_ shows financial position of the business as on a particular date
- The withdrawal of money by the owner of business is called \_\_\_\_\_.
- An allowance by a creditor to debtor for prompt payment is \_\_\_\_\_.
- Income & Expenditure Account is similar to \_\_\_\_\_ A/c.
- Profit means excess of \_\_\_\_\_ over \_\_\_\_\_.

Answer:

- Balance Sheet
- Drawings
- Cash Discount
- Profit and Loss
- income, expenditure

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(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) On 1st April, 2014, Om Ltd. purchased a machine for ₹66,000 and spent ₹5,000 on shipping and forwarding charges, ₹7,000 as import duty, ₹1,000 for carriage and installation, ₹500 as brokerage and ₹500 for an iron pad. It was estimated that the machine will have a scrap value of ₹ 5,000 at the end of its useful life which is 15 years. On 1st January, 2015 repairs and renewals of ₹ 3,000 were carried out. On 1st October, 2016 this machine was sold for ₹ 50,000. Prepare Machinery Account for the 3 years. [7]

Answer:

Dr.		Machinery Account		Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2014	To, Bank A/c	66,000	31.3.2015	By, Depreciation A/c	5,000
	To, Bank A/c	14,000		By, Balance c/d	75,000
		80,000			80,000
1.4.2015	To, Balance b/d	75,000	31.3.2016	By, Depreciation A/c	5,000
				By, Balance b/c	70,000
		75,000			75,000
1.4.2016	To, Balance b/d	70,000	1.10.2016	By, Depreciation A/c	2,500
				By, Bank A/c (sale)	50,000
				By, Balance b/c	17,500
		70,000			70,000

**Working Note:** 1. Total Cost = ₹ 66,000 + ₹ 5,000 + ₹ 7,000 + ₹ 1,000 + ₹ 500 + ₹ 500 = ₹ 80,000  
 Depreciation = (Total Cost - Scrap Value)/Expected Life = ₹(80,000 - 5,000)/15 = ₹5,000

- (b) J of Jamsedpur consigned 50 filling machines costing ₹4,000 each to V of Varanasi. J incurred the following expenses in dispatching the goods :

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Carriage — ₹ 2,120; Insurance — ₹ 19,380; Freight — ₹ 3,500

2 machines were damaged in transit beyond repairs and 3 other machines were yet to be received by V. The latter sold 30 machines at a profit of ₹ 1,500 each and charged a commission of 5% on sales.

He paid the following expenses :

Unloading Charges — ₹ 3,000; Warehouse Rent — ₹ 4,000; Salesman's Salary, etc. — ₹ 5,000

Show the Consignment Account in the books of J.

[8]

Answer:

### In the books of J Consignment to V of Varanasi Account

Dr.					Cr.
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Goods Sent on Consignment A/c [50 × ₹4,000]	2,00,000		By Loss in Transit A/c (P/L) [Note]	9,000
	To Bank A/c: Carriage	2,120		By Stock-in-Transit A/c [Note]	13,500
	Insurance	19,380			
	Freight	3,500			
	To V's A/c: Unloading Charges	3,000		By V's A/c [Sales = 30 × 5,500]	1,65,000
	Warehouse rent	4,000			
	Salesman's Salary etc.	5,000			
	To V's A/c: Commission @ 5% of ₹1,65,000	8,250		By Stock on Consignment A/c [Note]	68,500
	To Profit & Loss A/c	10,750			
		2,56,000			2,56,000

**Working Notes:**

#### Different Valuations

	No. of Machines	Amount (₹)
Goods Sent	50	2,00,000
Add: Consignor's Expenses	-	25,000
	50	2,25,000
Less: Loss in Transit	2	9,000 $\left[ \frac{2}{50} \times 2,25,000 \right]$
	48	2,16,000
Less: Stock in Transit	3	13,500 $\left[ \frac{3}{50} \times 2,25,000 \right]$
Received by Consignee	45	2,02,500
Add: Non- Recurring expenses paid by consignee (unloading charges)	-	3,000
	45	2,05,500
Stock on consignment	15	$\frac{15}{45} \times 2,05,500 = \text{₹}68,500$

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3. The Income & Expenditure Account of Jayashree Sangha Club for the year ended 31.12.2015 as given below:

