

Paper 5 – Financial Accounting

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Full Marks: 100

Time allowed: 3 hours

[This paper contains 9 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

Section - A

1. Answer the following questions

[5 × 1 = 5]

(a) Multiple choice questions:

- (i) 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
- (ii) Excess of minimum rent over actual royalty is known as
(a) Maximum Rent
(b) Excess workings
(c) Short workings
(d) Deficiency of actual royalty
- (iii) Income & Expenditure A/c shows subscriptions ₹10,000; Subscriptions accrued in the beginning of the year and at the end of the year were ₹1,000 and ₹1,500 respectively. The figure of subscription received appear in receipts and payments account will be:
(a) ₹ 9,500
(b) ₹ 10,000
(c) ₹ 10,500
(d) ₹ 12,000
- (iv) As per AS 7 Contract Cost do not consist
(a) Site labour cost including supervision
(b) Cost of material used in construction
(c) Depreciation of plant and equipments used on the contract
(d) General administration cost
- (v) Bad debts are apportioned among departments in the proportion of
(a) Sales of each department
(b) Number of units sold each department
(c) Cost of sales of each department
(d) None of the above

(b) Match the following:

[5 × 1 = 5]

	Column 'A'		Column 'B'
1.	Income and Expenditure A/c	A	Royalties
2.	Bills of Exchange	B	Does not require a name
3.	Joint venture	C	Trial Balance is not prepared
4.	Single Entry System	D	Unconditional order
5.	Ground Rent	E	Nominal Account

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(c) State whether the following statements are true or false

[5 × 1 = 5]

- (i) A fire insurance policy is taken to cover four types of losses.
- (ii) Bad debts are uncollectable or irrecoverable debt or debts.
- (iii) Transactions are recorded on accrued basis in the income and expenditure account.
- (iv) Depreciation is a charge against profit.
- (v) As per the going concern concept, the enterprise should continue to exist in the foreseeable future.

(d) Answer the following:

[5 × 2 = 10]

- (i) Mr. Dilu of Delhi sent out 1,000 boxes to Mr. Kim of Kolkata costing ₹20 each. Consignor's expenses ₹2,000. 4/5th of the boxes were sold at ₹25 each. Compute the profit on consignment.
- (ii) Silver Ltd furnished the following particulars:
Debtors ledger include ₹ 15,000 due from Dutta & Co. whereas creditors ledger include ₹ 9,000 due to Dutta & Co. Show the journal entry.
- (iii) ₹ 30,000 is the annual installment to be paid for three years (given present value of an annuity of ₹ 1 p.a. @ 5% interest is 2.7232. Ascertain the cash price increase of hire purchase.
- (iv) Avipsha Ltd has signed at 31st December, the balance Sheet, a contract where the Total Revenue is estimated at ₹60 Crores and Total Cost is estimated at ₹80 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31st December?
- (v) P and Q were partners sharing profits/losses as 4 : 3. R is admitted as a new partner for 1/5 th share. P and Q decide to share the balance of profits equally. Calculate the new profit sharing ratio.

Section - B

Answer any five from the following.

Each question carries 15 marks [5 × 15 = 75]

2. (a) The accumulated balance of Life Membership fees at the beginning of the year 2012 was ₹6,40,000. This represents the balance of life membership fees paid by 20 members since the club started about 6 years ago. In the current year, 10 new life memberships were received totaling ₹ 4,00,000. It's the policy of the club to spread these fees over 20 years to income. The amount payable per person is always ₹40,000. What is the amount to be recognised as income for the current year and what amount will be deferred through the balance sheet? [7]

- (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, 2014:

Particulars	₹ in Lakhs
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

Prepare Contract Account as per AS-7 "Accounting for Construction Contract". [8]

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3. Messrs, Dalal, Banerjee and Malick is a firm sharing profits and losses in a ratio of 2:2:1. Their balance sheet as on 31st March, 2013 is as given below:

