

**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) Which of the following is not part of financial statements?  
(A) Trading and Profit & Loss Account  
(B) Balance Sheet  
(C) **Fund Flow Statement**  
(D) Notes to Accounts
- (ii) Which subsidiary book serves both as Journal as well as ledger?  
(A) **Cash Book**  
(B) Purchase Book  
(C) Sales Return Book  
(D) Bills Receivable Book
- (iii) Purchase return immediately paid in cash would be entered into  
(A) Purchase return Book  
(B) **Cash Book**  
(C) Journal Proper  
(D) Purchase Book
- (iv) Which of the following is not the part of inventory cost as per AS – 2?  
(A) Administrative Overheads that contribute to bringing the inventories to their present location and condition.  
(B) Normal loss.  
(C) **Storage costs that are not necessary in the production process prior to a further production stage.**  
(D) None of the above.
- (v) State the ratio in which the partners share all the accumulated profits, reserves, losses and fictitious assets in case of change in profit sharing ratio.  
(A) **Old profit sharing ratio**  
(B) New profit sharing ratio  
(C) Equally  
(D) None of the above
- (vi) Any change in the accounting policy relating to Fixed Assets which has a material effect in the current or later periods should be disclosed. This is in accordance with the accounting principle of:  
(A) Going Concern  
(B) Conservatism  
(C) **Consistency**  
(D) Disclosure
- (vii) AS-7 is related to  
(A) Revenue Recognition

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- (B) Cash Flow Statement  
 (C) **Construction Contract**  
 (D) Disclosure of Accounting policies
- (viii) An amount spent in connection with obtaining a License for starting the factory is  
 (A) Revenue Expenditure  
 (B) **Capital Expenditure**  
 (C) Pre-paid Expenditure  
 (D) None of the above
- (ix) According to AS-15 (Revised) superannuation scheme which has relevance only to the final salary and number of years of service is  
 (A) **Defined Benefit Scheme**  
 (B) Defined Contribution Scheme  
 (C) Non-Contributory Scheme  
 (D) Both (A) and (B)
- (x) 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.

(b) Match the following:

[5x1=5]

Column-I		Column-II	
(i)	Real Account	(A)	Short workings
(ii)	AS - 10	(B)	Activity Centre
(iii)	Department	(C)	Installment Sale
(iv)	Ownership is transferred at the time of sale	(D)	Property, Plant and Equipment
(v)	Royalty	(E)	Securities and Shares

Answer:

Column-I		Column-II	
(i)	Real Account	(E)	Securities and Shares
(ii)	AS - 10	(D)	Property, Plant and Equipment
(iii)	Department	(B)	Activity Centre
(iv)	Ownership is transferred at the time of sale	(C)	Installment Sale
(v)	Royalty	(A)	Short workings

(c) Fill in the blanks:

[5x1=5]

- (i) In case of \_\_\_\_\_ contracts, contractor agrees for fixed price of the contract or fixed rate per unit.  
 (ii) \_\_\_\_\_ bill is used without a trade transaction and is for mutual benefit.  
 (iii) Vehicles represent \_\_\_\_\_ expenditure while repairs to vehicle would mean \_\_\_\_\_ expenditure.  
 (iv) Income & Expenditure Account is similar to \_\_\_\_\_ A/c.  
 (v) \_\_\_\_\_ may remain in a software because of inadequate testing.

Answer:

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- (i) Fixed Price;
- (ii) Accommodation;
- (iii) capital, revenue;
- (iv) Profit and Loss;
- (v) Bugs.

**(d) State whether the following statements are true or false: [5x1=5]**

- (i) As per going concern concept, the Accountant should provide for all possible losses but should not anticipate profit.**
- (ii) Minimum rent is also called dead rent or fixed rent.**
- (iii) Hybrid Basis of Accounting is the combination of both Cash as well as Stock Debtors basis of Accounting.**
- (iv) Expenditure to acquire raw materials is a Revenue Expenditure.**
- (v) Honour of a Bill means that the acceptor refuses to honour his commitment on due date and for this, payment of the bill on presentation does not take place.**

