

Paper 5- Financial Accounting

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Full Marks: 100

Time allowed: 3 hours

PART – I

Answer Question Number 1. All parts of this question are compulsory.

1. Answer the following questions

(a) Multiple choice questions: [10×1=10]

(i) Proprietor's equity implies all those amount which are represented by _____ liability.

- (a) External;
- (b) Debenture;
- (c) Internal;
- (d) Creditors

(ii) An immediate future transaction with cash settlement is known as _____

- (a) Cash Transaction
- (b) Credit Transaction
- (c) Deferred Transaction
- (d) Fictitious Transaction

(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) to purchase capital items

(iv) The Receipts and Payments Account generally begins with

- (a) Debit Balance
- (b) Credit 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 Rs.90,000, then the amount of stock reserve on closing stock will be

- (a) Rs.30,000
- (b) Rs.22,500
- (c) Rs.90,000
- (d) Rs.45,000

(vi) Ground Rent or Surface rent indicates the amount of _____.

(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 us by our debtors.
- (a) Return Outward
- (b) Return Inward
- (c) Sales Daybook
- (d) None of the above
- (viii) The principle of _____ concept is that business is assumed to exist for an indefinite period
- (a) Going Concern
- (b) Business Entity
- (c) Money Measurement
- (d) Accrual
- (ix) Capital Profit arises from which of the following?
- (a) Sale of goods produced
- (b) Premium received on issue of shares
- (c) Profit made on re-issue of forfeited shares
- (d) Both (b) and (c)
- (x) Where does Contingent liability appears in a Financial Statement?
- (a) on the liability side of the Balance Sheet
- (b) on the assets side of the Balance Sheet
- (c) as a deduction from Fixed Assets
- (d) as a note in Balance Sheet

(b) Match the following: [5×1=5]

	Column 'A'		Column 'B'
1.	Disclosure of Accounting Policies	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 1

(c) Fill in the blanks: [5×1=5]

- (i) Debts which are uncollectable or irrecoverable are known as _____.
- (ii) _____ discount is never entered in the books of accounts.
- (iii) Outstanding subscription will come in the _____ side of Balance Sheet.
- (iv) As per AS-2, inventories should be valued at lower of cost and _____ value.

(v) Realisation Account is opened at the time of _____ of firm.

(d) State whether the following statements are true or false: [5×1=5]

- (i) Depreciation indicates increase in service potential.
- (ii) Short workings refer to the amount by which the actual royalty exceeds the minimum rent.
- (iii) Drawee is the person on whom the bill is drawn i.e. the buyer or debtor.
- (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.

PART – II

Answer any five questions from question numbers 2 to 8. Each question carries 15 marks
(5×15=75)

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

- (i) Construction of Educational Institute's common room for students.
- (ii) Accrued Dividend or Interest included as part of cost price of investment.
- (iii) Cost of imported goods confiscated by Customs Authority for non-disclosure of material facts.
- (iv) A considerable amount of advertisement expenditure incurred at the time of introducing a new product. [2+2+1+1=6]

(b) A joint venture agreement was entered into M and N to share the profits and losses in the ratio of 2:1. M supplied goods worth Rs.1,20,000 to N and incurred expenses amounting to Rs. 4,000 for freight and insurance. During transit goods costing Rs.10,000 got damaged and a sum of Rs.6,000 was recovered from the insurance company. N reported that 90% of the remaining goods were sold at a profit of 30% on their original cost. At 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 Rs. 2,000. N had earlier remitted an advance of Rs. 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]

3. The following statement of Affairs of Mr. M as on 31st December 2021 has been derived:

Particulars	Rs.	Particulars	Rs.
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 could not maintain his books on the Double Entry System. But he sincerely follows the following system:

- (a) He draws Rs. 250 every week.
- (b) After meeting his weekly sundry expenses (Rs.100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.
- (c) There was no cash purchase and creditors are paid by cheques.

