INTERMEDIATE EXAMINATION
Syllabus 2016

Paper 5: FINANCIAL ACCOUNTING (FAC)

Time Allowed: 3 Hours **Full Marks: 100**

There are Sections A, B, C and D to be answered subject to instructions given against each.

Section A You are required to answer all the questions. Each question carries 1 mark. Instructions: Each question is followed by 4 Answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer.					**20 X 1 = 20 Marks**
1.	**a.**	An expenditure incurred relating to Fixed Asset resulting in increase in capacity of the asset should be _____________ .			
		(i)	charged to P&L A/c		
		(ii)	added to Gross Book Value of asset	A	
		(iii)	added to Net Book Value of asset		
		(iv)	treated as Deferred Revenue Expenditure		
	b.	Expenditure incurred by a publisher for acquiring Copyrights is an example of ________.			
		(i)	Capital Expenditure	A	
		(ii)	Revenue Expenditure		
		(iii)	Deferred Revenue Expenditure		
		(iv)	None of the above		
	c.	Income statement of a club is known as:			
		(i)	Statement of Profit and Loss		
		(ii)	Receipt and Payment Account		
		(iii)	Income and Expenditure Account	A	
		(iv)	Trading Account		
	d.	Why is Over-riding commission paid to an agent?			
		(i)	The agent is required to put in hard work in introducing a new product.	A	
		(ii)	The agent is entrusted with the work of supervising the performance of other agents.		
		(iii)	The agent is effecting sales at prices higher than the price fixed by the consignor.		
		(iv)	All of the above.		
	e.	Bank Loan Account is an example of ____________.			
		(i)	Personal Account	A	
		(ii)	Real Account		
		(iii)	Nominal Account		
		(iv)	Valuation Account		
	f.	Purchase of a laptop for office use if wrongly debited to Purchases A/c will be an error of:			
		(i)	Principle	A	

		(ii)	Omission		
		(iii)	Commission		
		(iv)	Wrong posting		
	g.	______ could be taken as capital receipts and every year a charge is debited.			
		(i)	Subscriptions		
		(ii)	Legacy		
		(iii)	Life Membership Fees	A	
		(iv)	Donations		
	h.	Outstanding Expenses Account is an example of __________.			
		(i)	Asset		
		(ii)	Liability	A	
		(iii)	Expense		
		(iv)	Income		
	i.	According to Section 44 of the Indian Partnership Act, 1932, the court, at the suit of a partner, may dissolve a firm on the ground of ________________.			
		(i)	unequal distribution of profits among partners		
		(ii)	a partner has gone abroad on a personal tour		
		(iii)	a partner has become of unsound mind	A	
		(iv)	None of the above		
	j.	Accounting standards in India are issued by ___________.			
		(i)	Institute of Cost Accountants of India		
		(ii)	Institute of Chartered Accountants of India	A	
		(iii)	Institute of Accounting Standards of India		
		(iv)	Reserve Bank of India		
	k.	Contingent Liability is to appear as _______________.			
		(i)	a Note in the Balance Sheet	A	
		(ii)	on the Liabilities side		
		(iii)	an item in Profit and Loss Account		
		(iv)	None of the above		
	l.	Which component of financial statement charges the COGS and other direct expenses and losses against the sales revenue to determine the gross operating result of the concern during a particular accounting period?			
		(i)	Balance Sheet		
		(ii)	Manufacturing Account		

		(iii)	Profit & Loss Account		
		(iv)	Trading Account	A	
	m.	Which of the following is not part of financial statements?			
		(i)	Trading and Profit & Loss A/c		
		(ii)	Balance Sheet		
		(iii)	Trial Balance	A	
		(iv)	Cash Flow Statement		
	n.	Branches in respect of which the whole of the accounting records are kept at Head Office only are known as:			
		(i)	Dependent Branch	A	
		(ii)	Independent Branch		
		(iii)	Foreign Branch		
		(iv)	All of the above		
	o.	Minimum Rent is also called as ________________.			
		(i)	Low Rent		
		(ii)	Dead Rent	A	
		(iii)	Maximum Rent		
		(iv)	None of the above		
	p.	Sometimes Debtors Ledger may have credit balance due to _____________.			
		(i)	extension of credit period to debtors		
		(ii)	credit sales to debtors		
		(iii)	advance given to debtors	A	
		(iv)	None of the above		
	q.	Under Hire-Purchase System, transfer of ownership is passed on to the hire-purchaser			
		(i)	only after paying off the full price of the goods	A	
		(ii)	after signing the hire-purchase agreement		
		(iii)	immediately on making the down payment		
		(iv)	at the time of sale		
	r.	Goods Lost by Fire will be credited to __________ A/c as an outflow of stock and will be debited to Profit and Loss A/c as ____________.			
		(i)	Trading, Loss	A	
		(ii)	Profit & Loss, Loss		
		(iii)	Trading, Income		
		(iv)	Profit & Loss, Profit		

