

INTERMEDIATE EXAMINATION

December 2019

P-5(FAC)
Syllabus 2016

Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Both the sections are to be answered subject to instructions given against each.

[All workings must form part of your answer.]

Section-A

1. Answer the following questions:

(a) Choose the most appropriate one from the given following alternatives: 1×10=10

(i) When stock is valued at cost in one accounting period and at lower of cost and Net realizable value in another accounting period

(A) Prudence Principle conflicts with Consistency Principle.

(B) Matching Principle conflicts with Consistency Principle.

(C) Consistency Principle conflicts with Accounting Period Assumption.

(D) None of the above

(ii) Materiality Principle is an exception to the

(A) Consistency Principle

(B) Full Disclosure Principle

(C) Accounting Period Assumption

(D) Prudence Principle

(iii) In a Cash Book Debit balance of ₹ 112 brought forward as credit balance of ₹ 121, while preparing a Bank Reconciliation Statement taking the balance as per Cash Book as the starting point:

(A) ₹ 112 to be added

(B) ₹ 121 to be added

(C) ₹ 233 to be added

(D) ₹ 112 to be subtracted

- (iv) _____ represents a potential obligation that could be created depending on the outcome of an event.
- (A) Internal Liability
- (B) Current Liability
- (C) Contingent Liability
- (D) Non-current Liability
- (v) Opening Debtors, Collection from Debtors and Discount Allowed were ₹ 3,15,000; ₹ 18,30,000 and ₹ 35,000 respectively. If the closing debtors were 20% of credit sales of the period then closing debtors and credit sales would be
- (A) ₹ 3,51,667 and ₹ 17,58,333
- (B) ₹ 3,63,333 and ₹ 18,16,667
- (C) ₹ 3,87,500 and ₹ 19,37,500
- (D) ₹ 3,10,000 and ₹ 15,50,000
- (vi) Following information is given:

	₹
Opening Stock	2,13,000
Purchases	16,55,000
Sales	21,32,000
Carriage Inwards	32,500
Carriage Outwards	38,600
Return Inwards	38,000

If the rate of gross profit is 25% on cost then value of closing stock will be

- (A) ₹ 2,57,800
- (B) ₹ 1,94,900
- (C) ₹ 2,25,300
- (D) ₹ 3,30,000

- (vii) Provision for Doubtful Debt on 1st April, 2018 was ₹ 21,500. During the year 2018-19 the Bad-debt and Recovery of Bad-debt were ₹ 10,500 and ₹ 2,100 respectively. The Sundry Debtors on 31st March, 2019 were ₹ 2,25,000. Provision is to be made @ 5% on Debtors. If on 31st March, 2019, there was additional Bad-debt of ₹ 2,500 then Provision for doubtful-debt will be

- (A) debited to Profit & Loss Account by ₹ 11,250.
 (B) debited to Profit & Loss Account by ₹ 2,625.
 (C) debited to Profit & Loss Account by ₹ 3,000.
 (D) debited to Profit & Loss Account by ₹ 900.

- (viii) A and B enter into a joint venture sharing profit and losses in the ratio of 3:2. A purchased goods costing ₹ 2,00,000. B sold 95% goods for ₹ 2,50,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales. A drew a bill on B for an amount equivalent to 80% of original cost of goods. A got it discounted at ₹ 1,50,000. What is A's share of profit?

- (A) ₹ 15,300
 (B) ₹ 21,300
 (C) ₹ 18,900
 (D) None of the above

- (ix) Subscription of ₹ 6,25,000 had been shown in the Income and Expenditure Account prepared for the year ending 31st March, 2019. Additional information is as below:

	On 31st March, 2018 (₹)	On 31st March, 2019 (₹)
Subscription Outstanding	55,000	72,000
Subscription Received in Advance	31,000	37,000

The amount of subscription received during the year 2018-19 would be

- (A) ₹ 6,36,000
 (B) ₹ 6,02,000
 (C) ₹ 6,14,000
 (D) ₹ 6,48,000

- (x) X and Y are partners with the capital of ₹ 50,000 and ₹ 30,000 respectively. Interest Payable on Capital is 10% p.a. If the profits earned by the firm is ₹ 4,800, what will be the Interest on Capital for X and Y?

- (A) ₹ 5,000 and ₹ 3,000
(B) ₹ 3,000 and ₹ 1,800
(C) No interest will be paid to the partners
(D) None of the above

- (b) Match the following:

1×5=5

Column A		Column B	
(i)	Endorsement	(A)	AS 7
(ii)	Amortisation	(B)	AS 10
(iii)	Average Clause	(C)	Depreciation
(iv)	Percentage of Completion	(D)	Bills Receivable
(v)	Recoverable Amount	(E)	Insurance Claim

- (c) State with reason whether the following statements are 'True' or 'False' (No Marks shall be awarded without valid reason):

1×5=5

- (i) Prudence is a concept to recognise all losses and not profits.
(ii) Revenues are matched with expenses in accordance with the matching principle.
(iii) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.
(iv) Net Profit is reflected in higher cash balances and net loss is reflected in lower net worth.
(v) If Partnership Deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.a.

