INTERMEDIATE EXAMINATION
GROUP - I
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER - 2017

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours **Full Marks : 100**

Both the sections are to be answered subject to instructions given against each.
[All workings must form part of your answer.]

Section - A

1. Answer the following questions:

(a) Choose the most appropriate one from given four alternatives: 1×10=10

(i) If an employee of the business files a legal suit on business, it is considered in the books as a
(A) Legal Expense
(B) Liability
(C) Contingent Asset
(D) Contingent Liability

(ii) At the end of the accounting year the capital expenditures are shown in the
(A) assets side of the Balance Sheet.
(B) liabilities side of the Balance Sheet.
(C) debit side of the Profit and Loss A/c.
(D) credit side of the Profit and Loss A/c.

(iii) Which of the following is not a method of charging depreciation?
(A) Sinking Fund Method
(B) Sum of years Digit Method
(C) Working hours Method
(D) Asset's Life-cycle Method

(iv) If average inventory is ₹1,25,000 and closing inventory is ₹10,000 less than opening inventory then the value of closing inventory will be
(A) ₹ 1,35,000
(B) ₹ 1,15,000
(C) ₹ 1,30,000
(D) ₹ 1,20,000

(v) The Accommodation bill is drawn
(A) to finance actual purchase or sale of goods.
(B) to facilitate trade transmission.
(C) when both parties are in need of funds.
(D) None of the above

(vi) Balance of X's account in creditors ledger is transferred to X's account in debtors ledger, in this case
(A) X's account in debtors ledger will be debited.

(B) X's account in creditors ledger will be debited.
(C) Suspense account will be debited.
(D) None of the above

(vii)Ground rent or surface rent means
(A) Minimum rent
(B) Maximum royalty payable
(C) Minimum royalty payable
(D) Fixed rent payable in addition to minimum rent

(viii)Accounting standard in India are issued by
(A) Government of India
(B) Reserve Bank of India
(C) The Institute of Chartered Accountants of India
(D) The Institute of Accounting Standard of India

(ix) As on 31st March, 2017 debtors; and additional bad debts are ₹ 8,00,000 and ₹ 10,000 respectively. If the provision for bad debts is made at 5% on debtors then amount of such provision will be
(A) ₹ 40,000
(B) ₹ 50,000
(C) ₹ 39,500
(D) ₹ 40,500

(x) Income and Expenditure Account is a
(A) Nominal Account
(B) Real Account
(C) Personal Account
(D) Artificial Personal Account

(b) Match the following in Column-I with the appropriate in Column-II: 1×5=5

	Column-I		Column-II
(i)	Noting Charges	(A)	Branch Accounts
(ii)	Stock and debtors Method '	(B)	Piecemeal Distribution
(iii)	Work certified	(C)	Not-for Profit Organization
(iv)	Average clause	(D)	Royalty Accounts
(v)	Maximum Loss Method	(E)	Bill of Exchange
		(F)	Construction Contract
		(G)	Insurance Claims

(c) State whether the following statements given below are 'True' or 'False': 1×5=5

(i) Memorandum joint venture account is prepared to find out amount due from co-venture.
(ii) Receipts and Payments Account is prepared by adopting cash principle of accounting.
(iii) As per AS-9 revenue from interest should be recognized on the time proportion basis.
(iv) Bad debts recovered is credited to debtor's personal account.
(v) New-partner pays premium for goodwill, which will be shared by old partners in their new profit sharing ratio.

(d) Fill in the blanks: **1x5=5**

(i) The ____________ discount is not recorded in the books of accounts.
(ii) Profit or Loss on revaluation is shared among the partners in _________ Ratio.
(iii) At the time of goods sent to consignee, the proforma invoice is prepared by_____________.
(iv) Memorandum revaluation account is prepared when the _________ of assets and liabilities are not altered.
(v) Realisation account is opened at the time of __________ of firm.