	s.	Accounting Standard (AS 7) is related to:			
		(i)	Intangible Assets		
		(ii)	Construction Contracts	A	
		(iii)	Property, Plant and Equipment		
		(iv)	Disclosure of Accounting Policies		
	t.	In case there is some mistake made while recording the opening balances, which of the following will be effected in Computerized Accounting?			
		(i)	Automatic Correct Balancing of Ledger Accounts		
		(ii)	Automatic Income Statement		
		(iii)	Automatic Balance Sheet		
		(iv)	Automatic Tallied Trial Balance	A	
Section B **You are required to answer all the questions. Each question carries 2 marks.** **Instructions: Each question is followed by a space where you are required to type your answer.**					**10 X 2 = 20 Marks**
2.	**a.**	State whether the following items are in the nature of Capital or Revenue Expenditure. (i) Expenses incurred in connection with obtaining a license for starting the factory were Rs.12,000. (ii) Incurred Rs. 4,500 as redecoration expenses of the company.			
		Type your answer here (i) Rs.12,000 incurred in connection with obtaining a license for starting the factory is a Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period. (ii) The redecoration expenses of ` 6,000 shall be treated as a Revenue Expenditure.			
	b.	What is the difference between Standard Turnover and Actual Turnover during the indemnity period known as?			
		Type your answer here Short Sales			
	c.	How will heavy advertising costs of Rs. 40,000 spent on the launching of a company's new product be treated?			
		Type your answer here It should be treated as Revenue Expenditure in the year it has been incurred (Accounting Standard 26 on Intangible Assets)			
	d.	The provision for Doubtful Debt A/c shows a balance of Rs. 5,000 on Jan 01, 2021. The bad debt during the year amounted to Rs. 3,000. The sundry debtors on Dec. 31, 2021 were Rs. 50,000.Create a new provision @ 10 % on debtors. What will be the balance in Provision for Doubtful Debt Account which will be carried forward to Profit and Loss Account?			
		Type your answer here Rs. 3,000			
		ROUGH WORK Opening Balance = 5,000 Bad Debt = (3,000) Provision (New) = (5,000)			

		Carried forward to P/L = 3,000	
	e.	A and B were partners sharing profit or loss in the ratio of 5 : 4. C entered as partner for 1/4th shares in profits and he brought ` 2,50,000 for goodwill. C acquired 1/6th share from B and remaining from A. Calculate sacrifice ratio.	
		Type your answer here : 1:2 **ROUGH WORK:** B's Sacrifice = 1 /6 and A's sacrifice = 1 /4 - 1 /6 = (3 - 2)/12 = 1 /12 Hence, Sacrifice ratio of A & B = 1 /12 : 1 /6 or 1 : 2	
	f.	In the case of sale of a firm to a company, which account is prepared to determine the profit or loss on sale?	
		Type your answer here Revaluation Account	
	g.	What does Ground Rent or Surface Rent means?	
		Type your answer here Fixed Rent payable in addition to Minimum Rent	
	h.	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.36,000, then calculate the amount of stock reserve on closing stock	
		Type your answer here Rs. 9,000 **ROUGH WORK:** Rs. 36,000 × 25% = Rs.9,000 [Profit is 33.33% on Cost means Profit is 25% of Value of the closing Stock]	
	i.	If expenditure is Rs.11,000 and surplus credited to Capital Fund is Rs. 2,500, Calculate the amount of total income.	
		Type your answer here Rs. 13,500 **ROUGH WORK** Total Income = Rs.11,000 + Rs. 2,500 = Rs.13,500	
	j.	What is the first step in the preparation of a customized accounting software?	
		Type your answer here Feasibility Study	
		Section C **You are required to answer any 4 out of 6 questions in this section.** **Instructions: Each question is followed by a space where you are required to type your answer.**	**12 X 4 = 48 Marks**
3.	**a.**	On January 1, 2019, X Ltd. purchased a second-hand machine for Rs.52,000 and spent Rs.2,000 as shipping and forwarding charges, Rs.5,000 as import duty, Rs.500 as carriage inward, Rs.1,500 as repair charges, Rs.500 as installation charges, Rs.400 as brokerage of the middleman and	8

