

## INTERMEDIATE EXAMINATION

December 2022

P-5(FAC)  
Syllabus 2016

## Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Both the sections are to be answered subject to instructions given against each.*

*[All workings must form part of your answer.]*

*Wherever necessary, Suitable assumptions may be made and clearly indicated in answer by the candidate.*

## Section-A

1. Answer the following questions:

(a) Choose the most appropriate one from the given following alternatives:  $1 \times 10 = 10$

(i) Select the correct statement:

- (A) Keeping systematic recording of business transaction is not the function of Financial Accounting.
- (B) Accounting is concerned with monetary transactions.
- (C) Accounting is concerned with past as well as future events.
- (D) Business and Businessmen are the same identity from accounting point of view.

(ii) Going concern concept is not followed

- (A) by Bank
- (B) by Cooperative Societies
- (C) Joint Venture Accounting
- (D) Depreciation Accounting

(iii) Rectification of which type of errors requires opening of Suspense Account

- (A) Errors of Principle
- (B) Complete Omission
- (C) Partial Omission
- (D) Errors of Commission

(iv) A buyer returning goods on the ground of poor quality sent a note along with the goods stating that no payment would be made in respect of goods returned, the return note is called

- (A) Debit note
- (B) Credit note
- (C) Refund note
- (D) Return note

- (v) Which of these expenses is/are not included in valuation of abnormal loss?
- (A) Godown Rent
  - (B) Freight and Insurance incurred by Consignor
  - (C) Transit Insurance incurred by Consignee
  - (D) Loading and Unloading expenses incurred by Consignor
- (vi) Goods sold by other co-venturer is debited to
- (A) Joint Venture Account
  - (B) Other Co-venturer's Personal Account
  - (C) Joint Bank Account
  - (D) None of the above
- (vii) Sale is recognised as revenue
- (A) when the contract for sale is entered into.
  - (B) at the point of sale or performance of service.
  - (C) after the expiry of credit period allowed to Debtors.
  - (D) after the money collected from the customers.

A and B are partners sharing profits and losses in the ratio of 3 : 2. They admitted C with effect from 1st April, 2021. New profit sharing ratio is agreed at 4 : 3 : 3. An extract of their Balance Sheet as at 31st March, 2021 is as follows:

| Liabilities                  | ₹      | Assets | ₹ |
|------------------------------|--------|--------|---|
| Workmen Compensation Reserve | 90,000 |        |   |

Based on the above information you are required to answer the following questions:

- (viii) If there is no other information in respect of Workmen Compensation Reserve:
- (A) Cr. A's Capital A/c with ₹ 60,000 and B's Capital A/c with ₹ 30,000.
  - (B) Cr. A's Capital A/c with ₹ 54,000 and B's Capital A/c with ₹ 36,000.
  - (C) Dr. A's Capital A/c with ₹ 54,000 and B's Capital A/c with ₹ 36,000.
  - (D) Cr. A's Capital A/c with ₹ 36,000 and B's Capital A/c with ₹ 27,000 and C's Capital A/c with ₹ 27,000.
- (ix) If a claim for Workmen Compensation is estimated at ₹ 60,000 :
- (A) Cr. A's Capital A/c with ₹ 20,000 and B's Capital A/c with ₹ 10,000.
  - (B) Dr. A's Capital A/c with ₹ 18,000 and B's Capital A/c with ₹ 12,000.
  - (C) Cr. A's Capital A/c with ₹ 18,000 and B's Capital A/c with ₹ 12,000.
  - (D) Cr. A's Capital A/c with ₹ 12,000 and B's Capital A/c with ₹ 9,000 and C's Capital A/c with ₹ 9,000.

- (x) If a claim for Workmen Compensation is estimated at ₹ 1,50,000 :
- (A) Dr. C's Capital with ₹ 60,000
- (B) Dr. C's Capital A/c with ₹ 18,000
- (C) Dr. Workmen Compensation Reserve A/c with ₹ 90,000 and Revaluation A/c with ₹ 60,000
- (D) Dr. Revaluation A/c with ₹ 60,000

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

| Column A |                              | Column B |  |
|----------|------------------------------|----------|--|
| (i)      | Application Softwares        | (A)      | is not an Operating Software.              |
| (ii)     | MS Word                      | (B)      | cannot operate without Operating Software. |
| (iii)    | Printer                      | (C)      | is not an input device.                    |
| (iv)     | Monitor                      | (D)      | transaction to be entered once.            |
| (v)      | Accounting Software requires | (E)      | is an output device.                       |

- (c) Fill in the blanks: 1×5=5

- (i) Sale of goods to Rana for cash is debited to \_\_\_\_\_.
- (ii) A Bill of ₹ 10,000 is renewed. The drawee pays ₹ 3,000 as part payment. The amount of interest charged is ₹ 200. The value of new bill is ₹ \_\_\_\_\_.
- (iii) Net sales for the year ended 31st March, 2022 is ₹ 9,00,000. If Gross Profit is 25% on cost, Cost of Goods sold will be ₹ \_\_\_\_\_.
- (iv) Opening Capital is ₹ 1,50,000, Closing Capital ₹ 2,75,000. Drawing ₹ 25,000, Further Capital introduced ₹ 45,000. Gross Profit is ₹ \_\_\_\_\_.
- (v) Accounting information system processes the data and transforms it into \_\_\_\_\_.