Liabilities	₹	Assets	₹
Sundry Creditors	12,850	Land and buildings	25,000
Outstanding Liabilities	1,500	Furniture	6,500
General reserve	6,500	Stock of goods	11,750
Capital Accounts : Dalal	12,000	Sundry Debtors	5,500
Banerjee	12,000	Cash on hand	140
Malick	5,000	Cash at bank	960
	49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with offset from 1st April, 2003 on the following terms:

- (i) Mr. Mistri shall bring ₹ 5,000 towards his capital.
- (ii) The value of the stock should be increased by ₹ 2,500
- (iii) Bad debts amounting to ₹ 550 should be written off.
- (iv) The furniture should be depreciated by 10%.
- (v) The value of land and buildings should be enhanced by 20%
- (vi) The value of goodwill be fixed at ₹ 15,000
- (vii) The new profit sharing ratio shall be 5 : 5 : 3 : 2

The goodwill account shall be written back after Mr. Mistri's admission.

Outstanding liabilities include ₹ 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare (i) Revaluation account, (ii) The capital accounts of the partners, (iii) The balance sheet of the firm as newly constituted. **[15]**

4. (a) Prepare the Creditors Ledger Adjustment Account as it would appear in General Ledger and General Ledger Adjustment Account as it would appear in Creditors Ledger for the year ended 31st March, 2014 from the following particulars.

Particulars	Amount (₹)
Sundry Creditors (on 1-4-2013) (Cr.)	10,000
(Dr.)	1,000
Purchases (including Cash purchase of ₹ 10,000)	50,000
Returns outward	2,000
Cash paid to Creditors	20,000
Discount allowed by Creditors	3,000
Trade Discount	1,000
Bills Receivable endorsed to Creditors	2,000
Bills Payable issues during the year	4,000
Bills Payable dishonoured	2,000
Bills Payable renewed	1,000
Interest on Bills Payable renewed	100
Sundry Charges paid for dishonor of Bills Payable	100
Total of set-off in Debtors Ledger	3,000
Sundry Creditors (on 31-3-2014) (Dr.)	4,000

[9]

- (b) Discuss the disadvantages of Customised Accounting Package. **[6]**

5. (a) On 1st April, 2009 Mahi Limited obtained a mine on lease from Kachari Limited. The terms were as follows:
- Royalty at ₹25 per tonne raised.
 - Minimum Rent ₹1,50,000 per annum.
 - Short workings can be recouped in the next two years only but subject to a maximum of ₹ 37,500 per year. In the event of strike, the minimum rent would be taken pro-rata

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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, Mahi Ltd. has been granted a right to receive cash subsidy equal to 50% of the Unrecoupable shortworkings by the State Government up to the first 5 years of the lease.

The production during the first six years was as follows: -

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Production (Tonnes)	2000	3000	8000	9000	4000	6000
					(Period of strike for 73 days)	(Lockout for two months)

Show the necessary Ledger Accounts in the books of Mahi Limited [12]

(b) What is meant by "Depletion"? [3]

6. (a) A and B decided to work a joint venture for the sale of electric motors.

On 1st May 2016, A purchased 200 electric motors at ₹ 175 each and dispatched 150 motors to B incurring ₹ 1,000 as freight and insurance charges. 10 electric motors were damaged in transit. On 1st February 2017, ₹ 500 were received by A from the insurance company, in full settlement of his claim. On 15th March 2017, A sold 50 electric motors at ₹ 225 each. He received ₹ 15,000 from B on 1st April 2017.

On 15th May 2016, B took delivery of the electric motors and incurred the following expenses:

Clearing Charges ₹ 170; Repair charges to electric motors damaged in-transit ₹ 300; Godown Rent for 3 months ₹ 600.

