

Paper 5- Financial Accounting

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Full Marks:100

Time allowed: 3 hours

[All workings must form part of your answer.]

Section A

1. Answer the following questions

[5 × 1 = 5]

(a) Multiple choice questions:

- (I) Accounting does not record non-financial transactions because of
 - (i) Entity concept
 - (ii) Cost concept
 - (iii) Accrual concept
 - (iv) Money Measurement Concept
- (II) Contingent liability would appear _____
 - (i) On the liability side
 - (ii) On the asset side
 - (iii) As a note to balance sheet
 - (iv) None of the above
- (III) Depreciation is a process of
 - (i) Valuation
 - (ii) Allocation
 - (iii) Both valuation and allocation
 - (iv) None of the above
- (IV) Ground Rent or surface rent means
 - (i) Minimum Royalty payable
 - (ii) Maximum Royalty Payable
 - (iii) Fixed rent payable in addition to minimum rent.
 - (iv) Rent recovered at the end of lease term.
- (V) Goods are sent by the head office to the branch but not received by the branch before the close of financial year are credited by head office to
 - (i) Branch account
 - (ii) Trading account
 - (iii) Goods sent to branch account
 - (iv) Goods-in-transit account

(b) Match the following:

[5 × 1 = 5]

	Column 'A'		Column 'B'
1.	AS 16	A	Revenue Recognition
2.	Remittance in transit	B	Receipts and Payments Account
3.	Entrance fee	C	Borrowing costs
4.	AS 9	D	Dissolution of Partnership Firm
5.	Garner V Murray Rule	E	Branch Adjustment

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

[5 × 1 = 5]

- (i) Income and expenditure account is a real account.
- (ii) Royalty is the sum paid by lessee to lessor for using the rights of latter.
- (iii) Reserve for unexpired risk is applicable for Banking Companies.
- (iv) Realisation account is opened at the time of dissolution of the partnership firm.
- (v) Amount spent for white washing the factory building is treated as Revenue Expenditure.

(d) Answer the following:

[5 × 2 = 10]

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- (i) A fire damaged in the premises of a trader resulting in loss of stock of ₹ 1,10,000. The goods salvaged from fire was ₹ 40,000. The policy was for ₹ 50,000 eligible for average clause. Decide the quantum of claim to be lodged with the insurance company.
- (ii) The following information has been extracted from the books of lessee for the year 2012-13:
 Short workings ₹ 8,000
 Short workings recovered ₹ 12,000
 Actual royalty based on output ₹ 30,000
 Calculate Minimum Rent.
- (iii) 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 2011-12, the historical cost and net realisable 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?

- (iv) X, Y were in partnership sharing profits and losses in the ratio of 4 : 1. Z is admitted for 1/5th share in the future profits. Calculate new profit sharing ratio.
- (v) On 1-1-2015 M/s. Johnson and Co. Ltd purchased machinery for ₹ 1,00,000 subsequently ₹ 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method. Determine the closing book value of machine as at 31-12-2016.

Section B

Answer any five from the following.

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

2. (a) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry system. No ready figures are available for the total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2011 is given below:

Receipts		Payments	
Cash in hand	10,800	Salaries	22,000
Receipts from Customers	2,70,000	Rent	4,400
Cash sales	32,000	Advertising	1,800
		Printing	1,600
		General expenses	19,100
		Payment to Trade Creditors	2,24,000
		Doll's drawings	4,000
		Cash in hand	35,900
	3,12,800		3,12,800

Following balances are available from their books as on 30th June, 2010 and 30th June, 2011.

Particulars	As on 30-06-2010	As on 30-06-2011
Stock in Trade	44,000	50,000
Sundry debtors	?	70,000
Sundry Creditor	46,800	37,000
Furniture	6,000	?

Other information:

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- (i) Discount allowed ` 2,800
- (ii) Discount earned ` 2,400
- (iii) Outstanding printing ` 500
- (iv) Capital of Doll as on 30th June, 2010 was ` 4,000 more than Capital of Dolly.
- (v) Provide depreciation of Furniture @ 10% p.a.