**Answer:**

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

### Section - B

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

**2. (a) State with reasons whether the following classification of cost are correct or not:**

- (i) Expenditure which results in acquisition of a permanent asset is revenue expenditure.**
- (ii) Wages paid for erection of machinery are debited to the Machinery Account.**
- (iii) A legal fee paid to acquire a Building is a Capital expenditure.**
- (iv) Amount paid to Management Company for consultancy to reduce the working expenses is revenue expenditure.**
- (v) Legal expenses incurred for abuse of trade mark, is a revenue expense. [5]**

**Answer:**

Sl. No	Correct/Incorrect	Explanation
<b>(i)</b>	Incorrect	It is a capital expenditure as it has been incurred for acquiring capital asset that is expected to provide future economic benefits of enduring nature,
<b>(ii)</b>	Correct	It is a capital expenditure as it has been incurred to put the capital asset to use and provides future economic benefits of enduring nature. It should be capitalised and hence, debited to Machinery A/c.
<b>(iii)</b>	Correct	It is a capital expenditure as it provides benefits of enduring nature.
<b>(iv)</b>	Incorrect	It is a capital expenditure as it is incurred to reduce the operating costs of the entity and provides future economic benefits over a long-term period.

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(v)	Correct	It is incurred for maintaining an existing capital asset.
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- (b) Abhi for mutual accommodation of Ravi and himself drew upon the latter a three months bill for ₹ 48,000 on 1st July, 2017, which was duly accepted. Abhi discounted the bill at 5% p.a. on 4th July, 2017 and remitted ½ of the proceeds to Ravi.

On 1st August, 2017, Ravi drew and Abhi accepted a bill at 3 months for ₹ 19,200. On 4th August, 2017, Ravi discounted the bill at 6% p.a. and remitted half the proceeds to Abhi. At maturity Abhi met his acceptance, but Ravi failed to meet his and Abhi had to take up. Abhi drew and Ravi accepted a new bill at two months on 4th November, 2017, for the amount due to Abhi plus ₹ 400 as interest. On 1st January, 2018, Ravi became insolvent and a first and final dividend of 40 paises in the rupee was received from his estate on 31st March, 2018.

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

**Required:**

Pass the necessary Journal Entries in the Books of Abhi.

[10]

**Answer:**

### In the books of Abhi Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
July 1, 2017	Bills Receivable A/c To Ravi A/c (Being a bill drawn on Ravi for mutual accommodation for 3 months)	Dr.	48,000	48,000
July 4	Bank A/c Discount on Bills A/c To Bills receivable A/c (Being the bill discounted with the bank @ 5% pa)	Dr. Dr.	47,400 600	48,000
	Ravi A/c To Bank A/c To Discount on Bills A/c (Being ½ of the proceeds sent to Ravi and ½ of the discount charged to him)	Dr.	24,000	23,700 300
August 1	Ravi A/c To Bills payable A/c (Being a bill accepted for mutual accommodation for 3 months)	Dr.	19,200	19,200
August 4	Bank A/c Discount on Bills A/c To Ravi A/c (Being ½ on the proceeds received and ½ of the discount shared)	Dr. Dr.	9,456 144	9,600
October 4	Ravi A/c To Bank A/c (Being the bill dishonoured and taken back from bank)	Dr.	48,000	48,000
Nov'4	Bills Payable A/c To Bank A/c (Being the bill honoured at maturity)	Dr.	19,200	19,200
Nov'4	Ravi A/c To Interest A/c (Being the interest due to Ravi)	Dr.	400	400

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Nov'4	Bills receivable A/c (see note) To Ravi A/c (Being a new bill drawn on Ravi for 2 months)	Dr.	34,000	34,000
2016 Jan'1	Ravi A/c To Bills receivable A/c (Being the bill dishonoured due to Ravi's insolvency)	Dr.	34,000	34,000
March 31	Bank A/c Bad debt A/c To Ravi A/c (Being final dividend received from Ravi estate @ 40 paise in a rupee)	Dr. Dr.	13,600 20,400	34,000

**Note:** Value of the new bill will be ₹ 24,000 for 1<sup>st</sup> bill + ₹ 9,600 for 2<sup>nd</sup> bill + ₹ 400 for interest = ₹ 34,000.