Expenditure	₹	Income	₹
To Salaries	20,500	By Subscription	52,000
To Newspaper	1,500	By Sale of Newspaper	2,500
To Audit Fees	2,500	By Admission Fees	12,000
To General Expenses	22,000	By Donation	15,000
To Printing & Stationery	7,500	By Miscellaneous Income	500
To Travelling Expenses	2,000		
To Rent	3,500		
To Depreciation of Furniture	2,500		
To Surplus	20,000		
	<b>82,000</b>		<b>82,000</b>

The following is the Balance Sheet of the Club as on 31.12.2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding salary	2,000	Furniture	15,000
Subscription received in advance	2,500	Sports equipment	20,000
Accumulated fund	45,500	Accrued Subscription	5,000
		Cash at Bank	10,000
	<b>50,000</b>		<b>50,000</b>

Prepare Receipts & Payments Account for the year ended 31.12.2015 taking into account the following adjustments:

- (i) Subscription received in advance ₹ 1,500
- (ii) Salary due for ₹ 1,500 but not paid for the year
- (iii) 60% of the admission fee to be capitalized
- (iv) Subscription due for 2015 but not received ₹ 3,000.

[15]

Answer:

Jayashree Sangha Club  
Receipt and Payment Account for the year ended 31.12.2015

Receipts	₹	Payments	₹
To Balance b/d	10,000	By Salary A/c (W/N – 2)	21,000
To Admission Fees ₹ 12,000 ÷ 40%	30,000	By General Expenses	22,000
To Sale of News Paper	2,500	By Audit Fees	2,500
To Donation	15,000	By Printing & Stationary	7,500

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To Misc. Income	500	By Rent	3,500
To Subscription (W/N-1)	53,000	By Travelling Expenses	2,000
		By News Paper	1,500
		By Balance c/d at 31.12.2012	51,000
	1,11,000		1,11,000

### Balance Sheet of the Club as on 31.12.2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Accumulated Fund	45,500	Sports Equipment	20,000
Add: Surplus	<u>20,000</u>	Furniture	15,000
Admission Fees	18,000	Less: Depreciation	<u>2,500</u>
Subscription received in advance	1,500	Accrued Subscription	3,000
Outstanding Salaries	1,500	Cash at Bank	51,000
	86,500		86,500

### Working Notes:

(1) Subscription received during the year

Particulars	₹	₹
Subscription on accrual basis for 2015		52,000
Add: Subscription of 2014 received in 2015		5,000
Subscription received in advance		1,500
		58,500
Less: Subscription for 2015	3,000	
Subscription for 2015 received in 2014	2,500	5,500
		53,000

(2) Salary paid in 2015

Particulars	₹
Salary as per Income & Expenditure A/c	20,500
Add: Paid for 2014	2,000
Less: Outstanding for 2015	1,500
	21,000

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4. Gupta and Maitra were partners in a firm sharing profits in the ratio of 3 : 1. They admitted Sen as a new partner for  $\frac{3}{8}$ th share in the profits. The new profit-sharing ratio will be 3:2:3. Sen brought ₹2,00,000 for his capital and ₹50,000 for his share of premium for goodwill. On 31st March, 2015, the date of Sen's admission, the Balance Sheet of Gupta and Maitra was:

Liabilities	₹	Assets	₹
Creditors	60,000	Cash	90,000
Bills Payable	20,000	Debtors	80,000
Capital A/cs:		Stock	1,50,000
Gupta	4,00,000	Furniture	50,000
Maitra	1,00,000	Machinery	2,10,000
	5,80,000		5,80,000

It was agreed that

- (i) Stock to be valued at ₹2,00,000.
- (ii) Machinery will be depreciated by 12% and Furniture by ₹2,000.
- (iii) A Provision of 5% for Doubtful Debts will be made on Debtors.
- (iv) The Capital Accounts of all the partners were adjusted in the new profit-sharing ratio after admission. For surplus or deficiency, the Current Accounts were to be opened.

