

**Paper 5- Financial Accounting**

## **Paper 5- Financial Accounting**

Full Marks : 100

Time allowed: 3 hours

### **Section - A**

1. Answer the following questions

(a) Multiple choice questions:

[10x1=10]

(i) Excess of hire purchase price over cash price is known as

- (a) Installment
- (b) Cash down payment
- (c) Interest
- (d) Capital value of asset

(ii) Creditors ledger adjustment account is opened in

- (a) General Ledger
- (b) Debtors Ledger
- (c) Creditors Ledger
- (d) Either (B) or (C)

(iii) Which of the following is/are revenue expenditure?

- (a) Consumable Stores
- (b) Taxes and legal expenses
- (c) Rent of factory building
- (d) All of Above

(iv) AS-9 is related to

- (a) Revenue Recognition
- (b) Cash Flow Statement
- (c) Accounting for Fixed Assets
- (d) Disclosure of Accounting policies

(v) The person to whom bill is endorsed is known as \_\_\_\_\_.

- (a) Endorsee
- (b) Drawee
- (c) Drawer
- (d) None of the above

(vi) Ground rent or Surface rent means

- (a) Maximum rent
- (b) Excess workings
- (c) Short workings
- (d) None of the above

(vii) The following account has a credit balance

- (a) Plant and Equipment A/c
- (b) Loans A/c
- (c) Purchase A/c
- (d) None of the above

(viii) Which of the following is/are feature/features of Income and Expenditure Account

- (a) It follows Nominal Account
- (b) All Capital incomes and expenditures are excluded
- (c) Profit on sale of asset is credited

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(d) All of the above

(ix) The debts which are not bad is known as

- (a) Good debt
- (b) Bad Debt
- (c) Doubtful Debt
- (d) None of the above

(x) 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

Answer:

(i)	(c)	(vi)	(c)
(ii)	(a)	(vii)	(b)
(iii)	(d)	(viii)	(d)
(iv)	(a)	(ix)	(a)
(v)	(a)	(x)	(d)

(b) Match the following:

[5x1=5]

	Column 'A'		Column 'B'
1.	GAAP	A	Encourages prompt payment by the debtor
2.	Cash receipt voucher	B	Amount owed by business to others
3.	Capital Receipt	C	Generally Accepted Accounting Principles
4.	Liabilities	D	Denotes receipt of cash
5.	Cash Discount	E	It is non-recurring in nature

Answer:

	Column 'A'		Column 'B'
1.	GAAP	C	Generally Accepted Accounting Principles
2.	Cash receipt voucher	D	Denotes receipt of cash
3.	Capital Receipt	E	It is non-recurring in nature
4.	Liabilities	B	Amount owed by business to others
5.	Cash Discount	A	Encourages prompt payment by the debtor

(c) Fill in the blanks:

[5x1=5]

- (i) The amount invested by owners into business is called \_\_\_\_\_.
- (ii) As per \_\_\_\_\_ concept business is assumed to exist for an indefinite period .
- (iii) \_\_\_\_\_ Cash Book has one amount column on each side.
- (iv) In case of departmental accounting each department is considered to be an \_\_\_\_\_ Centre.
- (v) \_\_\_\_\_ accounting package can suitably match with the organisational structure of the company.

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Answer:

- (i) Capital
- (ii) Going concern
- (iii) Single column
- (iv) Activity
- (v) Customised

(d) State whether the following statements are true or false:

[5x1=5]

- (i) In case of Hire Purchase ownership passes at the time of sale.
- (ii) Minimum rent is also called dead rent or fixed rent.
- (iii) Revenue expenditure is the outflow of funds to acquire an asset that will benefit the business for not more than one accounting period.
- (iv) Dishonour of a Bill means that the acceptor refuses to honour his commitment on due date and payment of the bill on presentation does not take place.
- (v) Independent Branches maintain independent accounting records.

