Paper 5 – Financial Accounting

Paper 5 – Financial Accounting

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.]

1. Answer the following questions **[5 ×1 = 20]**

(a) Multiple choice questions:

(I) A Company purchase a machine costing ₹15 lakh for its production process. It paid freight ₹25,000, Cartage ₹2,000 and installation charges ₹18,000. The company spent an additional amount of ₹40,000 for testing and preparing the Machine for use. The amount that should be recorded as the cost of machine would be:
(a)₹15,00,000
(b)₹15,25,000
(c)₹15,85,000
(d)₹15,65,000

(II) Accounting standards in India are issued by
(a) Comptroller and Auditor general of India
(b) Reserve bank of India
(c) The Institute of Accounting standards of India
(d) The Institute of Chartered Accountants of India

(III) The goods are transferred from department X to Department Y at selling price which includes a profit of 25% on cost. Stock valued at ₹65,000 in Department Y, is ₹18,000, then the amount of stock reserve on closing stock will be
(a)₹16,250
(b)₹13,000
(c)₹21,667
(d) None of the above

(IV) In the hire purchase system interest charged by vendor is calculated on the basis of
(a) Outstanding cash Price
(b) Hire purchase Price
(c) Installment amount
(d) None of the above

(V) Short workings can be recouped out of
(a) Minimum rent
(b) Excess of actual Royalty over minimum rent
(c) Excess of minimum rent over actual Royalty
(d) Profit and Loss Account

(b) Match the following: **[5 × 1 = 5]**

	Column 'A'		Column 'B'
1.	Nominal Account	A	These Expenditures are recurring in nature
2.	Debit Balance	B	These accounts are related to expenses or losses and incomes or gains
3.	Revenue Expenditure	C	All assets accounts
4.	Income and Expenditure Account	D	there is neither any possibility of bad debts nor any doubts about its realization

5.	Good Debts	E	It is similar to Profit & Loss Account

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

(i) If any transaction is not recorded in the primary books the same is recorded in Journal Proper.
(ii) All Cash Payments both capital & revenue during the period are credited to Receipts and Payments Account.
(iii) Creditors Ledger is also known as Sold Ledger or Sales Ledger.
(iv) Excess working refers to the amount by which the actual royalty exceeds the minimum rent.
(v) A Branch is a subordinate division of an office.

(d) Answer the following: **[5 × 2 = 10]**

(i) On 1st April 2013, BINTEK LTD. purchased a second-hand machine at a cost of ₹ 1,20,000, and spent ₹ 30,000 on its installation. On 1st October, 2014, ₹ 5,000 was spent on repairs. Depreciation is to be provided @ 20 per cent per annum according to written down value method.
Calculate the amount of Depreciation for the year ended March 31, 2015.

(ii) Arti Ltd. purchased a machine on hire purchase system for a cash price ₹5,00,000 to be paid as ₹ 78,700 cash down and the balance by three equal annual installment of ₹ 2,00,000 each. If interest is charged @ 20% per annum then what will be the amount of interest payable on second installment?

(iii) Anup draws a bill for ₹ 4,000 on Binup. Binup accepts it and returns it to Anup. Anup endorses it over to Zitun. Zitun endorses it in favour of Chinu. On due date, the bill was honoured.
Pass Journal Entries in the book of Chinu.

(iv) ANU and BINU are partners sharing Profit/Loss in the ratio of 3 : 2. They admit CHITRA into partnership for 1/6 share in the Profit which she acquired equally from the old partners.
Calculate the New Profit Sharing Ratios of the partners.

(v) ANSU is a debtor of the firm by ₹1,000. His account is also in the creditors ledger because of his having supplied goods to the firm for ₹ 900.
You are required to pass the necessary transfer entries if the firm is maintaining accounts on sectional balancing system.

Section-B

Answer any five from the following.
Each question carries 15 marks [5 × 15 = 75]

2. The following is the Income and Expenditure Account of GREEN CITY CLUB for the year ended March 31, 2015.

(Amount in ₹)

To Salaries	4,80,000	By Subscriptions	13,00,000
To Rent	1,20,000	By Entrance Fees	2,00,000
To Printing & Stationery	30,000	By Contribution for Annual Dinner	1,60,000
To Travelling Expenses	60,000	By Profit on Annual Sports	20,000
To Annual Dinner Expenses	1,40,000		
To Secretary's Honorarium	1,20,000		
To General Expenses	60,000		
To Interest and Bank Charges	18,000		

To Audit Fees	20,000		
To Books & Periodicals	30,000		
To Depreciation	25,000		
To Excess of Income over Expenditure	5,77,000		
	16,80,000		16,80,000

The Income and Expenditure Account has been prepared after the following adjustments:

	₹
Subscription Outstanding on 31.03.2014.	1,20,000
Subscription received in Advance on 31.03.2014.	90,000
Subscription Outstanding on 31.03.2015	80,000
Subscription received in Advance on 31.03.2015	1,40,000

Salaries Outstanding at the beginning of the year and at the end of the year were ₹40,000 and ₹30,000 respectively.
Audit fees for the year (2014-15) has not been paid. Previous year's audit fee ₹15,000 was paid during the year.