Required: Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm. [15]

Answer:

Revaluation Account			
Dr.	₹	Cr.	₹
Particulars		Particulars	
To Machinery A/c	25,200	By Stock A/c	50,000
To Furniture A/c	2,000		
To Provision for Doubtful Debts A/c	4,000		
To Profit on revaluation t/f to:			
Gupta's Capital A/c (3/4)      14,100			
Maitra's Capital A/c (1/4)    4,700	18,800		
	50,000		50,000

Partners' Capital Accounts							
Dr.	Gupta (₹)	Maitra (₹)	Sen (₹)	Cr.	Gupta (₹)	Maitra (₹)	Sen (₹)
Particulars				Particulars			
To Gupta's Current A/c (b.f.)	2,64,100	---	---	By Balance b/d	4,00,000	1,00,000	---
To Balance c/d	2,00,000	1,33,334	2,00,000	By Revaluation A/c	14,100	4,700	---
				By Bank A/c	---	---	2,00,000
				By Premium for Goodwill A/c	50,000	---	---
				By Maitra's Current A/c (b.f.)	---	28,634	---
	4,64,100	1,33,334	2,00,000		4,64,100	1,33,334	2,00,000

### Balance Sheet of the new firm as at 1st April, 2012

Liabilities	₹	Assets	₹
Creditors	60,000	Cash (₹ 90,000 + ₹ 2,00,000 + ₹ 50,000)	3,40,000
Bills Payable	20,000	Debtors      80,000	
Gupta's Current A/c	2,64,100	Less: Provision      4,000	76,000

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Capital A/cs:		Stock	2,00,000
Gupta	2,00,000	Furniture (₹ 50,000 - ₹ 2,000)	48,000
Maitra	1,33,334	Machinery (₹ 2,10,000 - ₹ 25,200)	1,84,800
Sen	2,00,000	Maitra's Current A/c	28,634
	8,77,434		8,77,434

### Working Notes:

#### 1. Calculation of Sacrificing Ratio

Sacrifice = Old Share - New Share

$$\text{Gupta's sacrifice} = \frac{3}{4} - \frac{3}{8} = \frac{3}{8}, \text{ Maitra's sacrifice} = \frac{1}{4} - \frac{2}{8} = \text{Nil}$$

Only Gupta sacrifices his share of profit.

#### 2. Calculation of Partners' New Capitals

$$\begin{aligned} \text{(a) Total Capital of the Firm} &= \frac{\text{Capital of the New Partner (Sen)}}{\text{Share of Profit of Sen}} \\ &= ₹ 2,00,000 \times \frac{8}{3} = ₹ 16,00,000/3 \end{aligned}$$

#### (b) New Capitals of Partners

$$\text{Gupta} = \frac{₹ 16,00,000}{3} \times \frac{3}{8} = ₹ 2,00,000$$

$$\text{Maitra} = \frac{₹ 16,00,000}{3} \times \frac{2}{8} = ₹ 1,33,334$$

#### 5. (a) Show what journal entries would be passed by the Delhi Head Office to record the following transactions in their Books on 31st March, 2016, the closing date :

- A remittance of ₹ 70,000 made by Noida Branch to Head Office on 29th March, 2016 and received by the Head Office on 5th April, 2016.
- Goods of ₹ 1,26,000 sent by the Head Office to the Ajmer Branch on 28th March, 2016 and received by the later on 4th April, 2016.
- Noida Branch paid ₹ 60,000 as salary to a visiting Head Office Official. [6]

### Answer:

#### Journal of H.O.

	Particulars		Dr. (₹)	Cr. (₹)
(i) 31.3.16	Cash in Transit A/c To Noida Branch A/c (Being cash remitted by Noida Branch but not received by HO as on date)	Dr.	70,000	70,000
(ii) 31.3.16	Goods in Transit A/c To Ajmer Branch A/c (Being goods sent to Bikaner Branch but yet to be received by Branch as on date)	Dr.	1,26,000	1,26,000
(iii) 31.3.16	Salaries A/c To Noida Branch A/c (H.O. official's salaries paid by Noida Branch)	Dr.	60,000	60,000

#### (b) The summarized analysis of the accounts of the outstanding debtors of GANAPATHI LTD. at the date of 13.03.2015 (Annual Closing) of amount as under:

Debtors	Goods Sold during the year (₹)	Goods returned during the year (₹)	Cash and Cheques received during the year (₹)	Discount allowed during the	Bills Exchange received

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				year (₹)	during the year (₹)
A	6,000	---	4,000	1,000	---
B	4,000	1,000	2,000	---	---
C	10,000	---	6,000	---	---
D	20,000	2,000	12,000	1,000	2,000
F	24,000	3,000	16,000	2,000	2,000

Debtors' balance at the beginning of the year was ₹ 9,000. Out the above receipts of a bill for ₹ 1,400 given by D was dishonoured, noting charges amounting to ₹ 40.