Answer:

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

## Section - B

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

2. (a) On 1st April, 2014, Om Ltd. purchased a machine for ₹66,000 and spent ₹5,000 on shipping and forwarding charges, ₹7,000 as import duty, ₹1,000 for carriage and installation, ₹500 as brokerage and ₹500 for an iron pad. It was estimated that the machine will have a scrap value of ₹ 5,000 at the end of its useful life which is 15 years. On 1st January, 2015 repairs and renewals of ₹ 3,000 were carried out. On 1st October, 2016 this machine was sold for ₹ 50,000. Prepare Machinery Account for the 3 years. [7]

Answer:

Dr.		Machinery Account		Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2014	To, Bank A/c	66,000	31.3.2015	By, Depreciation A/c	5,000
	To, Bank A/c	14,000		By, Balance c/d	75,000
		80,000			80,000
1.4.2015	To, Balance b/d	75,000	31.3.2016	By, Depreciation A/c	5,000
				By, Balance b/c	70,000
		75,000			75,000
1.4.2016	To, Balance b/d	70,000	1.10.2016	By, Depreciation A/c	2,500
				By, Bank A/c (sale)	50,000
				By, Balance b/c	17,500
		70,000			70,000

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**Working Note:** 1. Total Cost = ₹ 66,000 + ₹ 5,000 + ₹ 7,000 + ₹ 1,000 + ₹ 500 + ₹ 500 = ₹ 80,000  
 Depreciation = (Total Cost - Scrap Value)/Expected Life = ₹(80,000 – 5,000)/15 = ₹5,000

- (b) VISHAN for mutual accommodation of TITHAN and himself drew upon the latter a three months bill for ₹ 24,000 on 1st July, 2015, which was duly accepted. Vishan discounted the bill at 6% p.a. on 4th July, 2015 and remitted ½ of the proceeds to Tithan.

On 1st August, 2015, Tithan drew and Vishan accepted a bill at 3 months for ₹ 9,600. On 4th August, 2015, Tithan discounted the bill at 6% p.a. and remitted half the proceeds to Vishan. At maturity Vishan met his acceptance, but Tithan failed to meet his and Vishan had to take up. Vishan drew and Tithan accepted a new bill at two months on 4th November, 2015, for the amount due to Vishan plus ₹ 200 as interest. On 1st January, 2016, Tithan became insolvent and a first and final dividend of 40 paises in the rupee was received from his estate on 31st March, 2016.

**Note:** Days of grace for discounting purposes may be ignored.

**Required:**

Pass the necessary Journal Entries in the Books of VISHAN.

[3+5=8]

**Answer:**

### In the books of VISHAN Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
July 1, 2015	Bills Receivable A/c To Tithan A/c (Being a bill drawn on Tithan for mutual accommodation for 3 months)	Dr.	24,000	24,000
July 4	Bank A/c Discount on Bills A/c To Bills receivable A/c (Being the bill discounted with the bank @ 6% pa)	Dr. Dr.	23,640 360	24,000
	Tithan A/c To Bank A/c To discount on Bills A/c (Being ½ of the proceeds sent to Tithan and ½ of the discount charged to him)	Dr.	12,000	11,820 180
August 1	Tithan A/c To Bills payable A/c (Being a bill accepted for mutual accommodation for 3 months)	Dr.	9,600	9,600
August 4	Bank A/c Discount on Bills A/c To Tithan A/c (Being ½ on the proceeds received and ½ of the discount shared)	Dr. Dr.	4,728 72	4,800
October 4	Tithan A/c To Bank A/c (Being the bill dishonoured and taken back from bank)	Dr.	24,000	24,000
Nov'4	Bills Payable A/c To Bank A/c (Being the bill honoured at maturity)	Dr.	9,600	9,600
Nov'4	Tithan A/c To Interest A/c	Dr.	200	200

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	(Being the interest due to Tithan)				
Nov'4	Bills receivable A/c (see note) To Tithan A/c (Being a new bill drawn on Tithan for 2 months)	Dr.		17,000	17,000
2016 Jan'1	Tithan A/c To Bills receivable A/c (Being the bill dishonoured due to Tithan's insolvency)	Dr.		17,000	17,000
March 31	Bank A/c Bad debt A/c To Tithan A/c (Being final dividend received from Tithan estate @ 40 paise in a rupee)	Dr. Dr.		6,800 10,200	17,000

**Note:** Value of the new bill will be ₹ 12,000 for 1<sup>st</sup> bill + ₹ 4,800 for 2<sup>nd</sup> bill + ₹ 200 for interest = ₹ 17,000.