3. The following is the Income and Expenditure Account of PINK CLUB for the year ended March 31, 2017.

(Amount in ₹)			
To Salaries	4,95,000	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	1,35,000		
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	5,67,000		
	16,80,000		16,80,000

The Income and Expenditure Account has been prepared after the following adjustments:

	₹
Subscription Outstanding on 31.03.2016.	1,20,000
Subscription received in Advance on 31.03.2016.	90,000
Subscription Outstanding on 31.03.2017	80,000
Subscription received in Advance on 31.03.2017	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 (2016-17) has not been paid. Previous year's audit fee ₹15,000 was paid during the year.

The club's Assets on 31st March, 2016 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 31<sup>st</sup> March, 2016 was still due at the end of the current year. On 31st March, 2017. Cash as Bank amounted to ₹ 6,97,000.

You are required to prepare:

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- (i) The Receipts and Payments Account for the year ended 31<sup>st</sup> March, 2017 and Balance Sheet as on 31.03.2017.

Answer:

**PINK CLUB**  
**Receipts and Payments Account**  
**For the year ended 31<sup>st</sup> March, 2017**

Dr.			Cr.
Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d (Balancing Figure)	55,000	By Salaries (4,95,000 - 30,000)	4,65,000
To Subscription (Working Note-3)	13,90,000	By Outstanding salaries for 15-16	40,000
To Entrance Fees	2,00,000	By Rent	1,20,000
To Contribution for Annual Dinner	1,60,000	By Printing & Stationery	30,000
To Excess of Annual Sports Meet Receipts over expenditure	20,000	By Travelling Expenses	60,000
		By Annual Dinner Expenses	1,35,000
		By Secretary's Honourarium	1,20,000
		By General Expenses	60,000
		By Interest and Bank Charges	18,000
		By Outstanding Audit Fees for 15-16	15,000
		By Books and Periodicals	30,000
		By Sports Equipment (working Note-2)	35,000
		By Balance c/d	6,97,000
	18,25,000		18,25,000

**Alternative Solution —**

**If a separate Salary Account is opened**

Dr.		Salary Account	Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Bal fig.)	5,05,000	By Balance b/d(O/S)	40,000
To Balance c/d (O/S)	30,000	By Income & Expenditure A/c (given)	4,95,000
	5,35,000		5,35,000

Dr.		Receipts and Payments account	Cr.
Receipts	₹	Payments	₹
To Balance b/d (Bal fig.)	55,000	By Salaries	5,05,000
To Subscription	13,90,000	By Rent	1,20,000
To Entrance Fees	2,00,000	By Printing & Stationery	30,000
To Contribution for Annual Dinner	1,60,000	By Travelling Expenses	60,000
To Profit on Annual Sports	20,000	By Annual Dinner Expenses	1,35,000
		By Secretary's Honourarium	1,20,000
		By General Expenses	60,000
		By Interest and Bank	18,000

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		Charges	
		By Outstanding Audit Fees	15,000
		By Books and Periodicals	30,000
		By Sports Equipment	35,000
		By Balance c/d	6,97,000
	<b>18,25,000</b>		<b>18,25,000</b>

### Balance Sheet as on 31<sup>st</sup> March 2017

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	11,90,000		Freehold land		10,00,000
Add: Excess of Income over Expenditure	5,67,000	17,57,000	Sports equivalent	2,95,000	
Bank Loan		1,00,000	Less: Depreciation	25,000	2,70,000
Outstanding Salaries		30,000	Subscription in Arrear		80,000
Outstanding audit fees		20,000	Cash at Bank		6,97,000
Subscription in advance		1,40,000			
		<b>20,47,000</b>			<b>20,47,000</b>

### Working Notes:

#### 1. Opening Balance of Capital Fund

##### Balance Sheet as on 31<sup>st</sup> March, 2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund (Balancing Figure)	11,90,000	Freehold land	10,00,000
Bank Loan	1,00,000	Sports equivalent	2,60,000
Outstanding Salaries	40,000	Subscription in Arrear	1,20,000
Outstanding audit fees	15,000	Cash at Bank	55,000
Subscription in advance	90,000		
	<b>14,35,000</b>		<b>14,35,000</b>

#### 2. Sports Equipment purchased during 2016-17

##### Sports Equipment Account

Dr.		Amount (₹)	Cr.		Amount (₹)
To	Balance b/d	2,60,000	By	Depreciation	25,000
To	Bank A/c - Purchase	35,000	By	Balance C/d	2,70,000
		<b>2,95,000</b>			<b>2,95,000</b>

