

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 = 5]

(a) Multiple choice questions:

- (i) (c)
- (ii) (c)
- (iii) (a)
- (iv) (a)
- (v) (c)

(b) Match the following: [5 × 1 = 5]

- 1. — E
- 2. — D
- 3. — B
- 4. — A
- 5. — C

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

- (i) True
- (ii) True
- (iii) False
- (iv) True
- (v) False

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

(i)

Particulars	Amount (₹)
Bank balance as per Pass Book	15,375
Add: Bank service charges	100
Less: Cheques issued but not presented	1,725
Balance as per Cash Book	13,750

(ii) Journal of Golden Ltd.

Particulars	Debit (₹)	Credit (₹)
Creditors Ledger Adjustment A/c Dr. To Debtors Ledger Adjustment A/c (Being transfer entry to set-off balance)	4,500	4,500

(iii) Computation of cash price

Amount of Installment	Present Value
₹ 1	2.7232
₹ 30,000	$\frac{2.7232 \times 30,000}{1}$
Cash price is	₹ 81,696

(iv) Computation of cost of goods sold

Answer to MTP_Intermediate_Syllabus 2012_June2016_Set 1

$$\begin{aligned} \text{Cost of goods sold} &= \text{Sales} - \text{Gross Profit} \\ &= 3,00,000 - 60,000 [3,00,000 \times 20\%] = \text{` } 2,40,000. \end{aligned}$$

(v)

Particulars	`
(a) Interest up to 31-03-2013 $(40,00,000 \times 9\% \times \frac{9}{12})$	3,00,000
(b) Less: Interest relating to pre-operative period to be capitalized $(3,00,000 \times \frac{9}{12})$	2,10,000
Amount to be charged to P&L A/c $(3,00,000 \times \frac{3}{10})$	90,000

Section B

Answer any five from the following.

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

2. (a)

Bank Reconciliation Statement as on 31st December 2013

Particulars	Amount (₹)	Amount (₹)
Bank balance as per pass book (Cr.)		924
Add: (i) Payment of contribution by the bank not entered in the cash book	200	
(ii) Cheques deposited but not cleared	65	265
		1,189
Less : (i) Interest and dividend collected by the bank not entered in the cash book		
- Interest	28	
- dividend	230	
(ii) Cheques deposited and cleared but not entered in the cash book	150	
(iii) Cheques issued but not presented (73+119+46)	238	646
Balance as per Cash Book		543

(b) We are to compute the anticipated loss and current loss which are computed as -

(a)

Anticipated (or) Foresceable Loss

Particulars	` (in lakhs)
Cost of total contract:	
Work certified	500
(+) Works not certified	105
(+) Estimated further cost to completion	495
	1100
(-) Contract price	1000
Anticipated Loss	100

(b) Work-in-progress / stage of completion:

$$\text{Work certified} + \text{work not certified} = 500 + 105 = 605.$$

$$\% \text{ of work certified} = \frac{605}{1100} \times 100 = 55\%$$

(c) Recognition of contract Revenue :

$$\text{Total contract price} \times 55\% = 1000 \times 55\% = \text{` } 550 \text{ lakhs. .}$$

3. (a) (i)

Revaluation Account

Answer to MTP_Intermediate_Syllabus 2012_June2016_Set 1

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To R.B.D.	550	By Stock	2500
To Furniture	650	By Land & Building	5000
To Profit : 6300			
Dalal = $6300 \times \frac{2}{5}$	2520		
Bbanerjee = $6300 \times \frac{2}{5}$	2520		
Malick = $6300 \times \frac{1}{5}$	1260		
	7500		7500

(ii)

Capital Account

Dr.						Cr.			
Particulars	Dalal	Banerjee	Malick	Mistri	Particulars	Dalal	Banerjee	Malick	Mistri
To Goodwill A/c (Written off)	5,000	5,000	3,000	2,000	By Balance b/d	12,000	12,000	5,000	---
To Balance c/d	19,120	18,120	7,560	3,000	By General Reserve A/c				
					By Revaluation A/c	2,520	2,520	1,260	---
					By Bank (G.W)	6,000	6,000	3,000	---
					By Bank	---	---	---	5,000
					By Outstanding Liability	1,000	---	---	---
	24,120	23,120	10,560	5,000		24,120	23,120	10,560	5,000
					By Balance b/d	19,120	18,120	7,560	3,000