Answer:

1. (a)

(i)	(D)
(ii)	(A)
(iii)	(D)
(iv)	(D)
(v)	(C)
(vi)	(B)
(vii)	(D)
(viii)	(C)
(ix)	(C)
(x)	(A)

(b)

(i)	(E)
(ii)	(A)
(iii)	(F)
(iv)	(G)
(v)	(B)

(c)

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

(d)

(i)	Trade
(ii)	Old profit sharing
(iii)	Consignor
(iv)	Book value
(v)	Dissolution of the firm

Section - B

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

2. The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2017:

Income and Expenditure Account for the year ended 31st March, 2017

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of Furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-03-2016	31-03-2017
	₹	₹
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2016 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2017 cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2017. **15**

Answer:

Receipts and Payments Account
for the year ended 31.3.2017

Dr. **Cr.**

Particulars	₹	Particulars	₹	₹
To Subscription A/c (W.N.1)	67,050	By Balance b/d (Bank overdraft)		15,000
To Donation A/c	5,000	By Salary	19,500	
To Entrance Fees A/c	4,000	Add: Outstanding of last year	1,200	
To Furniture A/c (Sale of furniture)(7,000 -2,500)	4,500	Less: Outstanding of this year	(350)	20,350

		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment(Purchased)(W.N. 2)		5,000
		By Furniture (Purchased)(W.N.3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			**80,550**

Working Notes:

1. **Calculation of subscription received during the year 2016-2017**

Particulars	₹	₹
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2016-2017	3,700	
Advance in 2015-2016	1,000	(4,700)
		63,300
Add: Arrears of 2015-2016	2,600	
Advance for 2017-2018	1,500	4,100
		67,400
Less: Written off during 2016-2017		(350)
		67,050

2. **Calculation of Sports Equipment purchased during 2016-2017**

Sports Equipment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	25,000	By Income & Expenditure A/c (Depreciation)	6,000
To Receipts & Payments A/c (Purchases) (bal. fig.)	5,000	By Balance c/d	24,000
	30,000		**30,000**

3. **Calculation of Furniture purchased during 2016-2017**

Furniture Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c (Purchases) (bal. fig.)	8,000	By Income & Expenditure A/c (Loss on sale)	2,500
		By Income & Expenditure A/c	3,100

		(Depreciation)	
		By Balance c/d	27,900
	38,000		**38,000**

3. The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	**₹**	**Assets**	**₹**
Capital Account	**48,000**	**Building**	**32,500**
Loan	**15,000**	**Furniture**	**5,000**
Credilor	**31,000**	**Motor Car**	**9,000**
		Stock	**20,000**
		Debtors	**17,000**
		Cash in hand	**2,000**
		Cash at Bank	**8,500**
	94,000		**94,000**

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases.

(b) On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500 and Cash withdrawn from Bank ₹ 12,000.

(e) Gross Profit as per last year's audited accounts was ₹ 30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date. 15

Answer:

Trading and Profit and Loss Account
For the year ending on 31st March, 2016

Dr. **Cr.**

Particulars	**₹**	**₹**	**Particulars**	**₹**
To Opening Stock		20,000	By Sales	1,80,000
To Purchase (bal. fig.)		1,54,000	By Closing stock	30,000
ToGross Profit c/d (@ 20% on sales)		36,000		
		2,10,000		2,10,000
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000
To Depreciation on Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net Profit transferred to Capital A/c		12,325		
		36,000		**36,000**

Balance Sheet as at 31st March, 2016

Liability	₹	₹	Assets	₹	₹
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	(1,625)	30,875
Add: Net Profit	12,325		Furniture	5,000	
	60,325		Less: Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in Trade		30,000
Outstanding expenses		5,000	Sundry Debtors		21,000
			Cash at bank		22,000
			Sundry Advances (Amount recoverable from cashier)		4,500
		1,20,325			**1,20,325**

Working Notes:

(i)

Total Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹ 1,40,000 – ₹ 35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
To Gross Profit c/d (@ 20% on sales)		By Balance c/d	21,000
	1,61,000		**1,61,000**

(ii)

Total Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		**1,85,000**

(iii)

Cash Book

Dr. **Cr.**

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	---	By Drawings	---	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	---	1,37,500
To Cash (Contra)	---	71,500	By Bank (Contra)	71,500	---
To Bank (Contra)	12,000	---	By Cash (Contra)	---	12,000
			By Defalcation (Bal. Fig.)	4,500	---
			By Balance c/d (Bal. Fig.)	---	22,000
	85,000	**1,85,000**		**85,000**	**1,85,000**

(iv) Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000+ 20% of ₹1,50,000= ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 x 80%= ₹ 1,44,000

(v) Cost of Goods Sold = Sales - G.P. = ₹ 1,80,000 - ₹36,000 = ₹ 1,44,000

(vi) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= ₹ 1,44,000 + ₹ 30,000 - ₹ 20,000
= ₹ 1,54,000.

