

## **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.]

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) Ground Rent or Surface rent means  
(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
- (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) When Sales = ₹1,80,000, purchase = ₹ 1,60,000, opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be  
(a) ₹ 50,000  
(b) ₹ 44,000  
(c) ₹ 46,000  
(d) None of the above
- (v) In Partnership when a new partner brings his share of Goodwill in cash, then the amount of such Goodwill will be credited to Partners capitals as per the following ratio:  
(a) Old Profit sharing ratio  
(b) Sacrifice ratio  
(c) Gain ratio  
(d) None of the above

(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

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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) Excess working refers to the amount by which the actual royalty exceeds the minimum rent.
- (ii) If any transaction is not recorded in the primary books the same is recorded in Journal Proper.
- (iii) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.
- (iv) Creditors Ledger is also known as Sold Ledger or Sales Ledger.
- (v) As per AS-2, inventory should normally be valued at historical cost or market value whichever is lower.

**(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) A and B were partners sharing profit or loss in the ratio of 5 : 4, C entered as partner for 1/4<sup>th</sup> shares in profits and he brought ₹ 2,50,000 for goodwill. C acquired 1/6<sup>th</sup> share from A. You are required to:  
Calculate sacrifice ratio and new profit sharing ratio.
- (v) The company deals in three products A,B and C which are neither similar nor interchangeable. At the time of closing of its account for the year 2012-13, the historical cost and net realizable value of the items of closing stock are determined as:

Items	Historical Cost (₹ in lakhs)	Net Realisable value (₹ in lakhs)
A	40	28
B	32	32
C	16	24

What will be the value of closing stock?

### 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.

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		(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)** The books of accounts of A Co. Ltd. for the year ending 31.3.2013 were closed with a difference of ₹ 21,510 in books carried forward. The following errors were detected subsequently:

- (a) Return outward book was under cast by ₹ 100.
- (b) ₹ 1,500 being the cost of purchase of office furniture were debited to purchase A/c.
- (c) ₹ 6,000 being the cost of purchase of office furniture were debited to purchase A/c.
- (d) A credit sale of ₹ 760 were wrongly posted as ₹ 670 to the customers A/c. in the sales day book.
- (e) The sales A/c was under casted by ₹ 10,000 being the carry over mistakes in the sales day book.
- (f) Closing stock was over casted by ₹ 10,000 being casting error in the schedule or inventory.

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Pass rectification entries in the next year.

[6]

(b) 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 Jamshedpur 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:

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	(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	
<b>Total</b>	<b>10,32,000</b>	<b>10,32,000</b>

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

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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 dishonored 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.** (a) A fire occurred on 1st July, 2014 in the premises of AROLITE LTD. and business was practically disorganized 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 computerized accounting system.

**[5]**

- 8.** Exe Ltd. purchased a vehicle for ₹2,80,000, down payment to be made ₹91,000 and 3 installments of ₹76,000 each at the end of each year. Rate of interest is charged at 10% p.a.

Buyer depreciates assets at 15% on written down value method.

Because of financial difficulties, Exe Ltd. after having paid the down payment and first installment at the end of 1<sup>st</sup> year, could not pay the second installment. Hence, the seller took possession of the vehicle. The Seller after spending ₹ 9,200 on repairs of the asset, sold it for ₹1,50,000. Show the relevant accounts in the books of the purchaser and the vendor.

**[15]**

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

[3 × 5 = 15]

- (a) Disclosure requirements as per IND AS – 2 (Inventories);
- (b) Advantages of Pre-packaged accounting software;
- (c) Differences between IND AS 18 on revenue and the existing AS 9 (issued 1985) on revenue recognition (any five);
- (d) Business Entity Concept;