**Required:**

Prepare General Ledger Adjustment Account in Debtors Ledger.

[9]

**Answer:**

**(In Debtors Ledger)  
General Ledger Adjustment Account**

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Debtors Ledger Adj. A/c			By Balance b/d	9,000
	Cash & Cheque Rec.	40,000		Debtors' Ledger Adj. A/c	
	Return inwards	6,000		Sales	64,000
	Discount allowed	4,000		B/R Dishonour	1,400
	B/R	4,000		Noting charges	40
	To Balance c/d	20,440			
		74,440			74,440

**Working:**

Sales = ₹ 6,000 + ₹ 4,000 + ₹ 10,000 + ₹ 20,000 + ₹ 24,000 = ₹ 64,000

Return inward = ₹ 1,000 + ₹ 2,000 + ₹ 3,000 = ₹ 6,000

Discounted allowed = ₹ 1,000 + ₹ 1,000 + ₹ 2,000 = ₹ 4,000

B/R = ₹ 2,000 + ₹ 2,000 = ₹ 4,000.

6. (a) On 12th June, 2015, a fire occurred in the premises of Ramakrishna Rao, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 22,400. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹ 20,800. From the books of account, the following particulars were available:

(i) His stock at the close of account on December 31, 2014 was valued at ₹ 1,67,000.

(ii) His purchases from 1.1.2015 to 12.6.2015 amounted to ₹ 2,24,000 and his sales during the period amounted to ₹ 3,08,000.

On the basis of his accounts for the past three years, it appears that he earns on an average a gross profit of 25% on sales. Mr. Rao has insured his stock for ₹ 1,20,000. Compute the amount of the claim. [6]

**Answer:**

**Statement of Claim**

Particulars	₹
A. Estimated Value of Stock as at date of fire	1,60,000
B. Value of Salvaged Stock & damaged Stock (₹ 22,400 + ₹ 20,800)	43,200
C. Estimated Value of Stock lost by fire (A - B)	1,16,800
D. Amount of claim by applying Average clause:	

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$\text{Loss suffered} \times \frac{\text{Sum Insured}}{\text{Actual Insurable Value}} = ₹1,16,800 \times \frac{₹1,20,000}{₹1,60,000}$	87,600
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**Working Note:** Calculation of the value of Closing Stock as on the date of fire.

Memorandum Trading Account for the Period from.01.01.2015 to 12.06.2015

Particulars	₹	Particulars	₹
To Opening Stock	1,67,000	By Sales	3,08,000
To Purchases	2,24,000	By Closing Stock (Balancing figure)	1,60,000
To Gross Profit @ 25%	77,000		
	4,68,000		4,68,000

**(b) A Ltd. obtained from P.P Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account and (ii) Royalty Account in the books of A Ltd.**

Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2012	2,000	300
2013	3,500	400
2014	4,800	600
2015	5,600	500
2016	8,000	800

[9]

**Answer:**

**Workings:**

**[Coal raised i.e., Production = Sales + Closing Stock – Opening Stock.]**

Year	Sales	+	Closing Stock	-	Opening Stock	=	Net Production
2012	2,000	+	300	-	Nil	=	2,300
2013	3,500	+	400	-	300	=	3,600
2014	4,800	+	600	-	400	=	5,000
2015	5,600	+	500	-	600	=	5,500
2016	8,000	+	800	-	500	=	8,300

**In the books of A. Ltd.  
Memorandum Royalty Statement**

Year	Quantity	Rate ₹	Royalty ₹	Minimum Rent ₹	Short working ₹	Recoupment ₹	Short working carried forward ₹	Short working Transferred to P&L A/c or lapsed ₹	Payment to Landlord ₹
2012	2,300	15	34,500	75,000	40,500	---	40,500	---	75,000
2013	3,600	15	54,000	75,000	21,000	---	61,500	---	75,000
2014	5,000	15	75,000	75,000	---	---	61,500	---	75,000
2015	5,500	15	82,500	75,000	---	7,500	---	54,000	75,000
2016	8,300	15	1,24,500	75,000	---	---	---	---	1,24,500