4. (a) (i) A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March, 2017 documentation and legal formalities are pending. The Company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer give in its financial statements? 3

(ii) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock? 2

(b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts.
(i) No adjustment entry was passed for an amount of ₹ 2,000 relating to outstanding rent.
(ii) Purchase book was overcast by ₹ 1,000.
(iii) ₹ 4,000 depreciation of Machinery has been omitted to be recorded in the book.
(iv) ₹ 600 paid for purchase of stationary has been debited to Purchase A/c.
(v) Sales books was overcast by ₹ 1,000.
(vi) ₹ 5,000 received in respect of Book Debt had been credited to Sales A/c.

Show the effect of the above errors in Profit and Loss Account & Balance Sheet. 6

(c) (i) Why is goodwill considered to be an intangible asset and not a fictitious asset?
(ii) The Balance Sheet of a Partnership Firm had an Investment Fluctuation Reserve of ₹ 10,000. A new partner is admitted. Value of Investment is ₹ 60,000 against its book value of ₹ 70,000. What amount of the Investment Fluctuation Reserve will be distributed among partners?
(iii) When does the Capital Account of a partner not show a debit balance in spite of regular losses incurred by the firm?
(iv) At the time of dissolution of Partnership Firm realisation expenses amounted to ₹ 3,000 paid by Nisha, a partner who was to bear these expenses. What entry is required in the Books of the firm? 4

Answer:

(a)(i) Although legal title has not been transferred, the economic reality and substance is that the rights and beneficial interest in the immovable property have been transferred. Therefore, recording of acquisition/disposal (by the transferee transferor respectively) would, in substance, represent the purchase/sale. In view of this A Ltd., should record the sales and recognize the profit of ₹15 lakhs in its Profit and Loss Account. It should eliminate building from its balance sheet. In notes to accounts, it should disclose that building has been sold, full consideration has been received, possession has been handed over to the buyer and documentation and legal formalities are pending.

The buyer should recognize the building as an asset in his balance sheet and charge depreciation on it. The buyer should disclose in his notes to account that possession has been received however documentation and legal formalities are pending.

(ii) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

(b)

	Profit & Loss A/c		**Balance Sheet**
(i)	Profit was overstated by ₹ 2,000.	(i)	Capital was also overstated by ₹ 2,000 & outstanding Liability was understated by 2,000.
(ii)	Gross profit was under stated by ₹ 1,000 & also the Net Profit.	(ii)	Capital was understated by ₹ 1,000
(iii)	Net Profit was overstated by ₹ 4,000.	(iii)	Machinery was overstated by ₹ 4,000 & so the Capital A/c was also overstated by ₹ 4,000.
(iv)	No effect on Net Profit.	(iv)	No effect in Balance Sheet.
(v)	Gross Profit and Net Profit were overstated by ₹ 1,000.	(v)	Capital Was overstated by ₹ 1,000.
(vi)	Gross Profit & Net Profit were overstated by, ₹ 5,000.	(vi)	Capital & Sundry Debtors were overstated by ₹ 5,000.

(c) (i) Goodwill is not a fictitious asset because it has a realisable value. It is an intangible asset because it cannot be seen and touched.

(ii) Nil. There is no excess amount in the Investment Fluctuation Reserve Account as the fall in the value of the investment is equal to the reserve.

(iii) When partners maintain Fixed Capital Account, all adjustments including share of profit or loss is shown in their Current Account. Hence, the Capital Account of the partners will not be disturbed and this will not show a debit balance in spite of regular losses.

(iv) No entry is required as the expenses are to be borne by the partners.

5. (a) Snehal, Suchita and Sindhu were partners sharing profits and losses in the ratio of 3 : 2 : 1. The firm was dissolved on 31.03.2015. After transfer of assets and liabilities to Realisation A/c, the following transactions took place.

Give journal entries in the books on dissolution of the firm.