Rs.100 for an iron pad. It was estimated that the machine will have a scrap value of Rs.2,000 at the end of its useful life which is 10 years. On September 30, 2020 repairs and renewals amounted to Rs.2,000. On June 30, 2021, this machine was sold for Rs. 36,000.

(i) Determine the original cost of the machinery purchased.

(ii) What would be the amount of annual depreciation?

(iii) What will be the opening balance in the Machinery Account as on 1.1.2021?

(iv) What would be the amount of profit/loss on sale of the machinery?

Type your answer

(i) Original Cost of the machinery purchased: Rs.62,000

(ii) Amount of Annual Depreciation: Rs.2,000

(iii) Opening balance in the Machinery Account as on 1.1.2021: Rs.50,000

(iv) Amount of profit/loss on sale of the machinery: Loss on sale Rs.11,000

ROUGH WORK

Total Cost of Machinery = Purchase price + Expenses to be capitalized

= Rs.52,000 + Rs.2,000 + Rs.5,000 + Rs.500 + Rs.1,500 + Rs.500 + Rs.400 +Rs.100

= Rs.62,000

Amount of depreciation p.a. = (Rs.62,000 - Rs.2,000)/10=Rs.6,000

Dr. Machinery Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
01.01.2019	To, Bank A/c (Cost)	52,000	31.12.2019	By, Depreciation A/c	6,000
	To, Bank A/c (Expenses)	10,000		By, Balance c/d	56,000
		62,000			62,000
01.01.2020	To Balance b/d	56,000	31.12.2020	By, Depreciation A/c	6,000
				By, Balance c/d	50,000
		56,000			56,000
01.01.2021	To Balance b/d	50,000	30.06.2021	By, Depreciation A/c	3,000
				By, Bank (Sale proceeds)	36,000
				By, Profit/Loss Account (Loss on sale)	11,000
		50,000			50,000

	b.	XYZ send goods worth Rs.1,00,000 to Y on consignment basis at 20% above the cost price. The goods are sold by the consignee on a mark-up of 15% on invoice price. Find the total mark-up % over the cost price of the goods.	4
		Type your answer Mark-up % over the cost price = 38% **ROUGH WORK** XYZ sent goods to Y at a price of [Rs.1,00,000 + (Rs.1,00,000×20%)] i.e. Rs.1,20,000 The goods are sold at [Rs.1,20,000 + (Rs.1,20,000 × 15%)] i.e. Rs.1,38,000 Mark-up % over the cost price is [(Rs.1,38,000- Rs.1,00,000)/Rs.1,00,000]x100 = 38%	
4.	**a.**	Following are the particulars of M/s. ABC for the year ended 31st March 2022.	

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Sales	8,20,000	Land	11,000
Opening Stock	3,00,000	Purchase	3,80,000
Loan (Dr.)	20,000	Interest (Cr.)	1,000
		Salaries	40,000
Wages	60,000	Carriage Outward	2,000
Carriage Inwards	4,000	Returns Outwards	3,000
Returns inward	4,000	Trade charges	8,000
Furniture	10,000	Capital:	
Drawings:		X	24,000
X	12,000	Y	16,000
Y	10,000		
Cash	3,000		

Additional Information:

(i) Closing Stock amounted to Rs. 1,20,000;

(ii) Provide Interest on drawings (on an average 6 months) and interest on capital @ 6% and 4% respectively.

(iii) Y is to get a salary of Rs. 400 p.m.

(iv) X is to get a commissions @ 2% on gross sales

(v) 50% of the profits is to be transferred to Reserve Fund.

(vi) Depreciations on furniture @ 10% p.a. The partners share profit and loss equally.

