

SUGGESTED ANSWERS TO QUESTIONS

INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

DECEMBER - 2021

Paper - 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

Section : A MCQ

20X1=20 Marks

Q.1 In hire purchase System, cash price plus interest is known as \_\_\_\_\_

- Ans
1. Hire purchase charges.
  2. Capital value of asset.
  3. Hire purchase price of assets.
  4. Book value of asset

Q.2 Depreciation is calculated from the date of\_\_.

- Ans
1. Assets put to use.
  2. Purchase of assets.
  3. Assets installed.
  4. Receipts of assets at business premises

Q.3 Debit balance in the cash book is equivalent to.

- Ans
1. Overdraft as per cash book.
  2. None of these.
  3. Credit balance as per Passbook.
  4. Overdraft as per passbook

Q.4 Main elements of the accounting equation are:

- Ans
1. Cash, stock and debtors.
  2. Bank balance, Investments and bills receivable.
  3. Assets, liabilities and capital.
  4. Capital, creditors and bills payable.

Q.5 A Bill of Exchange cannot be

- Ans
1. Endorsed.
  2. Crossed.
  3. None of these.
  4. Accepted.

Q.6 Spent amount on unsuccessful promotion policy is \_\_

- Ans
1. Capital expenditure
  2. Expenses.
  3. Revenue expenditure
  4. Deferred revenue expenditure.

**Q.7 Convention of Conservatism takes into account:**

- Ans
1. All future profits and not losses.
  2. Neither profits nor losses of the future.
  3. All future losses and not profits.
  4. All future profits and losses.

**Q.8 Balance Sheet is prepared with the balances of which of the following?**

- Ans
1. All balances in the Ledger.
  2. Balances of real accounts.
  3. Balances of personal accounts.
  4. Balances of personal and real accounts.

**Q.9 Which of these terms/concepts are not relevant to a joint venture?**

- Ans
1. Co venturers.
  2. Temporary partnership.
  3. Principal and agent relationship.
  4. Sharing profit and loss of joint ventures.

**Q.10 Excess of minimum rent over royalty payable is known as \_\_\_\_.**

- Ans
1. Minimum royalty payable.
  2. Deficiency of actual royalty.
  3. Excess working.
  4. Short working.

**Q.11 Sold goods worth list price of rupees 8000 at 10% trade discount and 2% cash discount. 25% received at the time of transaction only. The amount posted to the discount account will be:**

- Ans
1. Rupees 144 on credit side.
  2. Rupees 36 on debit side
  3. Rupees 144 on debit side.
  4. Rupees 40 on credit side

**Q.12 Revenue from \_\_\_\_ is recognised as per AS-9**

- Ans
1. Construction contract.
  2. Lease agreement
  3. Insurance contract.
  4. Rendering the services.

**Q.13 Bills payable honoured during the year, will be debited to.**

- Ans
1. None of these.
  2. Creditors account
  3. Bills payable account.
  4. Cash account

**Q.14 Which of the following is not an essential feature of a partnership firm?**

- Ans
1. Mutual agency.
  2. Existence of business.
  3. Association of two or more people.
  - ✓ 4. Compulsory registration

**Q.15 Sacrificing ratio is.**

- Ans
1. New Profit sharing ratio - old profit sharing ratio.
  2. Equal to old profit sharing ratio
  3. Equal
  - ✓ 4. Old profit sharing ratio - new profit sharing ratio.

**Q.16 Which of the following statements is not correct?**

- Ans
1. Bad debts can be less than the amount of provision for doubtful debts.
  2. Bad debts can be more than the amount of provision for doubtful debts.
  - ✓ 3. Provision for doubtful debts account is the amount payable to debtors.
  4. Provision for doubtful debts is shown in the balance sheet.

**Q.17 Errors are:**

- Ans
1. Frauds
  2. Undetected mistake.
  3. Intentional mistake.
  - ✓ 4. Unintentional mistake.

**Q.18 Choose the correct statement.**

- Ans
1. Financial statements need not take into consideration any statutory requirement.
  2. Only credit transactions are recorded in books of accounts.
  3. Financial statements prepared by two different accountants will always show identical results.
  - ✓ 4. Financial accounts, of an enterprise, are treated as evidence in the Court of Law.