- (d) State whether the following statements are True or False: 1×5=5

- (i) Debit means an increase in Liability.
- (ii) Cash Memo is a source voucher for purchaser of goods on Credit.
- (iii) Balance of Petty Cash is an expense.
- (iv) Provision for doubtful debts is debited to the Bad Debts Account.
- (v) Capital Receipts and Revenue Receipts need not to be distinguished to determine net profit.

**Section-B**

Answer any five questions from the remaining seven questions.

Each question carries 15 marks.

15×5=75

2. From the following particulars relating to Pune Branch for the year ending December 31, 2018, prepare Branch Account in the books of Head Office: 15

|   |       | ₹        |
|---|-------|----------|
| Stock at Branch on January 1, 2018                          |       | 10,000   |
| Branch Debtors on January 1, 2018                           |       | 4,000    |
| Branch Debtors on December 31, 2018                         |       | 4,900    |
| Petty cash at branch on January 1, 2018                     |       | 500      |
| Furniture at branch on January 1, 2018                      |       | 2,000    |
| Prepaid fire insurance premium on January 1, 2018           |       | 150      |
| Salaries outstanding at branch on January 1, 2018           |       | 100      |
| Goods sent to Branch during the year                        |       | 80,000   |
| Cash Sales during the year                                  |       | 1,30,000 |
| Credit Sales during the year                                |       | 40,000   |
| Cash received from debtors                                  |       | 35,000   |
| Cash paid by the Branch debtors directly to the Head Office |       | 2,000    |
| Discount allowed to debtors                                 |       | 100      |
| Cash sent to Branch for Expenses:                           |       |          |
| Rent  | 2,000 |          |
| Salaries  | 2,400 |          |
| Petty Cash  | 1,000 |          |
| Annual Insurance up to March 31, 2019                       | 600   | 6,000    |
| Goods returned by the Branch                                |       | 1,000    |
| Goods returned by the debtors                               |       | 2,000    |
| Stock on December 31, 2018                                  |       | 5,000    |
| Petty Cash spent by Branch                                  |       | 850      |
| Provide depreciation on furniture 10% p.a.                  |       |          |

Goods costing ₹ 1,200 were destroyed due to fire and a sum of ₹ 1,000 was received from the Insurance Company.

3. Following is the incomplete information of Jyotishikha Traders:

The following balances are available as on 31.03.2018 and 31.03.2019.

| Balances                                | 31.03.2018 | 31.03.2019 |
|---|------------|------------|
| Land and Building                       | 5,00,000   | 5,00,000   |
| Plant and Machinery                     | 2,20,000   | 3,30,000   |
| Office equipment                        | 1,05,000   | 85,000     |
| Debtors (before charging for Bad debts) | ?          | 2,25,000   |
| Creditors for purchases                 | 95,000     | ?          |
| Creditors for office expenses           | 20,000     | 15,000     |
| Stock                                   | ?          | 65,000     |
| Long term loan from SBI @ 12%           | 1,60,000   | 1,00,000   |
| Bank                                    | 25,000     | ?          |

| Other Information                                       | In ₹     |
|---|----------|
| Collection from debtors                                 | 9,25,000 |
| Payment to creditors for purchases                      | 5,25,000 |
| Payment of office expenses (excluding interest on loan) | 42,000   |
| Salary paid   | 32,000   |
| Selling expenses  | 15,000   |
| Cash sales  | 2,50,000 |
| Credit sales (80% of total sales)                       |          |
| Credit purchases  | 5,40,000 |
| Cash purchases (40% of total purchases)                 |          |
| GP Margin at cost plus 25%                              |          |
| Discount Allowed  | 5,500    |
| Discount Received                                       | 4,500    |
| Bad debts (2% of closing debtors)                       |          |
| Depreciation to be provided as follows:                 |          |
| Land and Building                                       | 5%       |
| Plant and Machinery                                     | 10%      |
| Office Equipment  | 15%      |

Other adjustments:

- (i) On 01.10.18 they sold machine having Book Value ₹ 40,000 (as on 31.03.2018) at a loss of ₹ 15,000. New machine was purchased on 01.01.2019.