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Dr.			Short-Working Account			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹			
2012	To P.P Ltd. A/c (Landlord)	40,500	2012	By Balance c/d	40,500			
		40,500			40,500			
2013	To Balance b/d " P.P Ltd. A/c (Landlord)	40,500	2013	By Balance c/d	61,500			
		21,000			61,500			
2014	To Balance b/d	61,500	2014	By Balance c/d	61,500			
		61,500			61,500			
2015	To Balance b/d	61,500	2015	By P.P Ltd. (Landlord) A/c " Profit and Loss A/c	7,500			
		61,500			54,000			
					61,500			

Dr.			Royalty Account			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹			
2012	To P.P Ltd. A/c	34,500	2012	By Profit & Loss A/c	34,500			
2013	To P.P Ltd. A/c	54,000	2013	By Profit & Loss A/c	54,000			
2014	To P.P Ltd. A/c	75,000	2014	By Profit & Loss A/c	75,000			
2015	To P.P Ltd. A/c	82,500	2015	By Profit & Loss A/c	82,500			
2016	To P.P Ltd. A/c	1,24,500	2016	By Profit & Loss A/c	1,24,500			

**7. (a) On 25th September, 2016, Manika Advertising Limited obtained advertisement rights to a Hockey Tournament to be held in Nov./Dec, 2016 for ₹ 520 lakhs.**

**They furnished the following information:**

- (i) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 2016.**
- (ii) For the balance time they got bookings in October, 2016 for ₹240 lakhs.**
- (iii) all the advertisers paid the full amount at the time of booking the advertisements.**
- (iv) 40% of the advertisements appeared before the public in Nov. 2016 and balance 60% appeared in the month of December, 2016.**

**Your are required to calculate the amount of profit/loss to be recognized for the month November and December, 2016 as per Accounting Standard-9. [7]**

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### Answer:

As per AS 9 in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

In the given problem, 40% of the advertisement appeared before the public in November, 2016 and balance 60% in December, 2016.

#### Calculation of Total Profit

₹ in lakhs

Advertisement for 70% of available time obtained by 30 <sup>th</sup> September, 2016	700
Advertisement for 30% of available time obtained in by October, 2016	240
Total	940
Less: Cost of advertisement rights	(520)
Profit	420

The profit amounting ₹ 420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2016. Thus, the company should recognise ₹ 168 lakhs (i.e. ₹ 420 lakhs × 40%) in November, 2016 and rest ₹ 252 lakhs (i.e. ₹ 420 lakhs × 60%) in December, 2016.

### (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) Features of Receipts and Payments Account;
- (c) Advantages of Self-Balancing System;
- (d) Examples of items not included within the definition revenue for the purpose of AS – 9.

# **Answer to MTP\_Intermediate\_Syllabus 2016\_Jun2017\_Set 2**

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**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) Features of Receipts and Payments Account:**

- 1. It is an Account which contains all Cash and Bank transactions made by a nonprofit organization during a particular financial period.
- 2. It starts with the opening balances of Cash and Bank. All Cash Receipts both capital & revenue during the period are debited to it.
- 3. All Cash Payments both capital & revenue during the period are credited to this Account. It ends with the closing Cash and Bank Balances.
- 4. While recording the Cash and Bank transactions all entries are made on Cash Basis.
- 5. It is a summary of Cash Book.
- 6. It follows Real Account.

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

- (i) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.
- (ii) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the abstraction of individual personal ledger balances.
- (iii) Various works can be done quickly as this system provides sub-division of work among the different employees.
- (iv) 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.
- (v) Committing fraud is minimized as different ledgers are prepared by different clerks.
- (vi) Internal check system can be strengthened as it becomes possible to check the accuracy of each ledger independently.

**(d) Examples of items not included within the definition of “revenue” for the purpose of AS**

**– 9 :**

- (i) Realised gains resulting from the disposal of, and unrealised gains resulting from the holding of, non-current assets e.g. appreciation in the value of fixed assets;
- (ii) Unrealised holding gains resulting from the change in value of current assets, and the natural increases in herds and agricultural and forest products;
- (iii) Realised or unrealised gains resulting from changes in foreign exchange rates and adjustments arising on the translation of foreign currency financial statements;
- (iv) Realised gains resulting from the discharge of an obligation at less than its carrying amount;
- (v) Unrealised gains resulting from the restatement of the carrying amount of an obligation.