#### 3. Statement showing collection of subscription during 2016-17

	Amount (₹)	Amount (₹)
Subscription for 2016-17		13,00,000
Add: Subscription outstanding on 31.03.2016	1,20,000	
Add: Subscription received in advance on 31.03.2017	1,40,000	2,60,000
		<b>15,60,000</b>
Less: Subscription outstanding on 31.03.2017	80,000	
Less: Subscription received in advance on 31.03.2016	90,000	1,70,000
		<b>13,90,000</b>



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4. (a) A, B and C are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31<sup>st</sup> December, 2016 the firm was dissolved. On dissolution, the following particulars are available:

- (i) Assets realised ₹3,40,000 after a loss of ₹40,000.
  - (ii) Liabilities were paid ₹54,000 including an unrecorded liability of ₹2,000.
  - (iii) Realisation expenses were ₹1,400, out of which ₹800 were paid by the firm and balance by partner A.
  - (iv) On the date of dissolution, partners' capital was in the ratio of 2 : 2 : 1.
- Prepare Realisation account, Partners' Capital accounts and Bank account. [9]

- (b) S and P are partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively. The fixed capital of S is ₹1,20,000 and P is ₹75,000. On 1st April, 2017 they admitted K as a new partner for 1/5<sup>th</sup> share in future profits. K brought ₹75,000 as his capital. Calculate the value of goodwill of the firm and record Journal entries on K's admission. [6]

**Answer:**

(a) Capital = Asset – Liabilities = 3,80,000 – 52,000 = ₹3,28,000

A's Capital = 3,28,000 × 2/5 = ₹1,31,200

B's Capital = 3,28,000 × 2/5 = ₹1,31,200

C's Capital = 3,28,000 × 1/5 = ₹65,600

Dr.		Realization Account		Cr.	
Particulars	₹	Particulars		₹	
To Sundry Assets A/c	3,80,000	By Liabilities		52,000	
To Bank A/c (Liability)	54,000	By Bank (Sundry Assets)		3,40,000	
To Bank A/c (Expenses)	800	By Realisation Loss:			
To A's Capital A/c	600	A's Capital A/c	21,700		
		B's Capital A/c	13,020		
		C's Capital A/c	8,680		43,400
	4,35,400			4,35,400	

Dr.		Partners' Capital Account				Cr.		
Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹	
To Realisation A/c	21,700	13,020	8,680	By Balance b/d	1,31,200	1,31,200	65,600	
To Bank A/c	1,10,100	1,18,180	56,920	By Realisation A/c	600	-	-	
	1,31,800	1,31,200	65,600		1,31,800	1,31,200	65,600	

Dr.		Bank Account		Cr.	
Particulars	₹	Particulars		₹	
To Realization A/c (Sundry Assets)	3,40,000	By Realisation A/c (Liabilities paid)		54,000	
		By Realisation A/c (Exp)		800	
		By A's Capital A/c		1,10,100	
		By B's Capital A/c		1,18,180	
		By C's Capital A/c		56,920	
	3,40,000			3,40,000	

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(b)

In the Books of S, P and K  
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c <span style="float: right;">Dr.</span> To K's Capital A/c (Being capital bought in by K)		75,000	75,000
	K's Current A/c <span style="float: right;">Dr.</span> To S's Current A/c To P's Current A/c (Being K's share of goodwill credited to S and P in their sacrificing ratio, i.e., 3:2)		21,000	12,600 8,400

**Note: Calculation of goodwill:**

- (i) Total Capital of the new firm on the basis of K's Capital =  $75,000 \times 5/1 = ₹3,75,000$
- (ii) Existing Capital of all partners including new partner's Capital =  $₹1,20,000 + ₹75,000 + ₹75,000 = ₹2,70,000$ .
- (iii) Firm's goodwill (Hidden) (i - ii)  $₹3,75,000 - ₹2,70,000 = ₹1,05,000$   
K's share of goodwill =  $₹1,05,000 \times 1/5 = ₹21,000$ .