- (ii) Office equipment was sold at its Book Value on 01.04.2018.  
(iii) Loan was partly repaid on 31.03.19 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31.03.2019. 15

4. P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2019 when their Balance Sheet was as under:

| Liabilities     | Amount (₹)      | Assets      | Amount (₹)      |
|-----------------|-----------------|-------------|-----------------|
| Capitals:       |                 | Building    | 1,90,000        |
| P               | 1,50,000        | Stock       | 1,30,000        |
| Q               | 1,50,000        | Investments | 50,000          |
| R               | —               | Debtors     | 70,000          |
| S               | 60,000          | Cash        | 30,000          |
| General reserve | 40,000          | R           | 40,000          |
| Trade creditors | 80,000          |             |                 |
| Bills payable   | 30,000          |             |                 |
|                 | <u>5,10,000</u> |             | <u>5,10,000</u> |

Following information is given to you:

- (i) A cheque for ₹7,000 received from debtor was not recorded in the books and was misappropriated by R.  
(ii) Investments costing ₹8,000 were sold by R at ₹11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.  
(iii) A creditor agreed to take over investments of the book value of ₹9,000 at ₹13,000. The rest of the creditors were paid off at a discount of 5%.  
(iv) The other assets realized as follows:  
    Building      110% of book value  
    Stock         ₹1,20,000  
    Investments   The rest of investments were sold at a profit of ₹7,000  
    Debtors        The rest of the debtors were realized at a discount of 10%  
(v) The bills payable were settled at a discount of ₹500.  
(vi) The expenses of dissolution amounted to ₹8,000.  
(vii) It was found out that realization from R's private assets would only be ₹7,000.

Prepare Realization Account, Cash Account and Partner's Capital Accounts. All workings should part of your answer. 15

5. (a) State your views with reasons whether the following statements are in line with the provisions of AS-1.
- Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
  - If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
  - All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
  - Any change in an 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.
  - There is no single list of accounting policies which are applicable to all circumstances.
- (b) (i) Entity A carried plant and machinery in its books at ₹2,00,000 which were destroyed in a fire. These machines were insured 'New for Old' and were replaced by the insurance company with new machines of fair value ₹20,00,000. The old destroyed machines were acquired by the insurance company and the company did not receive any cash compensation. State, how Entity A should account for the same.
- (ii) Omega Ltd, a supermarket chain, is renovating one of its major stores. The store will have more available space for store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers.

Decide whether Omega Ltd. can capitalize the remodelling cost or not as per provisions of AS-10 'Property Plant & Equipment'. 10+(2+3)=15

6. The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2021:

**Income and Expenditure Account for the year ended 31st March, 2021**

|                                      | ₹      |                 | ₹      |
|--------------------------------------|--------|-----------------|--------|
| 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:

|                                   | 31-3-2020 | 31-3-2021 |
|-----------------------------------|-----------|-----------|
|                                   | ₹         | ₹         |
| Subscriptions 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       |
| Sport 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, 2020, there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2021, 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, 2021. 15

7. (a) A acquired on 1st January, 2021 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹6,000 each, the first instalment being due on 1st July, 2021. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

(b) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹4,00,000. As on 31st March, 2021 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'. Show the treatment of machine in the books of ABC Ltd.

10+5=15

8. Write short notes on *any three*:

5×3=15

- (a) Advantages of Double Entry System.
- (b) The main objective of Depreciation Policy.
- (c) Distinguish between Hire-Purchase and Instalment Purchase.
- (d) Features of a Bill of Exchange.

# SUGGESTED ANSWERS TO QUESTIONS

## Section – A

### Answer to Question No. 1(a)

1X10=10

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

### Answer to Question No. 1(b)

1X5=5

- (i) – (B)
- (ii) – (A)
- (iii) – (E)
- (iv) – (C)
- (v) – (D)

### Answer to Question No. 1(c)

1X5=5

- (i) Cash
- (ii) Rs. 7,200
- (iii) Rs. 7,20,000
- (iv) Rs. 1,05,000
- (v) Information

### Answer to Question No. 1(d)

1X5=5

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

## Section-B

[Answer any FIVE from Question No. 2 to 8]

(15X5=75 Marks)

**Answer to Question No. 2**

**15 Marks**

Pune Branch Account Total - Rs. 1,81,600

**Answer to Question No. 3**

**15 Marks**

Trading Account Total- Rs. 13,15,000 (Gross Profit Rs. 2,50,000)

Profit and Loss Account Total of Rs. 2,54,500 (Net Profit after tax Rs. 64,800)

Balance sheet Total- Rs. 11,80,800

**Answer to Question No. 4**

**15 Marks**

Realization Account Total- Rs. 5,53,700

Cash Account Total- Rs. 4,62,700

Partner's Capital Accounts Total-

P- Rs. 1,67,516

Q- Rs. 1,67,516

R- Rs. 58,000

S- Rs. 65,840

**Answer to Question No. 5(a)**

**10 Marks**

- (i) False; As per AS 1 '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 AS 1, 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 the financial statements 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 AS 1, 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.

