

## **Paper 5- Financial Accounting**

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Full Marks : 100

Time allowed: 3 hours

Section A

1. Answer the following questions

(a) Multiple choice questions:

5 x 1 = 5

- (i) Provision for bad and doubtful debts is created in anticipation of actual bad debts on the basis of:
  - (a) Business Entity Concept;
  - (b) Conservatism Concept;
  - (c) Accrual Concept;
  - (d) Full Disclosure Concept.
- (ii) The out flow of funds to acquire an asset that will benefit the business for more than one accounting period is referred to as:
  - (a) Miscellaneous Expenditure;
  - (b) Revenue Expenditure;
  - (c) Capital Expenditure;
  - (d) Deferred Revenue Expenditure.
- (iii) Goods are sent to the Branch at cost plus 25%. The loading on invoice price is:
  - (a) 20%;
  - (b) 25%;
  - (c) 30%;
  - (d) None of the above.
- (iv) In Hire Purchase System cash price plus interest is known as:
  - (a) Capital value of asset;
  - (b) Book value of asset;
  - (c) Hire Purchase price of asset;
  - (d) Hire purchase charges.
- (v) Actuarial valuation relates to:
  - (a) Banking company;
  - (b) Electric Supply Company;
  - (c) Insurance Company;
  - (d) None of the above.

(b) Match the following:

5 x 1 = 5

	Column 'A'		Column 'B'
1.	Non Performing Assets	A	Single Entry System
2.	Intangible assets	B	Trial Balance
3.	Statement of Affairs	C	AS-26
4.	Depreciation Accounting	D	Banking Companies
5.	Check Arithmetic Accuracy	E	AS-10

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

5 x 1 = 5

- (i) Goodwill is a fictitious asset.
- (ii) Every banking company incorporated in India is required to transfer at least 25% of its profit to Reserve Fund.
- (iii) Wages incurred by departmental workers of a factory in installing a new machinery is a revenue expenditure.
- (iv) Royalty account is a nominal account in nature.
- (v) Trial Balance would not disclose error of omission.

(d) Answer the following:

5 x 2 = 10

- (i) From the following particulars, determine Closing Stock at Branch

	₹		₹
Opening Stock at Branch	30,000	Expenses:	
Goods sent to Branch	90,000	Salaries	10,000
Sales (Cash)	1,20,000	Other expenses	4,000

The branch sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

- (ii) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3<sup>rd</sup> goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 per cent on sales at invoice price and overriding commission of 20 percent of any surplus realized. Calculate the amount of consignee's commission.

- (iii) Safety Life Insurance Co. furnishes you the following information:

	Amount ₹
Life Insurance fund on 31-3-2012	1,30,00,000
Net liability on 31-3-2012 as per actuarial valuation	1,00,00,000
Interim bonus paid to policyholders during inter valuation period	7,50,000

Compute the Net Profit for the valuation period.

- (iv) On 12<sup>th</sup> June, 2013, a fire occurred in the premises of Amit, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 20,000. Estimated value of the stock at the date of fire is ₹ 1,60,000. Amit has insured his stock for ₹ 1,20,000. Compute the amount of the claim.
- (v) A trader purchased goods for ₹ 3,25,000. The opening stock of inventory prior to the said purchase was ₹ 50,000. His sale was ₹ 4,00,000. Find out the closing stock of inventory if the gross profit margin is 25% on cost.

### Section B

**Answer any five from the following. Each question carries 15 marks (5x15=75)**

2. (a) Based on the following information prepare a Bank Reconciliation

Statement as on 31<sup>st</sup> December, 2015 and find the balance as per Pass Book:

- (i) Bank overdraft as per cash book on 31-12-2015 ₹ 6,340.
- (ii) Interest on Overdraft ₹ 160 is entered in pass book.
- (iii) Bank charges ₹ 30 were debited by the bank.
- (iv) Cheques issued but not presented upto 31-12-2015 ₹ 1,160.
- (v) Cheques sent for collection to the bank but not collected upto 31-12-2015 amount to ₹ 2,170.