	(i)	What is the Net Profit for the year 2021-22?	4
		Type your answer here Net Profit = Rs. 1,45,000	
	(ii)	How much amount of profit is to be distributed between X and Y?	3
		Type your answer here Divisible Profit: X = Rs.30,715 Y = Rs.30715	
	(iii)	What are the capital balances of the partners as on 31st March 2022? What is the value of Total Assets as on 31st March 2022?	3

Type your answer here

X = Rs.59,715

Y = Rs.41,855

Total Assets = Rs.1,63,000

ROUGH WORK

In the books of M/s. X & Y

Trading and Profit and Loss Account for the year ended 31st March, 2022

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To, Opening Stock		3,00,000	By, Sales	8,20,000	
To, Purchases	3,80,000		Less: Return Inwards	4,000	8,16,000
Less: Returns Outwards	3,000	3,77,000	By, Closing Stock		1,20,000
To, Wages		60,000			
To, Carriage Inward		4,000			
To, Profit & Loss A/c -Gross Profit transferred		1,95,000			
		9,36,000			9,36,000
To, Salaries		40,000	By, Trading A/c		
To, Carriage Outward		2,000	- Gross Profit		1,95,000
To, Trade Charges		8,000	By, Interest		1,000
To, Depreciation on:					
- Furniture		1,000			
To, P&L Appropriation A/c. - Net Profit transferred		1,45,000			
		1,96,000			1,96,000

Profit and Loss Appropriation Account

for the year ended 31st March, 2022

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To, Interest on Capital			By, Profit and Loss A/c - Net Profit		1,45,000
X:	960				
Y:	640	1,600	By, Interest on Drawings:		
			X:	360	
To, Salary			Y:	300	660
Y:		4,800			
To, Commission – X		16,400			
To, Reserve Fund (50%)		61,430			
To, Net Divisible Profit					
X:	30,715				
Y:	30,715				

		61,430			
		1,45,660			1,45,660

Capital Account

Particulars	X (Rs.)	Y (Rs.)	Particulars	X (Rs.)	Y (Rs.)
To, Drawings	12,000	10,000	By, Balance b/d.	24,000	16,000
To, Interest on Drawings	360	300	By, Interest on Capital	960	640
To, Balance c/d	59,715	41,855	By, Salary	---	4,800
			By, Commission	16,400	---
			By, Share of Profit	30,715	30,715
	72,075	52,155		72,075	52,155

Balance Sheet
as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)	Amount (Rs.)
Capital:		Land		11,000
X	59,715	Furniture	10,000	
Y	41,855	Less: Depreciation	1,000	9,000
Reserve Fund	61,430			
		Loan		20,000
		Closing Stock		1,20,000
		Cash		3,000
	1,63,000			1,63,000

b. A partnership firm has X and Y as partners sharing profits and losses in the ratio of 2:1. They decide to admit Z as a new partner and the new profit sharing ratio is 8:4:3.
What is ratio of sacrifices/gains among the partners? 2

Type your answer here

Sacrificing Ratio

X:Y:Z = 2/15:1/15:(3/15)

ROUGH WORK

	X	Y	Z
Old PSR	2/3 = 10/15	1/3 = 5/15	
New PSR	8/15	4/15	3/15
Sacrificing Ratio	2/15	1/15	(3/15)

5. Following is the Balance Sheet of A and B who share profits and losses equally:

Liabilities and Capital	(Rs.)	Assets	(Rs.)
Capitals		Machinery	9,000
A		Plant	10,000

10,000			
B 7,000	17,000	Debtors	2,500
Creditors	3,000	Bank	2,500
A's loan	4,000		
	24,000		24,000

They decided to dissolve the firm. Assets are realized as follows; machinery 20% less than book value, plant 10% less than book value; debtor Rs. 2000; the creditors were paid off at a discount of 10%.

	a.	What is the realization profit/loss on dissolution?	4
		Type your answer here Loss on Realization: Rs.3,500	
	b.	What is the amount of final payment to be made to the partners?	5
		Type your answer here Final Payment to Partners: A = Rs.8,250; B = Rs.5,250	