(d) Fill in the blanks:

1×5=5

- (i) _____ method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
- (ii) Reserve for Discount on Creditors has a _____ balance.
- (iii) _____ can be made payable to the bearer.
- (iv) The gain from sale of capital assets need not be added to revenue to ascertain the _____ of a business.
- (v) _____ property may be the subject matter of consignment.

Section-BAnswer *any five* questions from question numbers 2 to 8.

Each question carries 15 marks.

15×5=75

2. (a) A retail trader had not kept proper books of account. From the details given below you are required to prepare the Profit or Loss Account for the year ended 31st March, 2018.

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	1st April, 2017(₹)	31st March, 2018(₹)
Stock-in-Trade	16,700	18,100
Sundry Creditors	15,400	19,200
Sundry Debtors	11,200	10,600
Cash in Hand	250	1,400
Bank Overdraft	19,200	Nil
Bills Receivable	16,000	5,000
Fixtures and Fittings	1,500	1,500
Motor Van	1,900	Nil
Bank Balance	Nil	2,900

Drawings during the year amounted to ₹ 2,400. Depreciate Fixtures and Fittings by 10%. ₹ 600 is irrecoverable from Debtors. Provide 5% for Doubtful Debts and ₹ 200 in respect of Bills Receivable.

- (b) Calculate the amount of sports material to be transferred to Income and Expenditure Account of Kanan Bala Sports Club, Ludhiana, for the year ended 31st March, 2018: 7

Particulars	(₹)
(i) Sports Material sold during the year (Book value ₹ 50,000)	56,000
(ii) Amount paid to creditors for sports material	91,000
(iii) Cash purchase of sports material	40,000
(iv) Stock of sports material as on 31.03.2017	50,000
(v) Stock of sports material as on 31.03.2018	55,000
(vi) Creditors for sports material as on 31.03.2017	37,000
(vii) Creditors for sports material as on 31.03.2018	45,000

3. From the following Trial Balance of Bharat Tushar as on 31st March, 2019, you are required to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date, after making the necessary adjustment as mentioned hereunder:

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Particulars	Debit Balance (₹)	Credit Balance (₹)
Capital and Drawings	24,000	1,60,000
Furniture and Fixtures	8,000	—
Plant and Machinery	60,000	—
Patents (ten years from 01.04.2018)	40,000	—
Opening Stock	40,000	—
Purchases and Sales	1,70,000	2,64,000
Salaries	14,800	—
Wages	30,000	—
Sundry Debtors and Creditors	20,400	24,000
Land	28,350	—
Loan from Shyam (at 6% from 01.10.2018)	—	20,000
Postage and Fax	3,000	—
Rent, Rates and Taxes	7,200	—
Bad Debts	800	—
Discount	—	1,200
Carriage Inward	400	—
Interest on loan	300	—
Insurance	1,600	—
Travelling expenses	1,000	—
Sundry expenses	600	—
Cash and Bank	33,750	—
Bank Overdraft	—	15,000
Total	4,84,200	4,84,200

Adjustments:

- (a) Closing Stock is valued at ₹ 30,000.
- (b) A new machine was installed on 1st April, 2018 for ₹ 3,000. No entry in this respect was passed in the books. Wages of ₹ 1,000 paid for installing the machine were debited to Wages Account.
- (c) Of the Sundry Debtors, ₹ 200 are bad and are to be written off. You are required to maintain a Provision for Doubtful Debts @ 5% on Debtors and Provision for Discount on Debtors @ 2%.
- (d) Goods costing ₹ 2,000 were given away as free samples for publicity.
- (e) Depreciate Plant and Machinery at 20% per annum and Furniture and Fixture at 10% per annum.
- (f) On 01.04.2018 Machinery of the value of ₹ 10,000 was destroyed by fire and the insurance claim settled at ₹ 8,000 was credited to Machinery Account.
- (g) Goods for ₹ 1,200 were sent to a customer at a profit of 20% on cost on 30th March, 2018 on sale or return basis. This was recorded as actual sales.