(i) Suchita's Loan to the firm ₹ 30,000 was settled at ₹ 28,500.

(ii) A creditor for ₹ 50,000, took over Machinery of Book value ₹ 40,000 at ₹ 35,000. The balance was settled in Cash.

(iii) Workmen Compensation Reserve - ₹ 40,000. A liability equal to 60% of the Reserve was settled.

(iv) Sindhu was to receive 5% of the value of assets realised as remuneration for completing the dissolution work and was to bear realization expenses. Realisation expenses were ₹ 5,500 that was paid by Sindhu. Assets realised ₹ 60,000.

(v) The Balance Sheet disclosed a footnote, contingent liability for ₹ 5,000 in respect of a bill discounted. The bill was received from Megha. On the date of dissolution Megha was declared insolvent and was not able to pay the amount due. The bill had to be met by the firm.

(vi) Loss on realization amounted to ₹ 24,000. **7**

(b) The following details are available in respect of a business for a year.

Department	Opening Stock	Purchase	Sales
X	120 units	1,000 units	1,020 units at ₹ 20.00 each
Y	80 units	2,000 units	1,920 units at ₹ 22.50 each
Z	152 units	2,400 units	2,496 units at ₹ 25.00 each

The total value of purchases is ₹ 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year. 8

Answer:

(a)

In the books of Snehal, Suchita and Sindhu
Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(a)	Suchita's Loan A/c	Dr.		30,000	
	To Bank A/c				28,500
	To Realisation A/c				1,500
	(Being settlement of partner's loan)				
(b)	Realisation A/c	Dr.		15,000	
	To Bank A/c				15,000
	(Being settlement of creditor's liability)				
(c)	Workmen Compensation Reserve A/c	Dr.		40,000	
	To Realisation A/c				24,000
	To Snehal's Capital A/c				8,000
	To Suchita's Capital A/c				5,333
	To Sindhu's Capital A/c				2,667
	(Being WCR transferred)				
	Realisation A/c	Dr.		24,000	
	To Bank A/c				24,000
	(Being liability against Workmen Compensation paid)				
(d)	Realisation A/c	Dr.		3,000	
	To Sindhu's Capital A/c				3,000
	(Being remuneration payable to Sindhu)				
(e)	Realisation A/c	Dr.		5,000	
	To Bank A/c				5,000
	(Being amount paid for the bill)				
(f)	Snehal's Capital A/c	Dr.		12,000	
	Suchita's Capital A/c	Dr.		8,000	
	Sindhu's Capital A/c	Dr.		4,000	
	To Realisation A/c				24,000
	(Being loss on realisation transferred)				

(b)

1. **Computation of Closing Stock Quantity (in units)**

Particulars	X	Y	Z
Opening Stock	120	80	152
Add: Purchase	1,000	2,000	2,400
Less: Units Sold	(1,020)	(1,920)	(2,496)
Closing Stock	100	160	56

2. Computation of Gross Profit Ratio

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under.

Assuming all purchases are sold, the sale proceeds would be

Department X	1,000 Units @ ₹ 20.00	20,000
Department Y	2,000 Units @ ₹ 22.50	45,000
Department Z	2,400 Units @ ₹ 25.00	60,000
Total Sale Value of Purchase Quantity	125,000	
Less : Cost of Purchase	1,00,000	
Gross Profit Amount	25,000	
Gross profit Ratio	25,000 ÷ 1,25,000	20% of Selling Price

3. Computation of Profit and Cost for each article

Department	Selling Price	Profit at 1/5 of SP	Cost = Sales - Profit
Department x	₹ 20.00	1/5 of ₹ 20.00 = 4.00	₹ 16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹18.00
Department 2	₹ 25.00	1/5 of ₹ 25.00 = 5.00	₹ 20.00

4. Departmental Trading Account for the year ended…………….

Dr. **Cr.**

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
To Op. stock	1,920	1,440	3 040	6,400	By Sales	20,400	43,200	62,400	1,26,000
To Purchase	16,000	36,000	48,000	100,000	By Cl. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
	22,000	46,080	63,520	1,31,600		22,000	46,080	63,520	131,600