ROUGH WORK

In the books of partnership firm of Alpha, Beta and Gama

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Realization A/c Dr. To Machinery A/c To Plant A/c To Debtor A/c (being transfer of assets to Realization A/c)		21,500	 9,000 10,000 2,500
(ii)	Creditors A/c Dr. To Realization A/c (being transfer of balance of Creditors' A/c to Realization A/c)		3,000	 3,000
(iii)	Bank A/c (Rs.7,200 + Rs.9,000+ Rs.2,000) Dr. To Realization A/c (Being record for amount realized from assets)		18,200	 18,200
(iv)	Realization A/c Dr. To Bank A/c (being payment of creditors)		2,700	 2,700
(v)	Realization A/c Dr. To Bank A/c (being payment of liquidation expenses)		500	 500

		(vi)	A's Capital A/c Dr. B's Capital A/c Dr. To Realization A/c (being loss on realization transferred to capital accounts of the partners in profit sharing ratio)		1,750 1,750	3,500
		(vii)	A's Loan A/c Dr. To Bank A/c (being payment of A's loan)		4,000	4,000
		(viii)	A's Capital A/c Dr. B's Capital A/c Dr. To Bank A/c (being balance of capital accounts of the partners paid)		8,250 5,250	13,500

May include Realization Account and Partner's Capital Account

	c.	If a partner dies, the partnership is usually dissolved. But if the surviving partners desire so, they may purchase the share of the deceased partner and carry on the business. In that case, what are included in the total amount payable to the legal representative or executor of the deceased partner?	3
		Type your answer Total Amount Payable includes: (i) The deceased partner's Capital and / Current Accounts last Balance (ii) His share of undistributed profit/loss (iii) His share of revaluation profit/loss (iv) His share of goodwill (v) His share of Joint Life Policy, if any and (vi) His share of profit/loss made by the firm between the last year ending and the date of his death	
6.	**a.**	The following information is available from the books of the trader for the period 1st Jan. to 31st March 2022: a) Total Sales amounted to Rs.70,000 including the sale of old furniture for Rs.10,000 (book value is Rs.12,300). The total cash sales were 80% less than total credit sales. b) Cash collection from Debtors amounted to 60% of the aggregated of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to Rs.2,600 c) Bills receivable drawn during the period totaled Rs.7,000 of which bills amounting to Rs.3,000 were endorsed in favor of suppliers. Out of these endorsed bills, a Bill receivable for Rs.1,600 was dishonored for non-payment, as the party became insolvent and his estate realized nothing. d) Cheques received from customer of Rs.5,000 were dishonored; a sum of Rs.500 is irrecoverable. e) Bad Debts written-off in the earlier year realized Rs.2,500. f) Sundry debtors on 1st January stood at Rs.40,000. What is the balance to be carried forward to 1st April, 2022?	8
		Type your answer Balance to be carried forward to 1st April, 2022 = Rs 30,900 **ROUGH WORK** In the General Ledger Debtors Ledger Adjustment Account	

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2022			2022		
Jan 1	To Balance b/d	40,000	Jan 1		
March 31	General Ledger Adjustment A/c :		March 31	By General Ledger Adjustment A/c:	
	- Sales	50,000		Cash	54,000
	- Bills Receivable Dishonoured	1,600		Discount Allowed	2,600
	- Cheque Dishonoured	5,000		Bills Receivable	7,000
				Bad Debts	2,100
				" Balance c/d	30,900
		96,600			96,600
April 1	To Balance b/d	30,900			

Workings:

Computation of Credit Sales:

Cash Sales were 80% less than Credit Sales.

So, if credit sales are Rs. 100 Cash Sales will be Rs. 20;

Total Sales = Cash Sales + Credit = Rs.120.

Total Sales (Rs. 70,000 - Rs. 10,000) = Rs. 60,000

Cash received

Cash received is 60% of opening Debtors plus Credit sales i.e. Rs. 40,000 + Rs. 50,000 = Rs. 90,000

Cash Received = Rs. 90,000 × 60/100 = Rs. 54,000

b. X Ltd. had purchased a machinery on hire purchase system from Y Ltd. The terms are that X Ltd. Would pay Rs. 20,000 down on signing the agreement and 4 annual installments of Rs. 11,000 each commencing from the beginning of the next year. X Ltd. Charged depreciation at the rate of 10 percent per annum on cost under diminishing balance system. Y Ltd. Charged interest at the rate of 10 percent per annum in their hire purchase contract. Prepare machinery account and Y Ltd.