**Q.19 Which of the following are not the advantages of pre packaged accounting software?**

- Ans
- ✓ 1. Report generated.
  2. Simple backup procedure.
  3. Easy to use.
  4. Easy to install.

**Q.20 Which of these is/are one of the methods of stock taking?**

- Ans
1. Periodic inventory
  2. Perpetual inventory.
  - ✓ 3. Both.
  4. None

**Q.1 State when the title of goods are transferred to the hirer.**

**Answer : Title of goods are transferred only when the agreed sum (Higher purchase price) is paid by the hirer)**

**Q.2 What is a depreciable cost?**

**Answer : Depreciable cost= cost of asset- Scrap value.**

**Q.3 'T' Form presentation of financial statements is known as "Horizontal" form or 'Vertical' form.**

**Answer : Horizontal form.**

**Q.4 Name the side on which increase in capital is recorded.**

**Answer : Credit side**

**Q.5 Under which accounting concept provision is made for doubtful debts.**

**Answer : Prudent concept.**

**Q.6 Define ground rent.**

**Answer : Fixed rent payable in addition to minimum rent.**

**Q.7 In the single entry system, which two methods are used to ascertain profit or loss?**

**Answer : I) Statement of affairs method.  
II) Conversion method.**

**Q.8 Why is the capital of the owner shown on the liability side of the balance sheet?**

**Answer : Due to separate entity concept.**

**Q.9 Define branch as per section 2(14) of the Companies Act 2013.**

**Answer : Any establishment described as a branch by the company.**

**Q.10 X and Y were Partners sharing profit/losses as 3:2. They admit Z as a new partner, giving him 1/5th share of future profits. What should be the new profit sharing ratio?**

**Answer : 12:8:5**

**Q.11 Decline in the value of coal mines due to extraction is termed as\_.**

**Answer : Depletion**

**Q.12 X draws a bill on Y. Y accepts the same. Can Y endorse the bill to Z?**

**Answer : No, Y cannot endorse the bill to Z because Y is drawee only. X, the drawer can do so.**

**Q.13 What is a biological asset as per (AS-10)**

**Answer : Biological assets is a living animal or plant.**

**Q.14 What type of account is a revaluation account?**

**Answer : Nominal account.**

**Q.15 What is the traditional function of accounting?**

**Answer : Recording of financial transactions.**

**Q.16 Under loss of profit insurance, what is meant by gross profit?**

**Answer : Gross profit means net profit plus insured standing charges.**

**Q.17 Should a transaction be first recorded in a journal or Ledger. Why?**

**Answer : Transactions are first recorded in a journal because it is a book of original entry.**

**Q.18 On which basis of accounting outstanding expenses are not recorded?**

**Answer : Cash basis of accounting.**

**Q.19 Name the error committed by violating the rules of accounting.**

**Answer : Error of principle.**

**Q.20 Define merchandise.**

**Answer : Merchandise means goods for resale.**

- Q.1 Which transactions will:** (4 Marks)
- Decrease the assets and decrease the capital.
  - Increase the assets and increase the liabilities.
  - Increase the assets and decrease another asset.
  - Decrease the assets and decrease the liabilities.

Answer :

- Drawing or expenses.
- Purchase of an asset on credit.
- Purchase or sale of an asset in cash.
- Payment of liability.

- Q.2 When you proceed to reconcile the bank account starting with 'credit' cash book Balance, how is the following dealt with and why?** (4 Marks)
- Cheque issued but not presented for payment.
  - Cheque deposited but not yet credited.
  - Bank charges charged by the bank not recorded in the cash book.
  - Interest allowed by the bank is not recorded in the cash book

Answer :

- Cheques issued but not yet presented for payment are deducted because the bank shows lower overdrawn balance.
- Cheques deposited but not cleared are added because the bank shows a higher overdrawn balance.
- Bank charges are added because the bank shows a higher overdrawn balance.
- Interest allowed is deducted because the bank shows lower overdrawn balance.