(iii)

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	12,850	Land & Buildings	30,000
Outstanding Liabilities	500	Furniture	5,850
Capital Account:		Stock of goods	14,250
Dalal	19,120	Sundry debtors	5,500
Banerjee	18,120	(-) Provision	550
Malick	7,560	Cash in Hand	140
Mistri	3,000	Cash at Bank	5,960
	61,150		61,150

4. (a)

In the General Ledger Creditors Ledger Adjustment Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 April 1	To Balance b/d	1,000	2012 April 1	By Balance b/d	10,000
2013 March 31	To General Ledger Adjustment Account:		2013 March 31	By General Ledger Adjustment Account:	
	Returns Outward	2,000		Purchases	40,000
	Cash and Cheques	20,000		Bills Payable dishonoured	2,000
	Discount Received	3,000		Interest	100
	Bills Receivable	2,000		Sundry charges	100
	Bills Payable	4,000		By Balance c/d	4,000
	Bills Payable (Renewed)	1,000			
	Transfer	3,000			
	To Balance c/d	20,200			
		56,200			56,200

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2013 April 1	To Balance b/d	4,000	2013 April 1	By Balance b/d	20,200
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In the Creditors Ledger
General Ledger Adjustment Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 April 1	To Balance b/d	10,000	2012 April 1	By Balance b/d	1,000
2013 March 31	To Creditors Ledger Adjustment Account:		2013 March 31	By Creditors Ledger Adjustment Account:	
	Purchases	40,000		Returns outward	2,000
	Bills payable dishonored	2,000		Cash	20,000
	Interest	100		Discount received	3,000
	Sundry charges	100		Bills receivable	2,000
	To Balance c/d	4,000		Bills payable	4,000
				Bills payable (Renewed)	1,000
		Transfers	3,000		
			By Balance c/d	20,200	
		56,200		56,200	
2013 April 1		20,200	2013 April 1	By Balance b/d	4,000

(b)

Machinery Account (under written down value method)

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
1-1-12	To Bank (I)		3,00,000	31-12-12	By Depreciation (I)		30,000
1-10-12	To Bank (II)		1,00,000	31-12-12	By Depreciation (II)		2,500
					$(1,00,000 \times \frac{10}{100} \times \frac{3}{12})$		
				31-12-12	By balance c/d		3,67,500
			4,00,000				4,00,000
1-1-13	To Balance b/d		3,67,500	1-10-13	By Depreciation (I)		20,250
					By Bank (Sale)		2,20,000
					By P&L A/c (Loss)		29,750
					By Depreciation (II)		9,750
					By balance c/d		87,750
			3,67,500				3,67,500
1-1-14	To Balance b/d		87,750				

Working Notes relating to First Machine

Particulars	Amount
Purchased on 1-1-2012	3,00,000
(-) Depreciation on 31-12-12 $(3,00,000 \times 10\%)$	30,000
Written down value on 1-1-2013	2,70,000
(-) depreciation up to 1-10-2013 $(2,70,000 \times \frac{10}{100} \times \frac{9}{12})$	20,250
Written down value on 1-10-2013	2,49,750
Loss on sale	29,750
Sale value on 1-10-2013	2,20,000

5. (a)

Income & Expenditure Account of Nethajee Sports Club for the year ending 31-03-2012.

Dr.			Cr.		
Expenditure	Amount	Amount	Income	Amount	Amount

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	(₹)	(₹)		(₹)	(₹)
To Salaries		16,000	By Subscriptions	13,000	
To Rent	3,000		(-) Last year Outstanding	1,000	12,000
(-) Last year outstanding	600	2,400	By Interest		1,000
To Stationery		1,000	By Entrance fees		8,000
To loss on sale of old furniture (2,000 – 1,600)		400			
To Surplus (Excess of Income over Expenditure)		1,200			
		21,000			21,000

Note: Entrance fees has been treated as a revenue receipt.