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

6. (a) On 1st April, 2012, X Ltd. sells a Truck on hire purchase basis to X Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual installments of ₹ 4,40,000 each payable on 31st March, 2013, 2014, and 2015.
The hire vendor charges interest @10% per annum.
You are required to ascertain the cash price of the truck for X Transporters & Co.
Calculations may be made to the nearest rupee. 8

(b) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger? 7

	₹
Opening Balance of Debtors' Ledger	**40,000**
Opening Balance of Creditors' Ledger	**20,000**
Credit Sales	**92,000**
Credit Purchases	**59,600**
Transfer from Debtors' Ledger to Creditors' Ledger	**6,000**
Bill receivable endorsed to Creditors	**8,000**
Endorsed Bills dishonoured	**2,000**
Bad Debts written off (after deducting bad debts recovered ₹ 600)	**4,400**
Provision for Doubtful Debts	**1,100**
Provision for Discount on Debtors	**2,000**
Reserve for Discount on Creditors	**4,000**
Cash Sales	**6,000**
Cash Purchases	**8,000**
Bill Receivable Collected on maturity	**10,000**
Bills Receivable discounted	**12,000**
Bills Payable matured	**14,000**
Discount allowed	**3,000**
Discount received	**1,200**
Allowances from Creditors	**6,400**
Discount allowed to Debtors ₹ 1,000 was recorded as discount received, from Creditors	
Closing Debtors Balance (As per General Ledger Adjustment Account)	**1,20,000 (Cr.)**
Closing Creditors Balance (As per General Ledger Adjustment Account)	**60,000 (Dr.)**

Answer:

(a) Ratio of interest and amount due = $\frac{\text{Rate of Interest}}{100+\text{Rate of Interest}} = \frac{10}{110} = \frac{1}{11}$

There is no interest element in the down payment as it is paid on the date of the transaction. Installments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last installment to first installment as follows:

Calculation of Interest and Cash Price

No. of installments	**Amount due at the time of installment ₹**	**Interest**	**Cumulative cash price ₹**
[1]	[2]	[3]	[2 - 3] = [4]
3rd	4,40,000	1/11 of ₹ 4,40,000 = ₹ 40,000	4,00,000
2nd	8,40,000	1/11 of ₹ 8,40,000 = ₹ 76,364	7,63,636
1st	12,03,636	1/11of ₹12,03,636 = ₹ 1,09,421	10,94,215

Total cash price = ₹ 10,94,215 + 4,80,000 (down payment) = ₹ 15,74,215.

(b)

In Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Debtors Ledger Adjustment A/c:		By Balance b/d	40,000
Discount Allowed	4,000	By Debtors Ledger	

(₹ 3,000 + ₹ 1,000)		Adjustment A/c:	
Bad Debts (4,400 + 600)	5,000	Sales	92,000
Transfer to creditor ledger	6,000	Endorsed Bills receivable dishonoured	2,000
To Balance c/d (1,20,000 – 1,000)	1,19,000		
	1,34,000		**1,34,000**

In Creditors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Creditors Ledger Adjustment A/c	
To Creditors Ledger Adjustment A/c		Transfer from Debtors' ledger	6,000
Purchases	59,600	Bills Receivable endorsed to creditors	8,000
Endorsed Bills receivable dishonoured	2,000	Discount received (₹ 1,200 - ₹ 1,000)	200
		Allowances	6,400
		By Balance c/d (60,000 + 1,000)	61,000
	81,600		81,600

(i) The following items do not appear in GLA Account in Debtors' Ledger:
- (1) Cash sales
- (2) Provision for Doubtful Debts
- (3) Provision for Discount on Debtors
- (4) Bad Debts Recovered
- (5) Bills Receivable matured/collected on maturity
- (6) Bills Receivable discounted

(ii) The following items do not appear in GLA Account in Creditors' Ledger:
- (1) Cash Purchases
- (2) Reserve for Discount on Creditors
- (3) Bills Payable Matured

7. (a) The premises of X Ltd. caught fire on 22nd January, 2015 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2014 the stock at cost was ₹13,27,200 as against ₹9,62,200 on 31st March, 2013.

Purchases from 1st April, 2014 to the date of fire were ₹ 34,82,700 as against ₹45,25,000 for the full year 2013-2014 and the corresponding sales figures were ₹49,17,000 and ₹52,00,000 respectively.