### 3. The Income & Expenditure Account of Jayashree Sangha Club for the year ended 31.12.2015 as given below:

Expenditure	₹	Income	₹
To Salaries	20,500	By Subscription	52,000
To Newspaper	1,500	By Sale of Newspaper	2,500
To Audit Fees	2,500	By Admission Fees	12,000
To General Expenses	22,000	By Donation	15,000
To Printing & Stationery	7,500	By Miscellaneous Income	500
To Travelling Expenses	2,000		
To Rent	3,500		
To Depreciation of Furniture	2,500		
To Surplus	20,000		
	<b>82,000</b>		<b>82,000</b>

The following is the Balance Sheet of the Club as on 31.12.2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding salary	2,000	Furniture	15,000
Subscription received in advance	2,500	Sports equipment	20,000
Accumulated fund	45,500	Accrued Subscription	5,000
		Cash at Bank	10,000
	<b>50,000</b>		<b>50,000</b>

Prepare Receipts & Payments Account for the year ended 31.12.2015 taking into account the following adjustments:

- (i) Subscription received in advance ₹ 1,500
- (ii) Salary due for ₹ 1,500 but not paid for the year
- (iii) 60% of the admission fee to be capitalized

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(iv) Subscription due for 2015 but not received ₹ 3,000.

[15]

Answer:

**Jayashree Sangha Club**  
**Receipt and Payment Account for the year ended 31.12.2015**

Receipts	₹	Payments	₹
To Balance b/d	10,000	By Salary A/c (W/N – 2)	21,000
To Admission Fees ₹ 12,000 ÷ 40%	30,000	By General Expenses	22,000
To Sale of News Paper	2,500	By Audit Fees	2,500
To Donation	15,000	By Printing & Stationary	7,500
To Misc. Income	500	By Rent	3,500
To Subscription (W/N-1)	53,000	By Travelling Expenses	2,000
		By News Paper	1,500
		By Balance c/d at 31.12.2012	51,000
	1,11,000		1,11,000

**Balance Sheet of the Club as on 31.12.2015**

Liabilities	Amount (₹)	Assets	Amount (₹)
Accumulated Fund	45,500	Sports Equipment	20,000
Add: Surplus	<u>20,000</u>	Furniture	15,000
Admission Fees	18,000	Less: Depreciation	<u>2,500</u>
Subscription received in advance	1,500	Accrued Subscription	3,000
Outstanding Salaries	1,500	Cash at Bank	51,000
	86,500		86,500

**Working Notes:**

**(1) Subscription received during the year**

Particulars	₹	₹
Subscription on accrual basis for 2015		52,000
Add: Subscription of 2014 received in 2015		5,000
Subscription received in advance		1,500
		58,500
Less: Subscription for 2015	3,000	

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Subscription for 2015 received in 2014	2,500	5,500
		53,000

**(2) Salary paid in 2015**

Particulars	₹
Salary as per Income & Expenditure A/c	20,500
Add: Paid for 2014	2,000
Less: Outstanding for 2015	1,500
	21,000

**4. P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2016:**

LIABILITIES		₹	₹	ASSETS		₹	₹
<b>Capital Accounts:</b>				<b>Premises</b>			<b>2,80,000</b>
P	7,00,000			<b>Furnitures</b>			<b>30,000</b>
T	3,00,000	10,00,000		<b>Stock-in-Trade</b>			<b>2,00,000</b>
<b>Trade Creditors</b>		<b>3,00,000</b>		<b>Trade Debtors</b>	3,50,000		
				<b>Less: Provision for Bad Debts</b>	50,000		<b>3,00,000</b>
				<b>Cash at Bank</b>			<b>1,40,000</b>
				<b>Capital Accounts:</b>			
				Q	2,00,000		
				R	1,50,000		<b>3,50,000</b>
		<b>13,00,000</b>					<b>13,00,000</b>