(b)

Trading Account for the year ended 31-12-2012

Dr.	Cr.		
Particulars	Amount	Particulars	Amount
To Opening Stock	90,000	By Sales	6,00,000
To Purchases	4,00,000	By Closing Stock	70,000
To Gross profit	1,80,000		
	6,70,000		6,70,000

$$\begin{aligned}
 \text{G.P. Ratio} &= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 \\
 &= \frac{180000}{600000} \times 100 \\
 &= 30\%
 \end{aligned}$$

Memorandum Trading Account from 1-1-2013 to 30-06-2013

Particulars	2012	2013	Particulars	2012	2013
To Opening Stock	70,000	70,000	By Sales (110% – 800000) (100 - ?)	8,00,000	8,80,000
To Purchases (120% – 600000)(100 - ?)	5,00,000	6,00,000	By Closing Stock	10,000	12,000
To Gross profit	2,40,000	2,20,000			
	8,10,000	8,92,000		8,10,000	8,92,000

Statement of Claim =

Particulars	Amount (₹)
Closing stock on the date of fire	12,000
(-) Salvaged stock	5,000
Amount of claim	7,000

6.

Form – B

Form of Profit and Loss Account for the year ended 31.03.2013.

Name of the Bank : Swastik Mercantile Bank Ltd.

Particulars	Schedule No.	('000) 2012-13 (CY)	('000) 2011-12 (PY)
I. Income			
Interest & Discount earned	13	2729	1554
Other income	14	921	681
Total		3650	2235
II. Expenditure			
Interest expended	15	1094	625
Operating expenses	16	2043	1605

Answer to MTP_Intermediate_Syllabus 2012_June2016_Set 1

Provisions & Contingencies	---	237	---
Total		3374	2230
III. Profit or Loss			
Current year profit (I – II)		276	05
Last year profit b/d		05	
		281	
IV. Appropriations			
1. Transfer to Statutory reserve @ 25%		69	
2. Transfer to Revenue Reserve @ 5%		13.8	
3. Balance C/F to Balance Sheet		198.2	
		281	

Working Note:

Particulars	2012-13 (CY)	2011 – 12) (PY)
Interest and discount Earned (Schedule No. 13)		
Interest earned (2184 + 84 + 153 + 9 + 49) 2479		
(-) Closing Rebate on Bills 49	2430	1286
Interest on Balance with RBI	186	152
Income from investments	113	116
Total	2729	1554
Other Income (Schedule No. 14)		
Commission, Exchange, Brokerage	843	667
Profit on sale of investments = 87		
(-) Loss on sale of investments = (09)	78	14
Total	921	681
Interest expended (Schedule No. 15)		
Interest on Deposits	981	523
Interest on R.B.I. Borrowings	113	102
Total	1094	625
Operating Expenses (Schedule No. 16)		
Payments to & Provisions for employees	916	651
Rent & Taxes	103	91
Lighting	46	32
Printing & Stationery	219	183
Advertisement	82	67
Depreciation on Bank property	95	95
Directors fees, allowances	200	186
Auditors fees	105	105
Law charges	143	86
Postage & Telegrams	53	43
Telephone	08	05
Repairs & Maintenance	73	61
	2043	1605
Provisions & Contingencies		
Reserve for Bad & Doubtful debts	84	
Provision for tax	153	
	237	

7. (a)

Computation of Return on Equity

Particulars	1 st Year	2 nd Year	3 rd Year	4 th Year
A. Opening Equity (30% on Opening Capital)	4,50,000	4,80,000	4,89,000	4,95,000
B Additional Equity (30% on Additional capital expenditure)	30,000	9,000	6,000	3,000

Answer to MTP_Intermediate_Syllabus 2012_June2016_Set 1

C.	Closing Equity (A+B)	4,80,000	4,89,000	4,95,000	4,98,000
D.	Average Equity ($\frac{A+C}{2}$)	4,65,000	4,84,500	4,92,000	4,96,500
E.	Return on Equity ($D \times \frac{14}{100}$)	65,100	67,830	68,880	69,510

(b) In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Khan and Sumit is given as two-thirds and one-third. The first of ₹ 1,20,000 is discounted at ₹ 1,12,800 which means the discounting charges are ₹ 7,200.

The share of each one is:

Particulars	Proceeds 1 st	Bill discount	Proceeds 2 nd	Bill discount
Khan ($\frac{2}{3}$ rd)	75,200	4,800	1,08,800	3,200
Sumit ($\frac{1}{3}$ rd)	37,600	2,400	54,400	1,600
Total	1,12,800	7,200	1,63,200	4,800

Further, as Khan has become insolvent, the amount due to Sumit is settled at 50% of total to calculate this amount, it is necessary to post all transactions to Sumit's account and arrive at balance.