5. (a) Abir Ltd. has two departments A and B. From the following particulars prepare Departmental Trading Accounts and General Profit and Loss Account for the year ending 31<sup>st</sup> March, 2018 —

Particulars	Dept. A (₹)	Dept. B (₹)	Particulars	Dept. A (₹)	Dept. B (₹)
Opening Stock (at cost)	80,000	48,000	Finishd Goods Transferred		
Purchases	3,68,000	2,72,000	- By Dep. B to A	1,40,000	-
Carriage Inward	8,000	8,000	- By Dept. A to B	-	1,60,000
Wages	48,000	32,000	Return of Finished Goods		
Sales	5,60,000	4,48,000	- By Dept. B to A	40,000	-
Purchased Goods Transferred			- By Dept. A to B	-	28,000
- By Dept. B to A	40,000	-	Closing Stock		
- By Dept. A to B	-	32,000	Purchased Goods	18,000	24,000
			Finished Goods	96,000	56,000

Purchased Goods have been transferred mutually at their respective Departmental Purchase Cost and Finished Goods at Departmental Market Price and that 25% of the Closing Finished Stock with each Department represents Finished Goods received from the other Department. [9]

Answer:

**Departmental Trading and Profit and Loss Account for the year ending 31<sup>st</sup> March, 2018**  
(Amount in ₹)

Particulars	Dept.A	Dept.B	Total	Particulars	Dept.A	Dept.B	Total
To, Opening Stock	80,000	48,000	1,28,000	By Sales	5,60,000	4,48,000	10,08,000
To, Purchases	3,68,000	2,72,000	6,40,000	By, Transfer – Purchased Goods	32,000	40,000	72,000
To, Carriage Inward	8,000	8,000	16,000	By, Transfer – Finished Goods	1,60,000	1,40,000	3,00,000
To, wages	48,000	32,000	80,000	By, Transfer –	28,000	40,000	68,000

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				Finished Goods Returned			
To, Transfer – Purchased Goods	40,000	32,000	72,000	By, Closing Stock			
To, Transfer – Finished Goods	1,40,000	1,60,000	3,00,000	- Purchased Goods	18,000	24,000	42,000
To, Gross Profit	1,70,000	1,68,000	3,38,000	- Finished Goods	96,000	56,000	1,52,000
<b>Total</b>	<b>8,94,000</b>	<b>7,48,000</b>	<b>16,42,000</b>	<b>Total</b>	<b>8,94,000</b>	<b>7,48,000</b>	<b>16,42,000</b>
To, Stock Reserve (WN 1)	7,200	3,500	10,700	By, Gross Profit	1,70,000	1,68,000	3,38,000
To, Net Profit	1,62,800	1,63,800	3,27,300				
<b>Total</b>	<b>1,70,000</b>	<b>1,64,500</b>	<b>3,38,000</b>	<b>Total</b>	<b>1,70,000</b>	<b>1,64,500</b>	<b>3,38,000</b>

### Working Note 1:

#### Stock Reserve to be provided

Particulars	Department A	Department B
Closing Stock of Finished Goods	96,000	56,000
Element of Finished Goods from other department	25% of 96,000 = 24,000	25% of 56,000 = 14,000
Gross Profit Ratio (Gross Profit/ Sales)	1,68,000/5,60,000 = 30%	1,70,000/6,80,000 = 25%
Stock Reserve required to be maintained	24,000 × 30% = 7,200	14,000 × 25% = 3,500

### (b) Prepare Purchase Ledger Adjustment A/c in General Ledger:

Particulars	₹	Particulars	₹
Debtors' Ledger Balance as on 1.1.17 (Dr.)	3,750	Returns Inwards	600
Debtors' Ledger Balance as on 1.1.17 (Cr.)	250	Returns Outwards	400
Creditors' Ledger Balance as on 1.1.17 (Dr.)	150	Bills Payable accepted	1,000
Creditors' Ledger Balance as on 1.1.17 (Cr.)	3,200	Bills Receivable drawn	1,875
Purchase (including cash ₹375)	9,000	Bills Receivable dishonoured	500
Sales (including cash ₹750)	18,750	Bills Receivable discounted	375
Cash paid to creditors	5,250	Bills Receivable endorsed	1,000
Collection from Debtors	15,500	Bills Receivable as endorsed dishonoured	250
Discount Allowed	65	Provision for Bad Debts	275
Discount Received	80	Transfer from Debtors Ledger to Creditors	125

[6]

Answer:

BOOKS of ...  
In General Ledger

Purchase Ledger Adjustment Account					
Dr.					Cr.
Date	Particulars	₹	Date	Particulars	₹

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01.11.17	To Balance b/f	150		By Balance b/f	3,200
31.12.17	To General Ledger Adjustment A/c Cash paid	5,250		By General Ledger Adjustment A/c Credit purchases (₹9,000 – ₹375)	8,625
	Discount Received	80		Endorsed Bills receivable dishonored	250
	Return Outward	400			
	Bills payable accepted	1,000			
	Bills Receivable endorsed	1,000			
	Transfer from Debtors Ledger to Creditors Ledger	125			
	To Balance c/f	4,070			
		12,075			12,075

### Working note

Cash Purchases: No entry is required to be passed under Self-Balancing system for these transactions as they do not involve Debtors or Creditors A/c.