It has been agreed to dissolve the partnership on 1<sup>st</sup> April, 2016, on basis of following points agreed upon:

- (i) P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);
- (ii) T is to take over the stock in Trade at 95% of the value; and
- (iii) R is to discharge Trade Creditors.
- (iv) The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.
- (v) The expenses of realisation come to ₹ 30,000.
- (vi) Q is found insolvent and ₹ 21,900 is realised from his estate.

**Note:** The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:

- (a) Realisation Account
- (b) Bank/Cash Account
- (c) Capital Accounts of the Partners.

**5+4+5+1=15**

**Answer:**

**In the books of P, Q, R & T  
Realisation Account**

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2016	To Trade Debtors A/c	3,50,000	2016	By Provision for Bad debts A/c	50,000
April 1	To Stock in Trade A/c	2,00,000	April 1	By Trade Creditor A/c	3,00,000
	To Premises A/c	2,80,000		By P's Capital A/c (Trade Debtors taken over)	2,80,000



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	To Furniture A/c	30,000		By T's Capital A/c (Stock-in-trade taken over)	1,90,000
	To R's Capital A/c (Trade credit discharged)	3,00,000		By Bank A/c (Assets realised)	3,00,000
	To Bank/Cash (Expenses)	30,000		By Partners Capital A/cs P: ₹ 28,000: Q: ₹ 7,000 R: ₹ 14,000: T: ₹ 21,000)	70,000
		11,90,000			11,90,000

### Bank/Cash Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2016	To Balance b/d	1,40,000	2016	By Realisation A/c (expenses)	30,000
April	To Realization A/c	3,00,000	April 1	By Partners Capital A/cs	
	To Partners' Capital A/cs:			P:	2,90,430
	P:	28,000		R:	1,50,000
	Q:	21,900		T:	54,470
	R:	14,000			
	T:	21,000			
		5,24,900			5,24,900

### Partners' Capital Accounts (Amount in ₹)

Dr.					Cr.				
Particulars	P	Q	R	T	Particulars	P	Q	R	T
To Balance b/d	-	2,00,000	1,50,000	-	By Balance b/d	7,00,000		-	3,00,000
To Realisation A/c	2,80,000	-	-	1,90,000	By Realisation A/c	-	-	3,00,000	-
To Realisation A/c (Loss)	28,000	7,000	14,000	21,000	By Bank/Cash A/c	28,000	-	14,000	21,000
To Capital A/c (WN-2)	1,29,570	-	-	55,530	By Bank/Cash (W-I)	-	21,900	-	-
To Bank /Cash A/c	2,90,430	-	1,50,000	54,470	By P's Capital A/c	-	1,29,570	-	-
					By T's Capital A/c	-	55,530	-	-
	7,28,000	2,07,000	3,14,000	3,21,000		7,28,000	2,07,000	3,14,000	3,21,000

### Working Notes:

- (1) Solvent partners should bring in cash to make good the loss on realization.
- (2) Q's deficiency of ₹ 1,85,100 (₹ 2,07,000 - ₹ 21,900) should be shared by P and T in the ratio of their capital i.e. 7:3. R will not bear any loss on deficiency, because at the time of dissolution he had a debit balance in his Capital Account.
- (3) The amount realised from the estate of Q is ₹ 21,900.

5. (a) A Delhi head office passes one entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in March 2017, make the entries in the books of Delhi Head office.

(a) Kolkata Branch :

- (i) Received goods from Patna branch ₹ 18,000 and Ahmedabad branch ₹ 12,000.
- (ii) Sent goods to Ahmedabad branch ₹ 30,000 and Patna branch ₹ 24,000.
- (iii) Sent acceptances to Patna branch ₹ 12,000 and Ahmedabad branch ₹ 6,000.