Journal Entries in the books of Khan

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bills receivable A/c Dr. To Sumit A/c (Being the bill drawn on Sumit for mutual accommodation)		1,20,000	1,20,000
	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being bill discounted with bank)		1,12,800 7,200	1,20,000
	Sumit A/c Dr. To Bank A/c To Discount A/c (Being $\frac{1}{3}$ rd proceeds of the discounted bill paid to Sumit)		40,000	37,600 2,400
	Sumit A/c Dr. To Bills Payable A/c (Being acceptance sent to Sumit for mutual accommodation)		1,68,000	1,68,000
	Bank A/c Dr. Discount A/c Dr. To Sumit A/c (Being proceeds received from Sumit including discount charges)		28,800 3,200	32,000
	Bills Payable A/c Dr. To Sumit A/c (Being accepted bill drawn by Sumit dishonoured due to insolvency)		1,68,000	1,68,000
	Sumit A/c Dr. To Bank A/c To Deficiency A/c		1,12,000	56,000 56,000

Answer to MTP_Intermediate_Syllabus 2012_June2016_Set 1

	(Being payment of 50% of the amount due and balance proved to be bad)		
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Sumit Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Bank A/c		37,600		By Bills Receivable A/c		1,20,000
	To Discount A/c		2,400		By Bank A/c		28,800
	To Bill Payable A/c		1,68,000		By Discount A/c		3,200
	To Bank A/c		56,000		By Bills payable A/c		1,68,000
	To deficiency A/c		56,000				
			3,20,000				3,20,000

8. (a)

In the books of Bombay Traders

Branch Stock Account

Particulars	Amount	Particulars	Amount
To Balance b/d	2,000	By Sales A/c	1,22,000
To Goods sent to branch A/c	80,000	By Loss in Transit A/c	10,000
To Branch adjustment A/c (apparent G.P)	62,000	By Pilferage A/c	4,000
		By Branch Adjustment A/c (Normal Loss)	2,000
		By Balance c/d	24,000
	1,62,000		1,62,000

Goods sent to Branch Account

Particulars	Amount	Particulars	Amount
To Branch adjustment Account $(80,000 \times \frac{1}{5})$	16,000	By Branch Stock A/c	80,000
To Trading A/c	64,000		
	80,000		80,000

Branch Adjustment Account

Particulars	Amount	Particulars	Amount
To Branch Stock A/c (Normal Loss)	2,000	By Stock Revenue (Load on opening stock)	4,000
To Loss-in-transit (Load)	2,000	By Goods sent to branch A/c (Load)	16,000
To Pilferage A/c (Load)	800	By Branch Stock A/c (Apparent G.P.)	62,000
To Stock Reserve (Load) on closing Stock)	4,800		
To Branch P/L A/c (B/F)	72,400		
	82,000		82,000

Loss-in-transit Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Branch Stock A/c	10,000	By Branch Adjustment A/c (Load)	2,000
		By Bank (Insurance Claim)	6,000
		By Branch P/L A/c	2,000
	10,000		10,000

Pilferage Account

Dr.		Cr.	
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Answer to MTP_Intermediate_Syllabus 2012_June2016_Set 1

Particulars	Amount	Particulars	Amount
To Branch Stock A/c	4,000	By Branch Adjustment A/c (Load)	800
		By Branch P/L A/c	3,200
	4,000		4,000

Branch P/L Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Expenses A/c	32,000	By Branch Adjustment A/c	72,400
To Loss-in-transit	2,000		
To Pilferage A/c	3,200		
To General P/L A/c	35,200		
	72,400		72,400

(b) Short Sales

“Excess of standard turnover over actual turnover” to ascertain the amount of claim under loss of profit policy, first ascertain the short sales during the period of dislocation.

Apply the rate of Gross Profit (adjusted) on the short sales. while calculating short sales we have to make adjustment to the budgeted sales.