The club's Assets on 31st March, 2014 were as follows:

	₹
Freehold Land	10,00,000
Sport Equipments	2,60,000

At the end of the year, after depreciation the equipments amounted to ₹ 2,70,000. Bank Loan of ₹ 1,00,000 as on 31st March, 2014 was still due at the end of the current year. On 31st March, 2015. Cash as Bank amounted to ₹ 6,97,000.

You are required to prepare:
(i) The Receipts and Payments Account for the year ended 31st March, 2015 and
(ii) Balance Sheet as on 31.03.2015. **[15]**

3.(a) On 31.03.2015, the date of closing of the financial year, a trader contained the following balances of Nominal Accounts:
Purchases ₹8,640; Sales ₹14,290; Return Outwards ₹780; Carriage Inwards ₹940; Wages ₹2,920; Salaries ₹3,100; Discount Received ₹440 and Bad Debt ₹100.
The Closing Stock was valued at ₹13,000.
Show the Closing Journal Entries related to the preparation of the Trading and Profit & Loss Account. **[6]**

(c) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger:

		₹
(a)	Transfer from Debtors' Ledger to Creditors' Ledger	1,100
(b)	Transfer from Creditors' Ledger to Debtors' Ledger	1,900
(c)	B/R endorsed to Creditors	4,000
(d)	Endorsed Bills dishonored	1,000
(e)	Bad Debts written off (after deducting bad debts recovered ₹300)	2,200
(f)	Provision for Doubtful Debts	550
(g)	Provision for Discount on Debtors	1,000
(h)	Reserve for Discount on Creditors	2,000
(i)	Cash Sales	3,000
(j)	Cash Purchases	4,000
(k)	Bill Receivable Collected on maturity	5,000

(l)	Bills Receivable discounted	6,000
(m)	Bills Payable matured	7,000
(n)	Discount allowed	1,500
(o)	Discount received	600
(p)	Allowances from Creditors	3,200
(q)	Discount allowed to debtors ₹500 was recorded as discount received from creditors.	
(r)	Closing Debtors Balance (As per General Ledger Adjustment Account)	60,000 (Cr.)
(s)	Closing Creditors Balance (As per General Ledger Adjustment Account)	30,000 (Cr.)

[9]

4. (a) J of Jamsedpur consigned 50 tilling machines costing ₹4,000 each to B of Burdwan. J incurred the following expenses in dispatching the goods :

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 B. 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. **[12]**

(b) Advise P Ltd. about the treatment of the following in final statement of accounts for the year ended 31.03.15:
A claim lodged with the Railways in March 2012, for loss of goods of ₹ 2,00,000 had been passed for payment in March 2015 for ₹ 1,50,000. No entry was passed in the books of the company when claim was lodged. **[3]**

5. A, B and C have been in business partnership for some years, Sharing Profit and in the proportions of 4:3:3.
The balances in the books of the firm as on 31st March, 2015 subject to final Adjustment, were as under:

(Amount in ₹)

	Dr. (₹)	Cr. (₹)
Capital Account - A		3,00,000
Capital Account - B		1,50,000
Capital Account - C		1,80,000
Profit for the year before charging interest		3,12,000
Land and Buildings	2,40,000	
Furniture and Fixtures	45,000	
Stock	3,75,000	
Debtors	60,000	
Bank	1,20,000	
Creditors		90,000
Partner's Drawings - A	48,000	
Partner's Drawings - B	72,000	
Partner's Drawings - C	72,000	
Total	10,32,000	10,32,000

C died on 30.09.2014. the Partnership deed provided that:

(1) Interest was to be credited on Capital accounts of partners at 10% P.A. on the balance at the beginning of the year.

(2) On the death of a Partner:
   (i) Goodwill was to be valued at three years' purchase of average Annual Profits of three years up to the date of death, after deducting interest on Capital Employed at 8% P.A. and a fair remuneration for each of the partners;
   (ii) Fixed Assets were to be valued by an independent valuer and all other assets and liabilities to be taken at Book Value.
(3) Wherever necessary, profit or loss should be apportioned on a time basis.
(4) The amount due to the deceased partner's Sole Heir was to receive interest @ 12% P.A. from the date of death until paid.

It was ascertained that:
(a) Profits for three years, before charging partners' interest were: 2011-12 – ₹ 3,36,000, 2012-13 – ₹ 3,78,000 and 2013-14 – ₹ 3,60,000 respectively.
(b) The independent valuation at the date of death revealed: Land and Buildings – ₹ 3,00,000 and Furniture and Fixtures – ₹ 30,000.
(c) A fair remuneration for each of the Partners would be ₹ 75,000 P.A. and that the Capital employed in business to be taken as ₹ 7,80,000 throughout.