- Q.3 What journal entry will be passed in the books of a drawer and drawee at the time of dishonour of Bill of exchange in the following cases?** (4 Marks)
- If Bill of Rupees 10,000 was discounted from the bank and the noting charges paid by the bank was rupees 100.
  - If B/R of Rupees 10,000 was endorsed in favour of C. Noting charges paid by C Rupees 100.
  - If B/R is retained with a drawer and noting charges was Rupees 100

Answer :

		In the books drawer.	
Date	Particulars	DR Rs.	CR Rs.
i)	Drawee A/c DR To bank A/c (Bill dishonoured and noting charges paid by bank)	10100	10100
ii)	Drawee A/c DR To C A/c (Bill dishonoured and noting charges paid by C)	10100	10100
iii)	Drawee A/c DR To B/R A/c To cash A/c (Bill dishonoured and noting charges paid)	10100	10000 100
In the books of drawee In case of (i), (ii) and (iii)			
	B/P A/c DR Noting charges A/c DR To drawer (Bill dishonoured and noting charges payable)	10000 100	10100

**Q.1 Calculate**

(4 Marks)

i) Gross profit, ii) Cost of goods sold and iii) Closing stock from the following particulars.

Opening stock. Rs.20,000  
 Cash sales Rs.60,000  
 Credit sales Rs.40,000  
 Purchase Rs.70,000  
 Rate of gross profit on cost.  $33 \frac{1}{3} \%$

**Answer:**  
 Gross Profit = Rs. 25,000  
 Cost of Goods sold = Rs. 75,000  
 Closing Stock = Rs. 15,000

**Q.2 From the following particulars calculate operating profit.**

(2 Marks)

Net profit. Rs.1,00,000  
 Rent received. Rs.10,000  
 Gain on the sale of machines. Rs.15,000  
 Interest on loan paid. Rs.18,000 Donation  
 paid. Rs.4000

**Answer:**  
 Operating Profit = Rs. 97,000

**Q.3 The partners of a firm distributed the profits for the year ended 31/3/2021. Rs.90,000 in the ratio of 3:2:1 without providing for the following adjustments.**

(6 Marks)

- i) A and B were entitled to a salary of Rs.1500 each per annum.
- ii) B was entitled to a Commission of Rs.4500.
- iii) B&C had guaranteed a minimum profit of rupees 35,000 P.a to A.
- iv) Profits were to be shared in the ratio of 3:3:2

Pass the necessary journal entries for the above adjustments in the Books of the Firm.

**Answer****Journal Entry**

	Dr	Cr
A's Capital a/c      Dr	Rs.8,500	
To B's Capital a/c		Rs. 4,500
To C's Capital a/c		Rs. 4,000
(being adjustments made for omissions)		

**Q.1** A acquired on 1st January 2020 a machine under hire purchase agreement, which provides for 5 half yearly instalments of rupees 6000 each. The first instalment is due on 1st July 2020. Assuming that the applicable rate of interest is 10% per annum, Calculate the cash price of the machine. All working should form part of the answer.

(6 Marks)

**Answer:**

Cash Purchase price of Machine – Rs. 25,977

**Q.2** A fire engulfed the premises of a business of M/s Pritam on the morning of 1st July, 2020. The building, equipment and stock were destroyed and the salvage recorded the following:

(6 Marks)

Building: Rs 4000.

Equipment: Rs 2500.

Stock: Rs.20,000

The following other information was obtained from the records saved from the period from 1st January to 30th June 2020.

Sales Rs 11,50,000

Sales returns. Rs 40,000

Purchases Rs 9,50,000

Purchases returns Rs 12,500

Cartage inward Rs 17,500

Wages Rs 7,500

Stock in hand on 31st December 2019. Rs 1,50,000

Building valued on 31st December 2019. Rs 3,75,000

Equipment valued on 31st December 2019. Rs 75,000

Depreciation provided till 31st December 2019 on:

→ Building Rs 1,25,000

→ Equipment Rs.22,500

No depreciation has been provided after December 31st, 2019. The latest rate of depreciation is 5% P.a on building and 15% P.a on equipment by straight line method. Normally business makes a profit of 25% on net sales.

You are required to compute as on 30-6-2020

- i) Amount of gross profit.
- ii) Amount of closing stock.
- iii) Amount of stock destroyed by fire.
- iv) Statement of claim.
  - a) Stock b) Building c) Equipment.