Short sales during the period of dislocation:

Turnover in the same period of the last year	xxxx
Add: % of expected increase	xxxx
	xxxx
Less: Actual sales (turnover in the period of dislocation)	xxxx
Short sales	xxxx

9. Write short notes on any three of the following

[3 × 5 = 15]

(a) Contingent liabilities

A contingent liability is one which is not an actual liability but which will become an actual one on the happening of some event which is uncertain. Thus such liabilities have two characteristics:

- (a) Uncertainty as to whether the amount will be payable at all, and
- (b) Uncertainty about the amount involved. It is sufficient if the amount of such liability is stated on the face of the balance sheet by way of a note unless there is a probability that a loss will materialize. In that event it is no more a contingent liability and a specific provision should be made therefore, examples of such liabilities are
 - (i) Claims against the companies not acknowledged as debts
 - (ii) Uncalled liability on partly paid up shares
 - (iii) Arrears of fixed cumulative dividend
 - (iv) Estimated amount of contracts remaining to be executed on capital account and not provided for
 - (v) Liability of a case pending in the court
 - (vi) Liabilities in respect of bills discounted
 - (vii) Guarantee given against a particular person or firm.

(b) Garner V Murray Rule

If a particular Capital A/c shows a debt balance on the dissolution of the firm; he is to pay, the debit balance to the firm to settle the account. But if such partner is insolvent i.e., unable to satisfy his debt to the firm, then his deficiency which he is not able to

bring will be borne by the other solvent partners. In accordance with the decision in "Garner Vs Murray".

In this case it was ruled that, in the absence of any agreement to the contrary, the deficiency of the insolvent partner capital account must be borne by other solvent partners in proportion to their capitals which stood before the dissolution of the firm. Another ruling in "Garner Vs. Murray" case is that the solvent partners should bring in cash equal to their share of loss on realization. A large majority of the accountants are of the view that the ruling given is a useless ruling. It is unreasonable to ask solvent partner to bring in cash his share of loss on realization.

Applicability of the decision in Garner Vs. Murray in India".

In the absence of any specific provision decision of a court in India: It is common practice to seek guidance from English law. Therefore, it has become a practice. In India to follow the decision in the Garner Vs. Murray case in the absence of any specific agreement between the partners with regard to sharing the deficiency of an insolvent partner.

(c) Accounting Concepts

1. Business Entity Concept: A business unit is separate and distinct from the persons who supplies capital to it. All the transactions relating to business are recorded in the books of business.
2. Money Measurement Concept: Money is the only practical unit of measurement that can be employed to achieve homogeneity of financial data. So accounting records only those transactions which can be expressed in terms of money.
3. Going concern concept: A business unit is deemed to be a going concern and not a gone concern. It will continue to operate in future.
4. Cost concept: An asset is recorded in the books at the price paid to acquire it and this cost is the basis for all subsequent accounting for the asset.
5. Dual aspect concept: Every financial transaction involves a two-fold aspect
 - (a) Yield of a benefit
 - (b) The giving of that benefit receiving aspect is to be debited and giving aspect is to be credited.
6. Accounting Period concept: The life of the business is split into accounting periods so as to able to know the profit or loss of each period and financial position at the end of such a period.
7. Matching concept: The determination of profit of a particular accounting period is essentially a process of matching revenue recognized during the period with the related expenses to determine profit or loss.
8. Realization concept: According to this concept revenue is considered as being earned on the date at which it is realized i.e., on the date which the property in goods passes to the buyer and he becomes legally liable to pay.
9. Accrual concept: To ascertain correct profit or loss for an accounting period. We make record of all expenses and income relating to the accounting period, whether actual cash has been paid or received or not.

(d) Differences between Hire Purchase System and Installment System

1. Nature of contract: Hire purchase is an agreement of hiring, whereas installment purchase system is an agreement of sale.
2. Ownership: Under hire purchase system, ownership remains with seller until the payment of the last installment, but under installment purchase system ownership passes from seller to the buyer immediately on entering the agreement.
3. Right to Disposal: Under hire purchase system; the buyer cannot sell, destroy, transfer, damage or pledge the goods; but under Installment purchase system the buyer can do all these things.

Answer to MTP_Intermediate_Syllabus 2012_June2016_Set 1

4. Return of goods: Under hire purchase agreement, goods can be returned if the buyer does not wait to pay rest of the installments; but under installment purchase, goods cannot be returned by buyer to the seller unless there is some default on the part of the seller.
5. Rights of seller: Under hire purchase system, the seller can repossess the goods if the buyer makes default in the payment of any installment but under installment purchase system, the seller can sue in the court of law for price if the buyer makes default in payment of any installment.