6. (a) On 12th June, 2017, a fire occurred in the premises of Vividha Gupta, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 22,400. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹20,800. From the books of account, the following particulars were available:

- (i) His stock at the close of account on December 31, 2016 was valued at ₹ 1,70,000.
- (ii) His purchases from 1.1.2017 to 12.6.2017 amounted to ₹ 2,21,000 and his sales during the period amounted to ₹ 3,08,000.

On the basis of his accounts for the past three years, it appears that he earns on an average a gross profit of 25% on sales. Mr. Gupta has insured his stock for ₹ 1,20,000. Compute the amount of the claim. [7]

**Answer:**

#### Statement of Claim

Particulars	₹
A. Estimated Value of Stock as at date of fire	1,60,000
B. Value of Salvaged Stock & damaged Stock (₹ 22,400 + ₹ 20,800)	43,200
C. Estimated Value of Stock lost by fire (A - B)	1,16,800
D. Amount of claim by applying Average clause:	
$\text{Loss suffered} \times \frac{\text{Sum Insured}}{\text{Actual Insurable Value}} = ₹1,16,800 \times \frac{₹1,20,000}{₹1,60,000}$	87,600

**Working Note:** Calculation of the value of Closing Stock as on the date of fire.

Memorandum Trading Account for the Period from 01.01.2017 to 12.06.2017

Particulars	₹	Particulars	₹
To Opening Stock	1,70,000	By Sales	3,08,000
To Purchases	2,21,000	By Closing Stock (Balancing figure)	1,60,000
To Gross Profit @ 25%	77,000		
	4,68,000		4,68,000

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(b) A machinery is sold on hire purchase. The terms of payment are four annual instalments of ₹ 6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of ₹ 6,000.

Show Machinery Account and Hire Vendor Account in the books of the purchaser who defaulted in the payment of the third yearly payment where upon the vendor repossessed the machinery. The purchaser provides depreciation on the machinery @ 10% per annum on written down value basis.

All workings should form part of your answer.

[8]

Answer:

### In the books of Hire Purchaser Machinery Account

Dr.	Amount ₹	Particulars	Amount ₹	Cr.
1 <sup>st</sup> Year To, Hire Vendor A/c	15,533	By, Depreciation A/c By, Balance c/d	1,553 13,980	
	15,533		15,533	
2 <sup>nd</sup> Year To, Balance b/d	13,980	By, Depreciation A/c By, Balance C/d	1,398 12,582	
	13,980		13,980	
3 <sup>rd</sup> Year To, Balance b/d	12,582	By, Depreciation A/c By, Hire Vendor A/c By, Balance C/d	1,258 11,000 324	
	12,582		12,582	

### Hire Vendor Account

Dr.	Amount ₹	Particulars	Amount ₹	Cr.
To, Bank A/c To, Balance	6,000 12,639	1 <sup>st</sup> year By, Machinery A/c By, Interest A/c	15,533 3,106	
	18,639		18,639	
To, Bank A/c To, Balance	6,000 9,167	2 <sup>nd</sup> year By, Machinery A/c By, Interest A/c	12,639 2,528	
	15,167		15,167	
To, Machinery A/c (Repossession vendor)	11,000	3 <sup>rd</sup> year By, Balance b/d By, Interest	9,167 1,833	
	11,000		11,000	

#### Working Notes:

	Installment Amount	Interest ₹	Principal ₹
4 <sup>th</sup> Instalment	6,000		
Interest 20/120	1,000	1,000	5,000
	5,000		
Add: 3 <sup>rd</sup> Instalment	6,000		
	11,000		
Interest 20/120	1,833	1,833	4,167
	9,167		