What will be the cash price? 4

Type your answer

Cash Price = Down Payments + Rs. 34,869 = Rs. 20,000 + Rs. 34,869 = Rs. 54,869

ROUGH WORK

Calculation of Cash Price and Interest

No. of Installment	Closing Balance	Amount of installment	Total	Interest @ 1/11	Opening Balance
	Rs.	Rs.	Rs.	Rs.	Rs.
IV		11,000	11,000	1,000	10,000

III	10,000	11,000	21,000	1,909	19,091
II	19,091	11,000	30,091	2,735	27,356
I	27,356	11,000	38,356	3,487	34,869

7. **a.** List the significances of computerized accounting system — 4

Type your answer

a) The speed with which accounts can be maintained is several fold higher;
b) Automatic Correct Balancing of Ledger Accounts;
c) Automatic Tallied Trial balance unless some mistake is made while recording the opening balance;
d) Automatic Income Statement and Automatic Balance Sheet.

b. A firm of contractors obtained a contract for completion of bridges across river Revathi. The following details are available in the records kept the year ended 31st March, 2022:

Particulars	Rs. in Lakh
Total Contract Price	1,000
Works Certified	500
Works not Certified	105
Estimated further cost	495
Progress payment received	400
Progress payment to be received	140

(i) When is the provision for anticipated loss made? In this case, do you think that there is a need for any amount of such a provision? — 2

Type your answer:

When it is probable that total contract cost will exceed total contract revenue, the expected losses should be recognized.

Anticipated Loss = Rs.100 lakh

(ii) What is the amount due to Customers with respect to the contract? — 3

Type your answer:

Amount Due to Customers = Rs. 35 lakh

Rough Work

Anticipated or Foreseeable Loss

Particulars	Rs.

Cost of Total Contract:	
Work Certified	500
Add: Work not certified	105
Add: Estimated further cost to completion	495
Less: Contract Price	(1,000)
Anticipated / Foreseeable loss	100

Work-in-Progress/Stage of Completion:

= Work certified+ Work not certified = Rs. (500 +105)

= Rs. 605 % of work completed 605/1100 × 100 = 55%

Recognition of Contract Revenue:

Total Contract Price x 55% = Rs. (1,000 × 55%) = Rs. 550 lakhs

Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)

= [605 + Nil – 100 – (400 + 140)] Rs. In lakhs = [605 – 100 – 540] Rs. In lakhs

Amount due to customers = Rs. 35 lakhs

	(iii)	State the disclosure requirement as per Accounting Standard 7 on Construction Contracts.	3

Type your answer here

Disclosure by contractors:

An enterprise (contractor) should disclose the following policy:

- The method used to determine the stage of completion of contract in progress
- The method used to determine the contract revenue recognized in the period.

In addition to policy disclosure following disclosures is also required to be made by the enterprise (contractor):

- The amount of contract revenue recognized in the period
- Contract cost incurred and recognized profit (less recognized losses) up to the reporting period
- Advance received
- Gross amount due from customers for contract work [(cost incurred + recognized profit) – (recognized losses + progress billing)]
- Gross amount due to customer for contract work [(recognized losses + progress billing) – (cost incurred + recognized profit)].

8.		**You are required to write any Short Note on any 4 out of 5.**	**4 X 3 = 12 Marks**
	a.	Revenue Realization Concept	3

Type your answer here

While the conservatism concept states whether or not revenue should be recognized, the concept of realization talks about what revenue should be recognized. It says amount should be recognized only to the tune of which it is certainly realizable. Thus, mere getting an order from the customer won't make it eligible to recognize as revenue. The reasonable certainty of realizing the money will come only when the goods ordered are actually supplied to the customer and he is billed. This concept ensures that income unearned or unrealized will not be considered as revenue and the firms will not inflate profits.

	b.	Difference between fire insurance policy and loss of profit policy.	3
		Type your answer	

Basis	Fire insurance policy	Loss of profit policy
1. Coverage	This policy covers loss of or damage to insured property such as building, stock, etc.	This policy covers loss of gross profit sustained in consequent of a business interruption.
2. Subject matter	The subject matter of this insurance policy is tangible and covers material property.	In this case of this insurance policy it is intangible and covers the earning capacity of the business.

	c.	Difference between Single Entry System and Double Entry System.	3

Type your answer

The differences between Single Entry System and Double Entry System are as follows:

a) The single entry method of maintaining accounts is an incomplete record of the financial transaction whereas the double entry method of maintaining accounts is a complete record of the financial transactions.