From the above you are required to prepare in the books of Doll and Dolly:

- (i) The trading and profit and loss Account for the year ended 30th June, 2011 and
- (ii) The Balance Sheet as on the date. [12]

- (b) Goods are transferred from Department 'X' to Department 'Y' at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department 'Y' is ` 54,000 then determine the amount of Stock Reserve on closing stock. [3]

3. (a) The following is the summarized balance sheet as at 30th June, 2008 of Breeze and Strom, who were partners sharing profits and losses in the ratio of 3:2

		`			`
Creditors		97,500	Land and Buildings		30,000
Capital Accounts :			Motor Vehicles		18,300
Breeze	85,000		Stock		72,800
Strom	63,000	1,48,000	Debtors	1,13,200	
			Less: provision	2,450	1,10,750
			Bank		10,000
			Cash		3,650
		2,45,500			2,45,500

The partners decided to dissolve the firm on and from the date of balance sheet. Motor vehicles and stock were sold for cost at ` 16,950 and ` 77,600 respectively and all debtors accounts were realised in full. Breeze took over land and buildings at an agreed valuation of ` 43,500. Creditors were paid off subject to discount amounting to ` 1,700. Expenses of realisation were ` 1,250. Show necessary journal entries and ledger accounts to close the books of the firm. [12]

- (b) On 31.12.2011, Sundry Debtors and Provision for Bad Debts are ` 50,000 and ` 5,000 respectively. During the year 2012, ` 3,000 are bad and written off on 30.9.2012, an amount of ` 400 was received on account of a debt which was written off as bad last year on 31.12.2012, the debtors left was verified and it was found that sundry debtors stood in the books were ` 40,000 out of which a customer Mr. X who owed ` 800 was to be written off as bad.
Prepare Provision for bad debts A/c. [3]

4. (a) Rewrite the following Trial Balance to correct the same.

Trial Balance as on 31st March, 2013

Debit Balances	`	Credit Balances	`
Wages	2,680	Capital	10,000
Purchases	12,490	Sales	31,080
Salaries	520	Rent Paid	500
Carriage	50	Discount Received	120
Building	12,010	Lighting Charges	160
Bank Overdraft	470	Sundry Creditors	800
Cash in hand	60	Opening Stock	9,260
Sundry Debtors	1,490	Furniture	3,250
	29,770		55,770

[7]

- (b) Mr. Mrinal could not agree the Trial Balance. He transferred to the Suspense Account of ` 296, being excess of the debit side total. The following errors were subsequently discovered:
- (i) Sales Day Book was overcast by ` 400.
 - (ii) An amount of ` 55, received from Mr. Y, was posted to his account as ` 550.
 - (iii) Purchases return book total on a folio was carried forward as ` 331, instead of ` 222.
 - (iv) A car sale of ` 2,235, duly entered in the Cash Book but posted to Sales A/c, as ` 1,235
 - (v) Rest of the difference was due to wrong total in Salaries A/c.

Show the entries to rectify the above errors and prepare Suspense Account. [8]

5. (a) From the following Receipts and Payments Account, prepare Final Accounts of a Sports Club:

Receipts	`	Payments	`
To Subscriptions	15,000	By Land	10,000
To Donations	50,000	By Buildings	40,000
To Legacies	10,000	By Furniture	10,000
To Entrance Fees	5,000	By Sports Materials	5,000
To Life Membership Fee	3,000	By Sports Expenditure	6,000
To Sports Income	17,000	By General Expenses	1,000
To Sundries	5,000	By Magazines	1,500
To Sale of Old Papers	500	By Ground expenses and Maintenance	4,000
		By Cl. Balance	28,000
	1,05,500		1,05,500

Capitalize half of donations, legacies, entrance fee and life membership fee. Subscriptions still outstanding amounts to ` 5,000. Depreciate fixed assets by 5% and sports material by 10%. [8]

- (b) A fire occurred on 15th September 2012 in the premises of Sen & Co. from the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

Particulars	Amount (`)
Stock at cost on 1-1-2011	40,000
Stock at cost on 1-1-2012	60,000
Purchases in 2011	80,000
Purchase from 1-1-2012 to 15-9-2012	1,76,000
Sales in 2011	1,20,000
Sales from 1-1-2012 to 15-9-2012	2,10,000

During the current year cost of purchase has rises by 10% above last years level. Selling prices have gone up by 5%. Salvage value of stock after fire was ` 4,000. [7]

6. (a) From the following information relating to Global Finance Bank Ltd., prepare profit and loss account for the year ended 31-3-2013. Also show Schedule 13, 14, 15 & 16 as necessary.