(b) Kanpur branch [apart from (a) above] :

- (i) Sent goods to Ahmedabad branch ₹ 18,000.
- (ii) Recived B/R from Ahmedabad branch ₹ 18,000.
- (iii) Recived cash from Ahmedabad branch ₹ 10,000.

[7]

# Answer to MTP\_Intermediate\_Syllabus 2016\_Dec2017\_Set 1

Answer:

Particulars	L.F.	Debit ₹	Credit ₹
Kanpur Branch A/c	Dr.	10,000	
Patna Branch A/c	Dr.	18,000	
Ahmedabad Branch A/c	Dr.	14,000	
To Kolkata Branch A/c			42,000

Particulars	Kolkata		Kanpur		Patna		Ahmedabad	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Goods Received	30,000	-	-	-	-	18,000	-	12,000
Goods Sent	-	54,000	-	-	24,000	-	30,000	-
Acceptance	-	18,000	-	-	12,000	-	6,000	-
Goods Sent	-	-	-	18,000	-	-	18,000	-
B/R Received	-	-	18,000	-	-	-	-	18,000
Cash	-	-	10,000	-	-	-	-	10,000
	30,000	72,000	28,000	18,000	36,000	18,000	54,000	40,000
Balance	42,000	-	-	10,000	-	18,000	-	14,000
	72,000	72,000	28,000	28,000	36,000	36,000	54,000	54,000

(b) The following details are extracted from the records of M/S BANDHAN & CO, a trader for the year ended March 31, 2016.

- Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.
- Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.
- Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.
- Cheques received from customers ₹ 8,000 were dishonoured, a sum of ₹ 2,000 was irrecoverable. Bad Debt written off in the earlier years was realised ₹ 11,000.
- Sundry Debtors as on 01.04.2015 stood of ₹ 50,000.

You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger. [8]

Answer:

In The General Ledger of M/S BANDHAN & CO.  
Debtors Ledger Adjustment Account for the year ended 31<sup>st</sup> March, 2016

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
1.4.15	To Balance b/d	50,000	2015-16	By General Ledger Adj. A/c	
	To General Ledger Adj. A/c			Cash & Bank [70% of (50,000 + 1,46,000)]	1,37,200
	Credit Sales	1,46,000		Discount allowed	20,000
	Dish. of Endorsed B/R	6,000		B/R Drawn	30,000
	Dish. of Cheques	8,000		Bad Debts (Drawee of endorsed B/R)	6,000
				Bad Debts (Drawer of dish. Cheque)	2,000
				By Balance c/d	14,800
		2,10,000			2,10,000

Working: Credit Sales =  $(1/1.20) \times (1,80,000 - 4,800) = ₹ 1,46,000$ .

# Answer to MTP\_Intermediate\_Syllabus 2016\_Dec2017\_Set 1

**Note:** Cash Sales, bad debts recovered and provision for doubtful debts do not appear in the total debtors account.

6. (a) X Ltd. has taken out a fire policy of ₹ 3,20,000 covering its stock. A fire occurred on 31st March, 2017. The following particulars are available :

	₹
Stock as on 31.12.2016	1,20,000
Purchases to the date of fire	5,20,000
Sales to the date of fire	3,60,000
Carriage Inwards	3,200
Commission on purchase to be paid	@2%
Gross Profit Ratio @ 50% on cost.	