4. The Balance Sheet of X and Y who shares profits and losses in the ratio of 3 : 2, at 31st March, 2019 was as follows:

Liabilities	₹	Assets	₹
Creditors	36,000	Cash at Bank	20,000
Workmen's Compensation Fund	24,000	Debtors	1,30,000
Employees' Provident Fund	20,000	Less: Provision	<u>10,000</u>
General Reserve	40,000		1,20,000
X's Capital	1,68,000	Stock	60,000
Y's Capital	1,12,000	Investments	1,00,000
		Patents	20,000
		Goodwill	80,000
	4,00,000		4,00,000

They decided to admit Z on that date for 1/4th share on the following terms:

- New Profit sharing ratio will be 6 : 9 : 5. Z is to bring in capital equal to 1/4th of the total capital of the new firm.
- Goodwill of the firm is to be valued at 4 years' purchase of the average super profits of the last three years. Average profits of the last three years are ₹ 70,000, while the normal profits that can be earned with the capital employed are ₹ 30,000. No Goodwill is to appear in the books. Z brings in ₹ 24,000 cash out of his share of Goodwill.
- Patents to be written down to ₹ 3,000 and Stock is undervalued by ₹ 2,000. 20% of General Reserve to be transferred to Provision for Doubtful Debts. ₹ 9,000 included in Sundry Creditors be written back as no longer payable.
- Out of the amount of insurance which was debited entirely to P & L A/c, ₹ 10,000 be carried forward as an Unexpired Insurance. Unaccounted Accrued Income of ₹ 2,000 to be provided for. A debtor whose dues of ₹ 10,000 were written off as Bad Debts paid 80% in full settlement. A claim of ₹ 6,000 on account of workmen's compensation to be provided for.
- The market value of investments was ₹ 90,000. Half of the investments were to be taken over by old partners in their old profit sharing ratio.

Prepare Revaluation Account, Capital Accounts of the Partners and the Balance Sheet of new firm.

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- A firm has two departments-Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018:

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	Sawmill (₹)	Furniture (₹)
Opening Stock on 1st January, 2018	1,50,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	—
Selling expenses	10,000	3,000
Wages	30,000	10,000
Closing Stock on 31st December, 2018	1,00,000	30,000

The value of stocks in the Furniture Department consist of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15% on sales in 2017. General expenses of the business as a whole came to ₹ 55,000. The firm adopts FIFO method for assigning costs to inventories.

- (b) On 02.06.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the record saved:

	₹
Stock at cost on 01.04.2018	1,35,000
Stock at 90% of cost on 31.03.2019	1,62,000
Purchases for the year ended 31.03.2019	6,45,000
Sales for the year ended 31.03.2019	9,00,000
Purchases from 01.04.2019 to 02.06.2019	2,25,000
Sales from 01.04.2019 to 02.06.2019	4,80,000

Sales up to 02.06.2019 includes ₹ 75,000 (invoice price) being the goods not dispatched to the customers.

Purchases up to 02.06.2019 includes a machinery acquired for ₹ 15,000.

Purchases up to 02.06.2019 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,20,000 and it is subject to average clause.

Ascertain the amount of claim for loss of stock.

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6. (a) Bharat Enterprise furnishes you the following information for the quarter January to March. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:

- Total sales amounted to ₹ 2,20,000 including sale of old motor car for ₹ 10,000 (book value ₹ 5,000). Total credit sales were 80% higher than the cash sales.
- Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ₹ 40,000 and credit sales for the period. Debtors were allowed discount of ₹ 10,000.
- Bills Receivables drawn during the period totalled ₹ 20,000 of which one bill of ₹ 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.
- A sum of ₹ 3,000 was written off as Bad Debts, ₹ 7,000 was realized against Bad Debts written off in earlier years and provision of ₹ 6,000 was made for doubtful debts.

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(b) On 1st January, 2015, KC Limited obtained a piece of land on lease from Juggu Limited. The terms were as follows:

- (i) Royalty at ₹ 60 per tonne produced.
- (ii) Minimum Rent ₹ 3,00,000 per annum up to 31st December, 2016, and after that it will be ₹ 4,00,000 per annum.
- (iii) Shortworkings can be recouped in the next two years only but subject to a maximum of ₹ 60,000 per year.
- (iv) In the event of strike, the minimum rent would be taken pro-rata on the basis of actual working days but in the event of lockout, the lease would enjoy concession in respect of minimum rent for 50% of the period of lockout.

In addition to the above, KC Limited has been granted a right to receive cash subsidy equal to 50% of the unrecoverable shortworkings by the Government of India up to the first five years of the lease.

The sales and closing stock up to 2018-19 were as follows:

	2014-15	2015-16	2016-17	2017-18	2018-19
Sales (in Tonnes)	600	3100	5550	4300	7400
Closing Stock (in Tonnes)	150	460	630	150	650

During the year 2017-18, a period of strike was for three months and during 2018-19, KC Limited was being locked out for 73 days.

Show the necessary Ledger Accounts in the books of KC Limited, when the books are closed on 31st March in every year. 10

7. (a) Briefly explain the objectives and applicability of Accounting Standard for Construction Contracts (AS-7). Describe the basic principles of recognition of revenue and expenses as per AS-7. 8

(b) What do you mean by 'Customised Accounting Software'? Discuss its advantages. 7

8. Write short notes on *any three* of the following:

5×3=15

- (a) Users of Accounting information
 - (b) Objective and necessity for providing Depreciation
 - (c) Applicability of Section 37 of the Indian Partnership Act, 1932
 - (d) Difference between Sale and Consignment
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