Information for the year ending 31-3-2001:

	` (in '000)
Interest/discount on advances/bills	1,58,140
Income on investments	59,050
Interest on balances with RBI	21,215

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Commission, exchange & brokerage	14,535
Profit on sale of investments	570
Interest on deposits	1,57,020
Interest on RBI borrowings	16,810
Rent, taxes, lighting	4,775
Printing and Stationery	1,065
Advertisement and publicity	435
Depreciation on bank's property	1,460
Director's fees, allowances and expenses	35
Auditor's fees and expenses	205
Law charges	110
Postage, telephone etc.	1,560
Repairs and maintenance	455
Insurance	4,575
Other expenditure	4,420
Balance of Profit and Loss A/c b/f	7,620

The following adjustments are to be made:

- 1) Provide for Income Tax (including surcharge) @ 51.75%.
- 2) Every year the bank transfers 25% of profit to statutory reserve and 5% of profit of revenue reserve.
- 3) Dividend amounting to ₹10,00,000 for the year ended 31-3-2013 is proposed by the Board of Directors. [12]

(b) From the following particulars, calculate the value of unsold goods on consignment:

	`
Goods sent on consignment (1500 kgs)	3,30,000
Consignor's expenses	13,000
Consignee's non-recurring expenses	7,000
Consignee's recurring expenses	3,500
Goods sold by consignee (1000 kgs.)	3,50,000
Wastage treated as normal (100 kgs)	----

[3]

7. (a) X purchased a truck for ₹2,80,000, payment to be made ₹91,000 down 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% p.a. on written down value method.

Because of financial difficulties, X, after having paid down payment and first installment to the end of 1st year could not pay second installment and seller took possession of the truck. Seller, after spending ₹9,200 on repairs of the asset sold for ₹1,50,000. Show the relevant accounts in the books of the purchaser. [8]

- (b) On 1st January 2011, ABC Mining Co. Ltd., obtained a mining lease at a royalty of ₹2.00 per tonne with a minimum rent of ₹25,000 per annum. Each year excess of minimum rent over royalties is recoverable over the first three years of the lease. The production for the first four years of the lease was 10,000; 12,000; 16,000 and 20,000 tonnes respectively. Pass necessary journal entries in the books of ABC Mining Co. Ltd. [7]

8. (a) The Head Office of a company invoices goods to its Shillong Branch at cost plus 20%. The Shillong Branch also purchases independently from local parties goods for which payments are made by the Head office. All the cash collected by the Branch is banked on the same day to the credit of the Head Office and all expenses are

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directly paid by the Branch to which periodical transfers are made from the Head Office.

From the following particulars, show the Branch Account as maintained in the Head Office books, reflecting the Branch profit for the year ended 31-12-2013:

Particulars	₹
Imprest Cash 1-1-2013	2,000
31-12-2013	1,850
Sundry Debtors on 1-1-2013	25,000
Stock on 1-1-2013	
Transferred from H.O. at invoice price	24,000
Directly purchased by Branch	16,000
Cash Sales	45,000
Credit Sales	1,30,000
Direct Purchases	45,000
Returns from customers	3,000
Goods sent to Branch from H.O. at invoice price	60,000
Transfer from H.O. for Petty cash expenses	2,500
Bad Debts	1,000
Discounts to customers	2,000
Cash received from customers	1,25,000
Branch expenses	3,000
Stock on 31-12-2013	
Transfer from H.O. at invoice price	₹ 18,000
Directly purchased by branch	₹ 12,000
	30,000

[12]

- (b) P Ltd. sell 200, 12% Debentures (face value ₹ 100 each) from T Ltd at ₹ 95 each (ex-interest) on 1-11-2012. Interest is payable on 30th September and 31st December every year. Find out the actual amount to be received. [3]

9. Write short notes on any three of the following [3 × 5 = 15]
- Accommodation Bills
 - Difference between receipts and payments A/c and income and expenditure A/c
 - Reserve for unexpired risk
 - Causes for depreciation.