**Answer:**

Gross Profit – Rs. 2,77,500

Closing Stock – Rs. 2,80,000

Stock destroyed by Fire - Rs. 2,80,000

Statement of claim

Stock - Rs. 2,60,000

Building - Rs. 2,36,625

Equipments - Rs. 44,375 = Rs. 5,41,000

**Q.1** Ruma Ltd purchased a plant on 1st April 2015 for rupees 240,000. It bought another plant on 1st July 2016 for rupees 160,000. On 1st January 2018 Plant bought on 1st April 2015 was sold for Rupees 160,000 and a fresh plant was purchased on the same date. Payment of this plant will be made as under.

(6 Marks)

1st January 2018 rupees 40,000.

1st January 2019 rupees 48,000.

1st January 2020 rupees 44,000.

Payments made in 2019 and 2020 include interest of rupees 8000 and Rupees 4000, respectively. Depreciation is charged at 10% P.a on the diminishing balance method.

From the above particulars, Find out.

i) Cost of plant bought on January 1st, 2018.

ii) Loss on sale of plants.

iii) Closing balance of plant 2 and plant 3 as on 31-3-2018

Answer:

(i)	Cost of Plant-	Rs. 1,20,000
(ii)	Loss on sale of Plant-	Rs. 19,820
(iii)	Closing balance of Plant:	
	Plant 2-	Rs. 1,33,200
	Plant 3-	Rs. 1,17,000

**Q.2** X Ltd has three department, A,B and C. From the particulars given below compute:

(6 Marks)

i) The values of stock as on 31st December 2020, and

ii) The departmental result showing the actual amount of gross profit.

	A Rs.	B Rs.	C Rs.
Stock(on 1.1.2020)	24,000.	36,000.	12,000.
Purchases	1,46,000	1,24,000	48,000
Actual sales.	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	33 $\frac{1}{3}$ %

During the year ended 31st December 2020, certain items were sold at discount, and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A Rs.	B Rs.	C Rs.
Sales at normal price.	10,000.	3,000	1,000
Sales at actual price.	7,500	2,400	600

Answer:

Calculation of Departmental Result	Deptt. A	B	C
<b>Gross Profit</b>	Rs. 32,500	39,400	24,600
Value of Stock (31/12/2020)	Rs. 2,500	600	400

**Q.1 Why is goodwill considered an 'Intangible asset' but not a 'fictitious asset' ?**

(2 Marks)

**Answer:**

**Goodwill cannot be seen or touched. It can only be felt. Hence it is treated an intangible asset. But it is not a fictitious asset because fictitious do not have a value. Whereas Goodwill has value and it can be purchased or sold with any other asset.**

**Q.2 X&Y are partners. They decided to dissolve their firm. Pass necessary entries assuming that various assets and external liabilities have been transferred to the Realisation account.**

(5 Marks)

- i) X's loan(partner) was appearing on the liability side of the balance sheet at rupees 30,000. He accepted an unrecorded asset of rupees 50,000 in full settlement of his account.**
- ii) Runa, a creditor, to whom rupees 30,000 were due to be paid, accepted an unrecorded computer of rupees 20,000 at a discount of 10%, and the balance was paid to him in cash.**
- iii) Suman, an unrecorded creditor of rupees 45,000, accepted an unrecorded motorcar of rupees 30,000 at 35,000, and the balance was paid to him in cash.**
- iv) There was a contingent liability in respect of bills discounted but not matured rupees 30,000.**
- v) Furniture of rupees 15,000 and goodwill of rupees 20,000 were appearing in the balance sheet but no other information was provided regarding these two items.**

**Answer:**

- i) Debit X's loan account and credit realisation account by rupees 30,000**
- ii) Debit realisation account and credit bank account by rupees 12,000**
- iii) Debit realisation account and credit bank account by rupees 10,000**
- iv) No entry.**
- v) No entry.**

**Q.3 State your views in line with provision of AS-1 and give reasons for your answer in respect of the following:**

(5 Marks)

- i) Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
- ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
- iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
- iv) Any change in accounting policy which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.
- v) There is no single list of accounting policies which are applicable to all circumstances.

**Answer:**

- i) False, As per AS1 "disclosure of accounting policies", Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed Disclosure is necessary if they are not followed.
- ii) False, As per AS1 if the fundamental accounting assumptions, VIZ going concern, consistency and accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- iii) True, to ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of a financial statement and they should be disclosed at one place.
- iv) False, Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- v) True, As per AS1, There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

Six LAQ  
(4X3=12 Marks)

**Q.1 Write short notes on Source documents**

(3 Marks)

**Answer:**

**Source documents:**

Vouchers are the documentary evidence of the transactions so happened. Source documents at the basis on which transactions are recorded in subsidiary books, i.e source documents are the evidence and proof of transactions.