b) All accounts, personal as well as impersonal are maintained in the double entry method whereas in the single entry only personal accounts may be maintained.

c) Under double entry system, various subsidiary books such as sales book, purchases book etc. are maintained. Under single entry system, no such subsidiary books except cash book which is also considered as a part of ledger is maintained.

d) Under double entry system, preparation of trial balance is possible whereas it is not possible to prepare a trial balance in single entry system. Hence accuracy of work is uncertain.

	d.	Modes of dissolution of a firm	3

Type your answer

The modes of dissolution of a firm are:

a) By Mutual consent of all the partners or in accordance with a contract made by them

b) By Notice

c) On the happening of any one of the following events: (a) expiry of the term, where the partnership was constituted for a fixed term; (b) completion of the adventure for which the firm was constituted; (c) Death of a partner, (d) Adjudication of a Partner as insolvent.

d) Compulsory dissolution

e) Dissolution by court

	e.	Difference between Rent and Royalty	3

Type your answer

Differences between Rent and Royalty

Rent	Royalty
1. It is mostly payable on the basis of time as weekly, monthly or yearly.	1. It is paid on the basis of production, yield or sale.

2. The amount of rent is generally fixed with regard to time	2. The amount of royalty is variable and is calculated in accordance with production or sale
3. There is no concept of minimum rent.	3. It generally contains a clause in the agreement to pay minimum rent.
4. The parties are known as tenant and landlord.	4. The parties are known as lessee/patentee/ publisher and lessor /patent holder/ author etc.

Section D — **12 Marks**

You are required to answer all the questions in this section.

Instructions: Each question is followed by a space where you are required to type your answer.

9. ABC Cosmetics commenced the business of manufacturing and trading in cosmetic products on 1.4.2021. Mr. B and his wife are the partners of the organization with head office at Mumbai. Given the demand for Ayurveda and natural products, they ventured into the field of providing natural beauty products. With fewer businesses actually providing this type of cosmetic products, Bella Beauty could become a game changer in the years to come. Right now since they belong to Mumbai and being the financial hub of India, it has gained a good market share already. To gain control over the sales in the southern part of India, it also manages a Chennai branch. The Mumbai Head Office being the center of all trade, has been faring well in terms of sales figures. But the Chennai Branch has really taken off and is returning good sales figures.

As per Company policy, a few restrictions have been imposed on the branch like fortnightly reports be provided to the Head Office, purchases shall be made exclusively by the head office, goods are processed here for sale since the estimates for loss or wastage are negligible etc. Goods are always processed at the head office at the head office and then sent to the branch. This transfer is always done at cost plus 10%.

The industry standard is to keep a gross profit of 30% on the cost. But to gain an edge over the competitors and to enable more customers to try their product, the prices have been kept low yielding a gross profit of 25% on the cost. This is same for both Head Office and Branch. The gross profit on their respective cost will be at 25%

At the end of the year, ABC Cosmetics is now preparing its accounts, attempting to reconcile any differences and remove any errors. They have now come to you with all records, data and various ancillary information seeking advice and to get its accounts prepared. You have a keen knowledge on accountancy and you have accepted its offer to engage in service.

For the year 2021-2022, you find the trial balance (as provided below) and note down a few other information as derived from stock records. You note that during stock taking on 31.3.2022 at the branch, a shortage of stock has been shown. This shortage has been reported at Rs 20,000 at selling price to the branch. While at the head office on the closing date, there were some unprocessed goods costing Rs 1,00,000. During the month of March 2022, the Head office had also sent goods of Rs 44,000 to the branch, which only reached the branch on 2.4.2022

Following is the Trial Balance as on 31.3.2022:

Particulars	Head office		Branch	
	Dr. (Rs.)	Cr. (Rs.)	Dr. (Rs.)	Cr. (Rs.)