- (d) Sales are at fixed price which include 25% profit on cost.
(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 settled in cheques.
(g) All unpaid bills are in a file carefully.

The following are the bank transactions maintained for 3 months (13 weeks):

Particulars	Rs.	Particulars	Rs.
Balance on Jan. 1,2021	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 1,2021	5,400
	49,000		49,000

After 3 months (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 Rs. 4,000;
(b) Sundry Debtors amounted to Rs. 20,000 as per the diary;
(c) Sundry Creditors were Rs. 8,000 as per unpaid bills file. Compute the amount of cash missing. [15]

4. R, W and B give you the following Balance Sheet as on 31st March,2022

Capital and Liabilities	Rs.	Properties and Assets	Rs.
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	Joint Life Policy	15,000
Loan on Hypothecation of Stock	6,200	Patents and Trademarks	10,000
Joint Life Policy Reserve	12,400	Cash at Bank	8,000
Total	93,400	Total	93,400

The Partners shared Profits and Losses in the ratio of R:W:B = 4:2:3. The Firm was dissolved on the above date, and you are given the following information –

- (a) B had taken a Loan from Insurers for Rs. 5,000 on the security of Joint Life Policy. The Policy was surrendered and Insurers paid a sum of Rs. 10,200 after deducting Rs.5,000 for B's Loan and Rs. 300 as Interest thereon.
(b) One of the Creditors took some of the Patents whose Book Value was Rs. 6,000 at a valuation of Rs.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 Rs. 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 Rs. 17,000, Fixtures and Fittings Rs. 1,000, Stock Rs. 9,000, Debtors Rs. 16,500, and Patents 50% of their Book Value.
(e) The Liabilities were paid and a total discount of Rs. 500 was allowed by the Creditors.
(f) The Expenses of Realisation amounted to Rs. 2,300.

You are asked to prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form. [15]

5. (a) The following details are extracted from the records of M/S B & Co., a trader in relation to the year ended March 31, 2022.

- (i) Total sales was Rs. 1,80,000 including the sale of old Xerox Machine for Rs. 4,800 (Book value Rs. 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 Rs. 20,000.
- (iii) Bills Receivable drawn during the three months totalled Rs. 30,000 of which bills amounting to Rs. 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for Rs. 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 Rs. 11,000.
- (v) Sundry Debtors as on 01.04.2021 stood of Rs. 50,000.

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

(b) Journalise the following Entries in the books of Head Office to make necessary rectification or adjustments:

- i. Goods sent to Branch Rs.12,000 stolen during transit. Branch Manager refused to accept any liability.
 - ii. Branch paid Rs. 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 Rs. 32,000 which was not received by Branch till 31st March, being end of the financial year.
 - iv. A remittance of Rs. 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 Rs. 24,000 towards purchase of goods by Branch and wrongly debited the same in its own Purchase Account.
- [5]

6. (a) X Ltd has taken a fire policy of Rs. 2,40,000 covering its stock. A fire occurred on 31st March, 2022.

The following particulars are available:

	Rs.
Stock as on 31-12-2021	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 to be paid on purchase @ 2%. Gross Profit Ratio @ 50% on cost.

You are asked to ascertain:

- (i) The amount of loss of stock
- (ii) The amount of claim to be made against the insurance company (Assuming that the policy was subject to average clause). The amount of stock salvage is Rs. 62,040. [5]

- (b) Mr. V had taken a mine on lease from Mr. R at a royalty of Rs.12,500 per 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 Rs.4 per ton.

Prepare Short Workings Account and Mr. R account in the books of Mr. V. [10]

7. (a) Rs.9,90,000 was incurred on a contract work upto 31.03.2022. Certificates have been received to date to the value of Rs.12,00,000 against which Rs.10,80,000 has been received in cash. The cost of work done but not certified amounted to Rs. 22,500. It is estimated that by spending an additional amount of Rs.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 Rs.12,50,000. Derive a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. [6]

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

8. Write short notes on any three of the following: [3×5=15]

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