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(vi) Interest on investments collected by the bank and entered in the pass book ₹ 1,200. **7 Marks**

(b) The information given under has been extracted from the books of a contractor relating to contract for ₹ 3,75,000

	I YEAR	II YEAR	III YEAR
Materials	45,000	55,000	31,500
Direct Expenses	1,750	6,250	2,250
Indirect expenses	750	1,000	---
Wages	42,500	57,500	42,500
Total work certified	87,500	2,82,500	3,75,000
Uncertified work	---	5,000	---
Plant	5,000	---	---

The value of plant at the end of I year was ₹ 4,000 at the end of II year ₹ 2,500 and at the end of III year it was ₹ 1,000. It is customary to pay 90% in cash of the amount of work certified. Prepare the contract Account and show how the figures would appear in the balance sheet. **8 Marks**

3. Maruti and Ford are partners in a firm sharing profits and losses in the ratio of 3 :2. On 31<sup>st</sup> March, 1996 their Balance Sheet stood as under:

Liabilities	₹	Assets	₹
Capital Accounts:		Freehold Premises	24,000
Maruthi      40,000		Plant	4,000
Ford <u>20,000</u>	60,000	Stock	33,000
General Reserve	15,000	Debtors	12,000
Creditors	10,000	Bank	7,000
		Profit and Loss A/c	5,000
	85,000		85,000

On the same day, they admitted Sujuki as a partner and new profit sharing ratio became 7:3:3 Goodwill of the firm was valued at ₹ 20,800. Sujuki was to bring required premium and proportionate Capital. Capitals of Maruti and Ford as between themselves were also to be adjusted in their profit sharing ratios.

Pass journal entries in the books of the new firm and prepare the Balance Sheet of the reconstituted firm. **15 Marks**

4. (a) Mr. Self-reliant maintains his books on Self-Balancing Ledger. From the following particulars, prepare General Ledger Adjustment Accounts in (a) Bought Ledger, and (b) Sold Ledger.

Date	Particulars	Amount ₹
1-11-2011	Bought Ledger – Debit Balance	700
	Bought Ledger – Credit Balance	30,640
	Sold Ledger – Debit Balance	66,930
	Sold Ledger – Credit Balance	1,865
	Transactions during the month of November, 2011:	
	Sales	1,35,000
	Credit Sales	1,16,000
	Purchases – Credit	72,700
	Purchase – Cash	11,800
	Sales Returns (out of credit sales)	500
	Provision for Bad and Doubtful Debts	270

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	Bad Debts written-off	1,000
	Amount received against Bad Debts written-off last year.	600
	Purchases Returns (out of Credit Purchase)	2,500
	Cash collected from Debtors	83,000
	Cash paid to Creditors	57,500
	Discount Allowed	650
	Discount Received	320
	Interest charged to Debtors	592
	Bills Receivable Received	10,000
	Bills Payable accepted	8,000
	Bills Receivable dishonoured	2,500
	Notary Charges debited to Party's A/c	10
	Cash paid to Customers	137
30-10-2012	Sold Ledger – Debit balance	980
	Bought Ledger – Debit Balance	266

**9 Marks**

- (b) Rohit & Rahul enter into a joint venture to take a building contract for ₹ 7,80,000. They provide the following information regarding the expenditure incurred by them.

	Rohit ₹	Rahul ₹
Materials	8,16,000	6,00,000
Cement	1,56,000	2,04,000
Wages	--	3,24,000
Architect's fees	1,20,000	--
Licence fees	--	60,000
Plant	--	2,40,000

Plant was valued at ₹ 1,20,000 at the end of the contract and Rahul agreed to take it at that value. Contract amount of ₹ 28,80,000 was received by Rohit. Profit or loss to be shared equally.

You are asked to show:

- (i) Joint Venture Account and
- (ii) Rahul's Account in the books of Rohit.

**6 Marks**

5. (a) Rangakarmi, an amateur theatre organisation, charges its members an annual subscription of ₹200 per member. It accrues for subscription owing at the end of each year and also adjusts for subscriptions received in advance. The organisation closes its accounts every year at 31<sup>st</sup> December. The following particulars are available:
- (1) On 1<sup>st</sup> January, 2005, 20 members owed ₹ 4,000 for the year 2004.
  - (2) On December 2004, 5 members paid ₹1,000 for the year 2005.
  - (3) During the year 2005, the organization received cash subscriptions of ₹85,000.
- The details are:

	₹
For 2004	4,000
For 2005	79,000
For 2006	2,000
Total	85,000

At close of 31<sup>st</sup> December 2005, 15 members had not paid their 2005 subscriptions. Prepare the subscriptions account.

**7 Marks**

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- (b) X Ltd has taken out a fire policy of ₹ 1,60,000 covering its stock. A fire occurred on 31<sup>st</sup> March, 2013. The following particulars are available:

	₹
Stock as on 31-12-2012	60,000
Purchases to the date of fire	2,60,000
Sales to the date of fire	1,80,000
Carriage inwards	1,600
Commission on purchase to be paid @ 2%.	
Gross Profit Ratio @ 50% on cost.	