Capital	55,000	3,10,000		
Drawings	19,69,500			
Purchases	50,500			
Cost of processing		12,80,000		8,20,000
Sales	1,39,000	9,24,000		
Goods sent to branch	50,000		15,000	
Administrative expenses	3,09,600		6,200	
Selling expenses	3,89,800		1,13,600	
Debtors		6,01,400		10,800
Branch current A/c	1,52,000		77,500	
Creditors				2,61,500
Bank balance			8,80,000	
Head office current account				
Good received from H.O.				
	31,15,400	31,15,400	10,92,300	10,92,300

You find that the head office has sent some remittances to the branch, but the remittance of Rs 84,300 sent on 31.3.2022 has somehow not been received by the branch within the accounting year. You go through the bank records to find that it has only been credited on 4th April, 2022 due to some technical error of the bank.

a.	What is the value of closing stock of ABC Cosmetics at Head Office and at the Branch?	3

Type your answer here

Stock of processed goods with Head Office = Rs.56,000

Stock processed goods with branch (at cost) = Rs.1,89,091

ROUGH WORK

Calculation of Closing Stock

Stock at Head Office

Particulars	Rs.
Cost of goods processed (Rs. 19,69,500 + Rs. 50,500 + Rs. 1,00,000)	21,20,000
Less: cost of goods to branch (Rs. 9,24,000× 100/110)	(8,40,000)
	12,80,000
Cost of good sold (Rs. 12,80,000× 100/125)	(10,24,000)
Stock of processed goods with H.O.	2,56,000

Stock at Branch

Particulars	Rs.
Goods received from H.O. (at invoice price)	8,80,000
Less: Invoice value of goods sold (Rs. 8,20,000 × 100/125)	(6,56,000)
Invoice value of shortage of stock (Rs. 20,000 × 100/125)	(16,000)
Stock at branch at invoice price	2,08,000
Less: stock reserve (Rs. 2,08,000 ×10 /110)	
Stock processed goods with branch (at cost)	1,89,091

	b.	What is the value of Gross Profit of the Head Office and the Branch of ABC Cosmetics?	3

Type your answer here:

Gross profit at the Head Office = Rs. 3,40,000

Grosss Profit at the Branch =Rs.1,64,000

	c.	What is the value of Net Profit of the Head Office and the Branch of ABC Cosmetics?	2

Type your answer here:

Net profit Head Office = Rs.1,28,091

Net Profit at Branch =Rs.12,68,00

ROUGH WORK

In the books of ABC Cosmetics

Trading and profit & loss account

For the year ended 31.3.2020

Particulars	H.O. (Rs.)	BRANCH (Rs.)	TOTAL (Rs.)	Particulars	H.O. (Rs.)	BRANCH (Rs.)	TOTAL (Rs.)
To Purchases	19,69,500	-	19,69,500	By Sales	12,80,000	8,20,000	21,00,000
To Cost of processing	50,500	-	50,500	By Goods sent to branch a/c	9,24,000	-	-
To Good received from H.O. A/c	-	8,80,000	-	By Stock shortage	-	16000	14545
To Gross profit c/d	3,40,000	1,64,000	5,02,545	By Goods in transit	-		44000
				By Closing stock: Processed goods	56000	208000	264000
				Unprocessed goods	100000	-	100000
	2360000	1044000	2522545		2360000	1044000	2522545
To Admn. Expenses	139000	15000	154000	By Gross Profit b/d	340000	164000	502545
To Selling expenses	50000	6200	56200				
To Stock shortage	-	16000	14545				
To Stock reserve	22909	-	22909				
To Net profit	128091	126800	254891				

	340000	164000	502545		340000	164000	502545

d.	What shall be the Capital balance and the total assets of ABC Cosmetics as at 31st March 2020?	4

Type your answer here

Capital Balance=Rs. 5,09,891

Totals of Asset Side of the Balance Sheet = Rs.12,20,911

ROUGH WORK

BALANCE SHEET
as at 31st March, 2020

Liabilities		Rs.	Assets		Rs.
Capital	310000		Debtors:		
Add: Net Profit	254891		H.O.	309600	
	564891		BRANCH	113600	
Less: drawing	55000				423200
		509891	Closing Stock of Processed goods :		
Creditors:			H.O.	56000	
H.O.	601400		Branch	208000	
BRANCH	10800			264000	
		612200	Less: Stock Reserve	18909	
					245091
			Closing Stock of Unprocessed goods		100000
			Bank balance :		
			H.O.	152000	
			Branch	77500	
					229500
			Goods in transit (Rs. 44000 – Rs. 4000)		40000
			Cash in transit		84300
		1122091			1122091

END