You are given the following further information:

(i) In July, 2014, goods costing ₹1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) The rate of gross profit is constant.

X Ltd. had taken an insurance policy of ₹5,50,000 which was subject to the average clause. From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company. **10**

(b) List the significances of computerised accounting system. **5**

Answer:

(a) Memorandum Trading Account from 1st April, 2014 to 22nd January, 2015

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		13,27,200	By Sales	49,17,000
To Purchases	34,82,700		By Stock on 22nd January, 2015 – Balancing figure	7,76,300
Less: Cost of goods used for advertising	(1,00,000)	33,82,700		
To Gross Profit				
20% of sales (Working Note)		9,83,400		
		56,93,300		**56,93,300**

Stock in hand on date of fire = ₹ 7,76,300.

Computation of claim for loss of stock

Particulars	Amount (₹)
Stock on the date of fire i.e. on 22nd January, 2015	7,76,300
As the value of goods salvaged was negligible, therefore Loss of stock	7,76,300

Since policy amount is less than claim amount, claim will be restricted to policy amount only. Therefore, claim of ₹5,50,000 should be lodged by X Ltd. to the insurance company.

Working Note:

Trading Account for the year ended on 31st March, 2014

Particulars	₹	Particulars	₹
To Opening Stock	9,62,200	By Sales	52,00,000
To Purchases	45,25,000	By Closing Stock	13,27,200
To Gross Profit	10,40,000		
	65,27,200		**65,27,200**

Rate of gross profit to sales = 10,40,000/52,00,000 x 100 = 20%.

(b) Significance of computerised accounting system

- The speed with which accounts can be maintained is several fold higher;
- Automatic Correct Balancing of Ledger Accounts;
- Automatic Tallied Trial balance unless some mistake is made while recording the opening balance;
- Automatic Income Statement;
- Automatic Balance Sheet.

8. Write short notes on any three of the following: **5×3=15**

(a) Objectives of Accounting

(b) Methods/Criteria to the selection and application of Accounting policies

(c) Difference between sale and consignment

(d) Criticism of the decision of Garner vs. Murray

Answer:

(a) Objectives of Accounting

The main objective of Accounting is to provide financial information to stakeholders. This financial information is normally given via financial statements, which are prepared on the basis of Generally Accepted Accounting Principles (GAAP). There are various accounting standards developed by professional accounting bodies all over the world. In India, these are governed by The Institute of Chartered Accountants of India, (ICAI). In the US, the American Institute of Certified Public Accountants (AICPA) is responsible to lay down the standards. The Financial Accounting Standards Board (FASB) is the body that sets up the International Accounting Standards. These standards basically deal with accounting treatment of business transactions and disclosing the same in financial statement:

The following objectives of accounting will explain the width of the application of this knowledge stream:

(a) To ascertain the amount of profit or loss made by the business i.e. to compare the income earned versus the expenses incurred and the net result thereof.
(b) To know the financial position of the business i.e. to assess what the business owns and what it owes.
(c) To provide a record for compliance with statutes and laws applicable.
(d) To enable the readers to assess progress made by the business over a period of time.
(e) To disclose information needed by different stakeholders.

(b) The major considerations governing the selection and application of accounting policies are:

Prudence - Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement, these uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.

Substance over form - It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.

Materiality - Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

(c) Difference between Sale and Consignment

1. In sale the property in goods is transferred to The buyer immediately whereas in consignment the property 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.

2. In sale, the risk attaching to the goods passes with ownership to the buyer, in case of a consignment, the risk attaching to 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.

3. 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.

4. 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.

(d) Criticism of the decision of Garner vs. Murray

The following criticism may be advocated against the decisions laid down in Garner vs. Murray principle:

(i) If any solvent partner has a debit balance in capital account, he must not bear the deficiency of the insolvent partner;
(ii) This principle does not apply if there are only two partners;

(iii) In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on reasilation which is immaterial and useless; and

(iv) If any solvent partner who possess more private asset but contributes less capital, he will naturally, as per Garner vs. Murray decision, bear less amount of deficiency of the insolvent partner than the other solvent partner who possess less private assets but contributes more capital to the firm. This is not justified.