## Answer to MTP\_Intermediate\_Syllabus2016\_June2019\_Set 2

Add: 2 <sup>nd</sup> Instalment	6,000		
	15,167		
Interest 20/120	2,528	2,528	3,472
	12,639		
Add: 1 <sup>st</sup> Instalment	6,000		
	18,639		
Interest 20/120	3,106	3,106	2,894
	15,533	8,467	15,533

7. (a) BB Ltd. manufacture computers, during the year ended 31st March, 2017 the company manufactured 550 computers, it has the policy of valuing finished stock of goods at a standard cost of ₹ 1.8 lakhs per computer. The details of the cost are as under:

Particulars	(₹ in lakhs)
<b>Raw material consumed</b>	<b>400</b>
<b>Direct Labour</b>	<b>250</b>
<b>Variable production overheads</b>	<b>150</b>
<b>Fixed production overheads (Including interest of ₹ 100 lakhs)</b>	<b>290</b>
<b>Compute the value of cost per computer for the purpose of closing stock.</b>	

[7]

**Answer:**

As per AS-2 (Revised), on valuation of Inventories, finished stock of goods should be valued on the basis of absorption costing. While absorbing fixed production overheads the normal production capacity is considered. In this case finished stock has been valued at a standard cost of ₹ 1.8 lakhs per computer which incidentally synchronizes with the value computed on the basis of absorption costing as under:

Particulars	(₹ in lakhs)	(₹ in lakhs)
Materials		400
Direct Labour		250
Variable production overheads		150
Fixed production overheads	290	
Less: Interest	100	190
Total Cost		990

Number of computers produced 550  
(Assumed to be normal production)  
Cost per computer  $990/550 = ₹ 1.80$  lakhs

Policy of the company to value closing stock is not as per AS-2. As per AS-2, the techniques of standard cost method may be used for convenience if the result approximates to the actual cost and standard cost is regularly reviewed if necessary. In the instant case, the cost of inventory can be conveniently calculated as per absorption costing. Therefore, there is no reason that standard costing method should be adopted.

- (b) Discuss the salient features of Computerised Accounting System.**

[8]

**Answer:**

Computer information system environment exists when one or more computer(s) of any type or size is (are) involved in the processing of any information, whether those

## Answer to MTP\_Intermediate\_Syllabus2016\_June2019\_Set 2

computers are operated by the entity or by a third party. A computerised accounting environment will therefore have the following salient features:

- The processing of information will be by one or more computers.
- The computer or computers may be operated by the entity or by a third party.
- The processing of financial information by the computer is done with the help of one or more computer software.
- A computer software includes any program or routine that performs a desired function or set of functions and the documentation required to describe and maintain that program or routine.
- The computer software used for the accounting system may be an acquired software or may be developed specifically for the business.
- Acquired software may consist of a spread sheet package or may be prepackaged accounting software.

**8. Write short notes on any three of the following:**

**[3x5=15]**

- (a) Accounting Cycle;
- (b) Types of Accounts;
- (c) Basic features of Joint Ventures;
- (d) Bearer plant as per AS – 10.

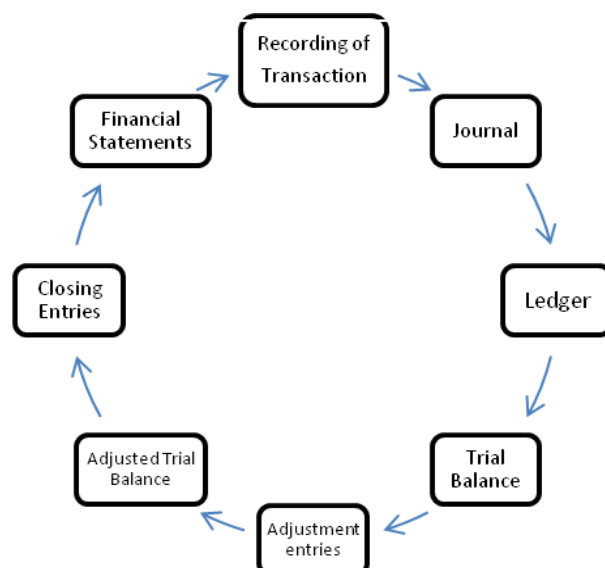
**Answer:**

**(a) Accounting Cycle:**

When complete sequence of accounting procedure is done which happens frequently and repeatedly in same directions during an accounting period, the same is called an accounting cycle.