You are asked to ascertain (i) total loss of stock; (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 82,720. [6]

**Answer:**

In the books of X Ltd.  
Memorandum Trading Account  
for the period ended 31st March, 2013

Dr.	₹	₹	Cr.	₹
To, Opening Stock		1,20,000	By, Sales	3,60,000
" Purchase	5,20,000		" Closing Stock	4,13,600
Add: Carriage Inward	3,200		(bal. figure)	
Add: Com. on Purchase	<u>10,400</u>	5,33,600		
" Gross Profit (@ 50% on cost or 33% on sale)		1,20,000		
		<u>7,73,600</u>		<u>7,73,600</u>

**Note:** Carriage Inward and Com. on Purchase are direct expenses and hence, these are added to purchases. Loss of Stock:

	₹
Stock at the date of fire	4,13,600
Less: Stock Salvaged	<u>82,720</u>
Loss of Stock	<u>3,30,880</u>

Amount of claim applying Average Clause:

$$\begin{aligned} \text{Amount of Claim} &= \text{Actual Loss} \times (\text{Amount of Policy} / \text{Value of stocks at the date of fire}) \\ &= ₹ 3,30,880 \times (₹ 3,20,000 / ₹ 4,13,600) \\ &= ₹ 2,56,000. \end{aligned}$$

(b) A Ltd. obtained from P.P Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account and (ii) Royalty Account in the books of A Ltd.

# Answer to MTP\_Intermediate\_Syllabus 2016\_Dec2017\_Set 1

Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2012	2,000	300
2013	3,500	400
2014	4,800	600
2015	5,600	500
2016	8,000	800

[9]

**Answer:**

**Workings:**

**[Coal raised i.e., Production = Sales + Closing Stock – Opening Stock.]**

Year	Sales	+	Closing Stock	-	Opening Stock	=	Net Production
2012	2,000	+	300	-	Nil	=	2,300
2013	3,500	+	400	-	300	=	3,600
2014	4,800	+	600	-	400	=	5,000
2015	5,600	+	500	-	600	=	5,500
2016	8,000	+	800	-	500	=	8,300

**In the books of A. Ltd.  
Memorandum Royalty Statement**

Year	Quantity	Rate ₹	Royalty ₹	Minimum Rent ₹	Short working ₹	Recoupment ₹	Short working carried forward ₹	Short working Transferred to P&L A/c or lapsed ₹	Payment to Landlord ₹
2012	2,300	15	34,500	75,000	40,500	---	40,500	---	75,000
2013	3,600	15	54,000	75,000	21,000	---	61,500	---	75,000
2014	5,000	15	75,000	75,000	---	---	61,500	---	75,000
2015	5,500	15	82,500	75,000	---	7,500	---	54,000	75,000
2016	8,300	15	1,24,500	75,000	---	---	---	---	1,24,500

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To P.P Ltd. A/c (Landlord)	40,500	2012	By Balance c/d	40,500
		40,500			40,500
2013	To Balance b/d " P.P Ltd. A/c (Landlord)	40,500	2013	By Balance c/d	61,500
		21,000			61,500
2014	To Balance b/d	61,500	2014	By Balance c/d	61,500
		61,500			61,500

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2015	To Balance b/d	61,500	2015	By P.P Ltd. (Landlord) A/c " Profit and Loss A/c	7,500 54,000
		61,500			61,500

Dr.		Royalty Account				Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹		
2012	To P.P Ltd. A/c	34,500	2012	By Profit & Loss A/c	34,500		
2013	To P.P Ltd. A/c	54,000	2013	By Profit & Loss A/c	54,000		
2014	To P.P Ltd. A/c	75,000	2014	By Profit & Loss A/c	75,000		
2015	To P.P Ltd. A/c	82,500	2015	By Profit & Loss A/c	82,500		
2016	To P.P Ltd. A/c	1,24,500	2016	By Profit & Loss A/c	1,24,500		

7. (a) Calculate the contract revenue from the following details

Particulars	Year I	Year II	Year III
Initial contract revenue	6,000	6,000	6,000
Revenue increase due to escalation in II <sup>nd</sup> year	—	1,200	—
Claim			600
Incentive Payment			900
Penalties		300	—

[7]

Answer:

Particulars	Year I	Year II	Year III
Initial contract value	6000	6000	6000
Increase in revenue due to escalation	—	1,200	1,200
Claims	—	—	600
Incentive	—	—	900
Penalties	—	(300)	(300)
Contract revenue	6000	6,900	8,400

(b) Discuss disadvantages of Pre-packaged Accounting Software.