You are asked to ascertain

- total loss of stock
- amount of claim to be made against the insurance company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 41,360.

**8 Marks**

6. The following figures are extracted from the books of the New Bank Ltd. as on 31<sup>st</sup> March, 2013:

	₹ ('000)
Interest and discount received	3,695
Payment to Employees	200
Interest paid on deposits	2,032
Director's Fees and Allowances	30
Issued and Subscribed Capital	1,000
Rent and Taxes paid	100
Statutory Reserve under Sec.17	800
Postage and Telegrams	50
Commission, Exchange & Brokerage	200
Depreciation on Bank's Properties	30
Rent received	55
Stationery etc.	50
Profit on sale of investments	200
Advertisement and Publicity	15
Audit Fees	5

The further information is given:

- A customer to whom a sum of ₹10,00,000 has been advanced has become insolvent and it is expected only 50% can be recovered from his Estate. Interest due at 18% on his debt has not been provided in the Books.
- There were also other debts for which a provision of ₹ 1,50,000 was found necessary by the auditors.
- Rebate on bills discounted as on 1<sup>st</sup> April, 2012 ₹ 12,000. Rebate on bills discounted as on 31<sup>st</sup> March, 2013 ₹ 16,000.
- Provide ₹ 6,50,000 for income tax.
- The Directors desire to declare 10% dividend.  
Prepare the Profit and Loss Account in accordance with the Law. Make necessary assumptions.

**15 Marks**

- 7.(a) From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004.

- Date of Commercial Operation of COD = 1<sup>st</sup> April 2010
- Approved opening Capital cost as on 1<sup>st</sup> April 2010 = ₹ 1,50,000
- Weighted Average Rate of Depreciation: 3.5%

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- Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as follows:

	Year			
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Additional Capital Expenditure (Allowed)	10,000	3,000	2,000	2,000
Repayment of Loan	8,000	10,000	10,000	11,000
Weighted Average Rate of Interest on Loan	7.4	7.5	7.6	7.5

**8 Marks**

- (b)** Rahim, for mutual accommodation, draws a bill for ₹ 3,000 on Ratan. Rahim discounted it for ₹ 2,925. He remits ₹ 975 to Ratan. On the due date, Rahim is unable to remit his dues to Ratan to enable him to meet the bill. He, however, accepts a bill for ₹ 3,750 which Ratan discounts for ₹ 3,625. Ratan sends ₹ 175 to Rahim after discounting the above bill. Rahim becomes insolvent and a dividend of 80 paise in the rupee is received from his estate.

Pass the necessary journal entries in the books of both the parties.

**7 Marks**

- 8. (a)** A Calcutta trading firm has a branch at Patna to which goods are charged out at cost plus 25%. Branch keeps its own sales ledger and remits daily all cash received to the Head office. All expenses are paid from the Head Office. The transactions for the branch for the year, 2013 are given below.

	₹
Stock on 1-1-2013	55,000
Sundry Debtors on 1-1-2013	550
Petty Cash balance on 1-1-2013	450
Cash Sales	13,250
Goods sent to Branch	1,00,000
Collections on Ledger Accounts	1,05,000
Goods returned to Head Office	1,500
Bad Debts	1,500
Allowances to customers	1,250
Returns Inward	2,500
Cheques sent to Branch:	
for Rent	2,500
for Wages	1,500
for Salary and other expenses	4,500
Stock on 31-12-2013	60,000
Sundry Debtors on 31-12-2013	15,000
Petty cash on 31-12-2013 (including miscellaneous income ₹ 50 not remitted within the year)	500

Prepare the Branch Account and Branch Trading and Profit & Loss Account for the year, 2013 in the Head Office books.

**9 Marks**

- (b)** Rectifying the following errors by way of journal entries and work out their effect on profit or loss of the concern:
- (i) Return inward book was cast short by ₹ 500.
  - (ii) ₹ 300 received from Ram has been debited to Mr. Shyam.
  - (iii) Wages paid for the installation of a machine debited to wages account for ₹ 1,000.
  - (iv) A purchase made for ₹ 1,000 was posted to purchase account as ₹ 100.
  - (v) Purchase of furniture amounting to ₹ 3,000 debited to purchase account.

(vi) Goods purchased for proprietor's use for ₹ 1,000 debited to purchase account.

**6 Marks**

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

**3 x 5 = 15**

- (a) Slip System of Posting;
- (b) Register of Claims;
- (c) Capital and Revenue Expenditure;
- (d) Objectives of providing depreciation.