### **Steps/Phases of Accounting Cycle**

The steps or phases of accounting cycle can be developed as under:



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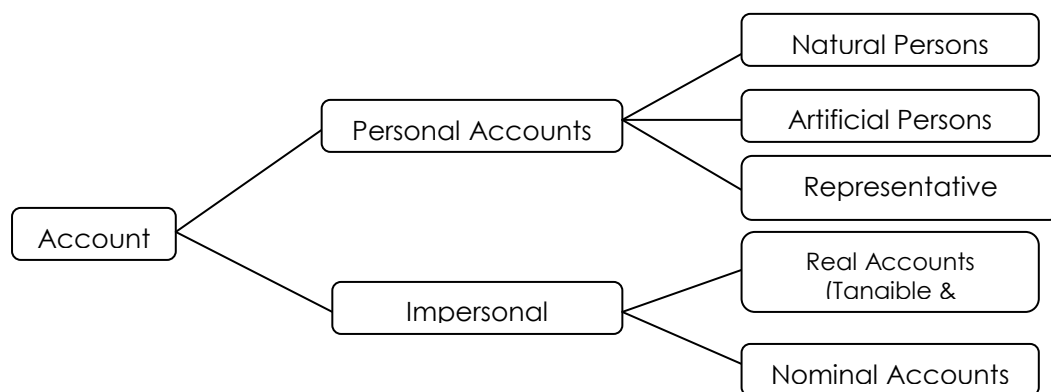
Steps/Phases of Accounting Cycle The steps or phases of accounting cycle can be developed as under:

- (a) Recording of Transaction: As soon as a transaction happens it is at first recorded in subsidiary book.
- (b) Journal: The transactions are recorded in Journal chronologically.
- (c) Ledger: All journals are posted into ledger chronologically and in a classified manner.
- (d) Trial Balance: After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.
- (e) Adjustment Entries: All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.
- (f) Adjusted Trial Balance: An adjusted Trail Balance may also be prepared.
- (g) Closing Entries: All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

## (b) Types of Accounts:

We have seen that an account may be related to a person or a thing – tangible or intangible. While doing business transactions (that may be large in number and complex in nature), one may come across numerous accounts that are affected. There must be a way to classify the account on the basis of their common characteristics.

Please take look at the following chart:



Let us see what each type of account means:

- (1) Personal Account: As the name suggests these are accounts related to persons.
  - (a) These persons could be natural persons like Suresh's A/c, Anil's A/c etc.
  - (b) The persons could also be artificial persons like companies, bodies corporate or association of persons or partnerships etc. Accordingly, we could have Infosys Technologies A/c, Charitable Trust A/c, ABC Bank A/c, etc.
  - (c) There could be representative personal accounts as well. Although the individual identity of persons related to these is known, the convention is to reflect them as collective accounts. e.g. when salary is payable to employees, we know how much is payable to each of them, but collectively the account is



## **Answer to MTP\_Intermediate\_Syllabus2016\_June2019\_Set 2**

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called as 'Salary Payable A/c'. Similar examples are rent payable, Insurance prepaid etc.

(2) Real Accounts: These are accounts related to assets or properties or possessions. Depending on their physical existence or otherwise, they are further classified as follows:

**(a)** Tangible Real Account – Assets that have physical existence and can be seen, and touched. e.g. Machinery A/c, Stock A/c, Cash A/c the like.

**(b)** Intangible Real Account – These represent possession of properties that have no physical existence but can be measured in terms of money and have value attached to them. e.g. Goodwill A/c, Trade mark A/c, Intellectual Property Rights A/c and the like.

(3) Nominal Account: These accounts are related to expenses or losses and incomes or gains e.g. Salary and Wages A/c, Rent of Rates A/c, Travelling Expenses A/c etc.

### **(c) Basic features of Joint-ventures:**

Following are the basic features of Joint- Venture:

- (i) It is done for a specific purpose and hence has a limited duration.
- (ii) The partners are called co-venturers.
- (iii) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio.
- (iv) The co-venturers may or may not contribute initial capital.
- (v) The JV is dissolved once the purpose of the business is over.
- (vi) The accounts of the co-venturers are settled immediately on dissolution.
- (vii) A joint venture has no name.