[8]

Answer:

**Disadvantages of Pre-packaged Accounting Software:**

1. Does not cover Peculiarities of Specific Business	A standard package may not be able to take care of the complexities of a specific business.
2. Does not cover all Functional Areas	These packages may not cover all functional areas such as production process.
3. Customisation may not be Possible: is not Sufficient or	These packages may not be customised as per needs of customers.

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Serve the Purpose:	
4. Reports Generated	All reports required for exercising management control may not be available in a standard package.
5. Lack of Security	Security is generally missing in a pre-packaged accounting package since any person can view data of all companies with common access password.
6. Bugs in the software	Certain bugs may remain in the software which takes long to be rectified by the vendor and is common in the initial years of the software.

**8. Write short notes on any three of the following: [3x5=15]**

- (a) Difference between Sale and Consignment;**
- (b) Difference between Capital and Revenue Expenditure;**
- (c) Difference between Cash Basis and Accrual Basis of Accounting;**
- (d) Internal causes of depreciation.**

**Answer:**

**(a) Difference between Sale and Consignment:**

- (i) In sale the property in goods is transferred to the buyer immediately whereas in consignment the property is transferred to the buyer only when goods are sold by the consignee. The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.
- (ii) In sale, the risk attached with the goods passes with ownership to the buyer. In case of a consignment, the risk attached with the goods does not pass to the consignee who acts as a mere agent. If there is any damage or loss to the goods it is borne by the consignor provided the consignee has taken reasonable care of the goods and the damage or loss is not due to his negligence.
- (iii) The relationship of consignor and consignee is that of a principal and an agent as in a contract of agency whereas the relationship of buyer and seller is governed by the Sale of Goods Act.
- (iv) Unsold goods on consignment are the property of the consignor and may be returned if not saleable in the market whereas goods sold on sale basis are normally not returnable unless there is some defect in them.

**(b) Difference between Capital and Revenue Expenditure:**

	<b>Capital Expenditure</b>		<b>Revenue Expenditure</b>
1.	The economic benefits of Capital Expenditures are enjoyed for more than one accounting period.	1.	The economic benefits of Revenue Expenditures are enjoyed within a particular accounting period.
2.	Capital Expenditures are of non-recurring in nature	2.	Revenue Expenditures are of recurring in nature.
3.	All Capital Expenditures eventually become Revenue Expenditures like depreciation.	3.	Revenue Expenditures are not generally of capital expenditures.
4.	Capital Expenditures are not matched with Capital Receipts.	4.	All Revenue Expenditures are matched with Revenue Receipts.

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## (c) Difference between Cash Basis and Accrual Basis of Accounting:

	<b>Cash Basis</b>		<b>Accrual Basis</b>
1.	Under this, there is no prepaid / outstanding expenses or accrued/ unaccrued incomes.	1.	Under this, there may be prepaid/ outstanding expenses and accrued/ unaccrued incomes in the Balance Sheet.
2.	Income Statement will show lower income.	2.	Income Statement will show a relatively higher income.
3.	Income Statement will show higher income.	3.	Income Statement will show a relatively lower income.
4.	This basis is not recognized under the Companies Act,2013.	4.	This basis is recognized under the Companies Act,2013.
5.	Under this an accountant has no option to make a choice as such.	5.	Under this, an accountant has options.

## (d) Internal causes of depreciation:

- **Wear and tear:** Wear and tear is an important cause of depreciation in case of tangible fixed assets. Any asset will gradually break down over a certain usage period, as parts wear out and need to be replaced. It is due to use of the asset. Other assets, such as buildings, can be repaired.
- **Maintenance:** The value of machine generally deteriorates rapidly because of lack of proper maintenance.
- **Depletion:** The utility or resources of wasting assets (like mines etc.) decreases with regular extractions. With the raising of coal from coal mine the total deposit reduces gradually and after sometime it becomes fully exhausted. Then its value reduces to nil. It refers to the physical deterioration by the exhaustion of natural resources eg., mines, quarries, oil wells etc.