**Q.2 Write short notes on Error of principle.**

(3 Marks)

**Answer:**

**Error of principle:** Entering revenue expenses as capital expense or vice versa or entering revenue receipt as capital receipt or vice versa.

**Q.3 Write short notes on Overriding Commission.**

(3 Marks)

**Answer:**

**Overriding Commission:** it is an extra commission allowed over and above, the normal Commission is generally offered for the following reasons:

- i) When, the agent is required to put in hard work in introducing a new product in the market.
- ii) Where he is entrusted with the work of supervising the performance of other agents in a particular area.
- iii) For effecting sales at prices higher than the price fixed by the consignor.

**Q.4 Write short notes on Transfer entries in the context of self balancing Ledger.**

(3 Marks)

**Answer:**

**Transfer entries:** Sometimes a person may be treated both as debtor as well as a creditor to the firm. Under the circumstances, the lower of the amount payable to and receivable from such person is to be set off. The so called set off amount is to be deducted both from the debtors as well as from the creditors. This is known as transfer entry.

**Q.5 Write short notes on Components of computer systems.**

(3 Marks)

**Answer:**

**Components of computer system:** A computer system is made up of a number of electronic components. These components are known as hardware. The names of the components are as follows:

- i) Keyboard.
- ii) Monitor.
- iii) CPU.
- iv) Magnetic recorder

Keyboard and monitor put together are known as terminals.

**Section D - Case Study Question**

**Q.1** Alpana enterprises maintain their books of accounts under a single entry system. The balance sheet on 31st March 2018 was as follows.

1+2+2+1+4+1+1=12 Marks

Liabilities.	Amount.(Rs)	Assets.	Amount.(Rs)
Capital A/c.	6,75,000.	Furniture's and fixtures.	1,50,000
Trade creditors.	7,57,500.	Stock.	9,15,000
Outstanding expenses.	67,500.	Trade debtors.	3,12,000
		Prepaid insurance.	3,000
		Cash in hand and at the bank.	1,20,000
	=15,00,000		=15,00,000

The following was a summary of cash and bank book for the year ended 31st March 2019:

Receipts.	Amount.(Rs)	Payment.	Amount.(Rs)
Cash in hand and at the bank on 1st April 2018.	1,20,000	Payment to trade creditors.	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid.	9,31,050
Received from trade debtors.	27,75,000	Drawings.	3,60,000
	=1,39,65,000	Cash in hand and at the bank on 31st March 2019.	1,90,950
			=1,39,65,000

**Additional information:**

- a) Discount allowed to trade debtors and received from trade creditors amounted to rupees 54,000 and rupees 42,500, respectively (For the years ended 31st March 2019.)
- b) Annual fire insurance premium of Rupees 9000 was paid every year on 1st August for the renewal of the policy.
- c) Furniture and fixtures were subject to depreciation @15% P.a on diminishing balance method.
- d) The following are the balances as on 31st March 2019.  
Stock: Rs.9,75,000  
Trade Debtors: Rs.3,43,000  
Outstanding expenses. Rs.55,200
- e) Gross profit ratio of 10 % on sales is maintained throughout the year.

From the above particulars, find out:

- i) Amount of credit sales.
- ii) Amount of credit purchase.
- iii) Amount of closing balance of creditors as on 31-3-19
- iv) Amount of gross profit for the year ended 31-3-19
- v) Amount of Sundry expenses to be charged to the profit and loss account for the year ended 31-3-19.
- vi) Amount of net profit for the year ended 31-3-19.
- vii) Amount of closing capital as on 31-03-19.

**Answer:**

i) Credit Sale	-	Rs. 28,60,000
ii) Credit Purchase	-	Rs. 1,25,97,000
iii) Closing balance of Creditors	-	Rs. 8,29,000
iv) Gross Profit	-	Rs. 13,93,000
v) Sundry Expenses	-	Rs. 9,18,750
vi) Net Profit	-	Rs. 4,40,250
vii) Closing Capital (31-3-19)	-	Rs. 755,250