He sold the electric motors as:

1.2.2017	10 damaged motors ₹ 170 each
	40 motors at ₹ 200 each
15.3.2017	20 motors at ₹ 315 each
1.4.2017	80 motors at ₹ 250 each

It is agreed that they are entitled to a commission of 10% on the respective sales effective by them; that the profits and losses shall be shared between A and B in the ratio of 2:1. B remits A the balance of amount due on 30th April 2017. You are required to show the Memorandum Joint Venture Account only. You are required to show the Memorandum Joint Venture Account only. [8]

(b) Shiv owed Amrit ₹ 80,000. Amrit draws a bill on Shiv for that amount for 3 months on 1st April 2017. Shiv accepts it and returns it to Amrit. On 15th April 2017, Amrit discounts it with Virat Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges of ₹ 100. Amrit settles the bank's claim along with noting charges in cash. Shiv accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July 2017. Before the new bill became due, Shiv retires the bill with a rebate of ₹ 500. Show journal entries in books of Amrit. [7]

7. (a) Hi-Fi Traders Ltd. sends to its Madras Branch at cost plus 25%. From the following particulars you are required to show the necessary ledger accounts in the Head Office books and find out profit of branch (Stock and Debtors System):

Particulars	₹
Opening stock at Branch at cost to Branch	20,000
Goods sent to Branch at invoice price	80,000

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Loss-in-transit at invoice price	10,000
Pilferage at invoice price	4,000
Normal loss through wastage at invoice price	2,000
Sales	1,22,000
Expenses	32,000
Closing stock at Branch at cost to Branch	24,000
Received from Insurance company against loss-in-transit	6,000

[10]

- (b) The total of debit side of Trial Balance of a larger boot and shoe repairing firm as on 31.12.2013 is ₹ 1,66,590 and that of the credit side is ₹ 42,470. After several checking and re-checking the mistakes are discovered:

Items of Account	Correct Figure (as it would be) ₹	Figures as it appear in the Trial Balance ₹	
Opening Stock	14,900	14,800	
Repairs (outstanding)	61,780	61,780	(appear in the Debit side)
Rent & Taxes	2,160	2,400	
Sundry Creditors	6,070	5,900	
Sundry Debtors	8,060	8,310	

Ascertain the correct total of the Trial Balance.

[5]

8. (a) From the following Receipts and Payments of Swamiji Sports Club, prepare income and expenditure a/c for the year ended on 31-3-2016.

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d (01-04-2015)	23,000	By Salaries	16,000
To Subscriptions	13,000	By Rent	3,000
To Interest	1,000	By Stationery	1,000
To Sale of Old Furniture (Book Value ₹ 2,000)	1,600	By Sports Material Purchased	12,000
To Entrance Fees	8,000	By Balance c/d (31-3-2016)	12,000
	46,600		46,600

Additional Information:

- (a) Subscriptions include ₹1,000 received for the last year.
(b) Rent includes ₹600 paid for the last year.

From the above particulars Prepare Income and Expenditure A/c for the year ending 31-3-2016.

[6]

- (b) From the following information, compute the amount of claim under loss of Stock Policy:

Particulars	Amount (₹)
Sum insured	6,000
Accounting Year	Calendar Year
Reason for damage on 30-6-2017	Due to fire accident
Value of Salvaged Stock	5,000
G.P. Ratio	Uniform from year to year
Stock as on 1-1-2016	90,000
Stock as on 31-12-2016	70,000
Purchases during 2016	4,00,000
Sales during 2016	6,00,000
Purchases from 1-1-2017 to 30-6-2017	6,00,000
Sales from 1-1-2017 to 30-6-2017	8,80,000

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You are informed that in 2017, the cost of purchases and selling prices have increased by 20% and 10% respectively above the levels prevailing in 2016. **[9]**

9. Write short notes on any three of the following:

[3 × 5 = 15]

- (a)** Going Concern Concept
- (b)** Difference between receipts and payments a/c and income and expenditure A/c
- (c)** Relevant Disclosures of Accounting Policies as per AS 1
- (d)** Causes for depreciation.