It was agreed among the Partners that –
(i) Goodwill was not to be shown as an asset of the firm as on 31.03.2015. therefore, adjustment for goodwill was to be made in Capital Accounts.
(ii) A and B would share equally from the date of death of C.
(iii) Depreciation on revised value of assets would be ignored.

You are required to prepare:
(i) Revaluation Account
(ii) Partners' Capital Accounts
(iii) Partner's Current Accounts
(iv) C's Heir Account
(v) Balance Sheet as on 31.03.2015 **[2+3+1+1+5+3=15]**

6. **(a)** PRIMA CONSTRUCT LTD obtained a contract for construction of a bridge across river Hindan. The following details are available in the records kept for the year ended 31st March, 2015:

Particulars	(Amount ₹ in Lakh)
Total Contract Price	2,000
Work Certified	1,400
Work Not Certified	400
Estimated Further Cost to Completion	700
Progress Payments Received	1,000
Progress Payments in pipe line	200

Required:
Prima Construct Ltd. seeks your advice and assistance in presentation of accounts keeping in view the requirements of AS-7 "Accounting for Construction Contract". **[7]**

(b) GOURU and GYANI were friends and in need of funds. On 1st April, 2015 Gouru drew a bill for ₹ 2,00,000 for three months on Gyani. On 4. 4.2015 Gouru got the bill discounted at 15% per annum and remitted half of the proceeds to Gyani. On the due date, Gyani could not meet the bill, instead, Gouru accepted Gyani's bill for ₹ 1,20,000 on 4th July, 2015 for two months. This was discounted by Gyani at 15% per annum and out this ₹ 19,500 was paid to Gouru after deducting ₹ 500 discounting charges. Due to financial crisis, Gouru became insolvent and the bill drawn on him was dishonoured and his estate paid 40%.

- Days of grace for discount purposes may be ignored.

Required:

(i) Give Journal Entries and
(ii) Prepare Gyani's Account – in the books of Gouru. **[6+2=8]**

7. EICHER LIMITED has its head office in Mumbai and a branch at Delhi. Branch keeps a debtors ledger and banks all cash received to the credit of Head Office Bank Account. Goods are invoiced to the Branch at cost plus $33\frac{1}{3}$ p.c. On 1st April, 2014, the commencement of the financial year the following balances appeared in the Head Office Ledger:

	₹
Branch Debtors Account	1,50,000
Branch Stock Account (at selling price)	60,000
Branch Adjustment Account (Cr.)	15,000

The following were the transactions of the Branch during the year ended 31st March, 2015.
Cash Sales ₹ 75,000; Credit Sales ₹ 15,00,000; Goods from Head Office at selling price ₹ 18,00,000; Cash received from Branch Debtors ₹ 14,40,000; Discount allowed to Branch Debtors ₹ 36,900; Branch Expenses paid by Head Office ₹ 3,75,000.
The Stock at the Branch on 31st March, 2015 was ₹ 2,40,000 at selling price.

Required:
Prepare the following Ledger Accounts relating to Branch transactions, in the books of the Head Office according to Stock and Debtors' System for the year ended March 31, 2015.
(i) Branch Stock Account;
(ii) Branch Debtors Account;
(iii) Branch Expenses Account;
(iv) Branch Adjustment Account;
(i) Branch Profit and Loss Account. **[15]**

8. **(a)** A fire occurred on 1st July, 2014 in the premises of AROLITE LTD. and business was practically disorganised up to 30th November, 2014. From the books of account, the following information was extracted:

	₹
Actual turnover from 1st July, 2013 to November 2014	90,000
Turnover from 1st July to 30th November, 2013	3,50,000
Net Profit for the last financial year	1,35,000
Insured Standing Charges for the last financial year	90,000
Turnover for the last financial	7,50,000
Turnover for the year ending 30th June, 2014	8,00,000
Total Standing Charges for the year	1,10,000

The company incurred additional expenses amounting to ₹ 19,000 which reduced the loss in turnover. There was also a saving during the indemnity period of ₹ 5,250.
The company holds a "Loss of Profit" policy for ₹ 2,50,000 having an indemnity period for 6 months. There has been a considerable increase in trade and it had been agreed that an adjustment of 25% be made in respect of upward trend in turnover.'
You are required to compute the amount of claim under the Loss of Profit Policy.
[4+3+3=10]

(b) List the significances of computerised accounting system.
[5]

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

(a) Disclosure requirements as per IND AS – 2 (Inventories);
(b) Errors which are not disclosed by a Trial Balance;
(c) Transactions vs. Events;
(d) Hybrid or Mixed Basis of Accounting.