**Answer to Question No. 5(b)****2+3=5 Marks**

- (i) Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 on Property, Plant and Equipment. Entity A should separately recognize a receivable and a gain in the income statement resulting from the insurance proceeds once receipt is virtually certain. The receivable should be measured at the fair value of assets provided by the insurer.
- (ii) The expenditure in remodeling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodeling can be measured reliably, therefore, it should be capitalized in line with AS 10.

**Answer to Question No. 6****15 Marks**

Receipts and Payments Account Total - Rs. 80,550

**Answer to Question No. 7(a)****10 Marks**

Cash Value of the Machine- Rs. 25,977

**Answer to Question No. 7(b)****5 Marks**

ABC Ltd. should charge the amount of Rs. 4,00,000 to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31<sup>st</sup> March, 2021.

*Write short notes on any three*

*(5X3=15 marks)*

**Answer to Question No. 8(a)****5 Marks**

- It helps the trade know about his debtors and creditors from to time
- It helps the trader to prepare the final accounts to reflect the true trading results at the end of period
- It provides a Balance Sheet on a particular date to know the true value of assets, liabilities and capital
- It helps the trader who can have a comparative study of working results and financial position over a number of years
- It helps to find out and prevent errors and frauds
- It provides ready-made information to be sent to Sales tax and Income Tax Authorities
- It provides good guidance on which management take new decisions to increase the profit and correct losses into profit

**Answer to Question No. 8(b)****5 Marks**

The main objectives of depreciation policy are given below.

- Description is the allocation of the cost of the asset over its effective life and being 'tax shield' is deductible expense while calculating taxable income of the concern. Diminishing balance method of calculating depreciation results in greater tax saving in a balanced firm is compared to straight line method.

- To keep intact the capital invested in depreciable assets and to make provision for the replacement, modernization and expansion on most favourable terms. It is process of allocation and helps the management to retain this amount of profit in business for replacing asset. Otherwise this profit would have gone to the Government in the form of tax.
- To match the cost with revenue, depreciation is necessary to measure the cost incurred during a given period. Thus, know correct net income and financial condition for external reporting.
- Depreciation helps to measure managerial performance. But, charging it on historical cost or replacement cost basis is again a controversial issue and will affect the managerial decisions to be taken by the top management. Differences in costs because of charge of depreciation under different methods, tend to mislead management in selecting their operational alternative for more profitable for the firm as a whole.
- Withdraw of asset before the end of its useful life is not up to standard to cope with the increasing competition in the market but due to the external factor of technological improvements in the existing asset is refereed to obsolescence. In such atmosphere the asset is depreciated quickly otherwise profit and loss account will be over burdened with the amount of loss on account of obsolescence in the year in which the asset obsoletes.
- Serving consistently to follow a particular method of depreciation otherwise would make the financial statements unreliable to the stakeholders. It means convention of consistency.
- Depreciation makes to retain funds for replacement asset at the end of its working life
- Apportioning total cost of the asset over its useful life is achieved by charging depreciation; and investing such amount of depreciation the public may not misled and correct investment decision may be made.

**Answer to Question No. 8(c)**

**5 Marks**

Distinguish between Hire Purchase and Instalment Purchase

| Factor                          | Hire Purchase System   | Installment Purchase System  |
|---------------------------------|--|--|
| Transfer of Ownership           | Ownership in the goods sold passes to the buyer only on payment of the last installment  | Ownership in the goods passes to the buyer immediately at the time of sale   |
| Recovery of Goods               | If the buyer fails to pay any installment, the seller can recover the goods back from buyer  | The seller cannot recover the goods but he can sue for recovery of price and damages   |
| Forfeiture of installments paid | If the buyer default in payment, the seller can forfeit money paid by the buyer so far   | Money paid by the buyer will be taken as a payment towards part of selling price and the seller can sue only for the balance   |
| Accounting Entries              | In the books of purchaser, vendor is debited with full purchase price once contract signed. Amount due, if any, is shown separately as a liability of the purchaser and not a deduction from the asset | In the books of vendor, the purchaser is credited with full price. Purchased goods become property of the buyer and shown in his Balance Sheet at cost less depreciation |

**Answer to Question No. 8(d)**

**5 Marks**

As per Section 5 of the Negotiable Instruments Act, a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person, to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument. The essential of bill of exchange are as:

- There are three parties the “Maker’ is termed as the ‘Drawer’ in Bill of Exchange. He is the creditor. The person liable to pay the money is called the ‘Drawee’. The person entitled to get the money is termed as the ‘Payee’. It should be noted that drawer himself can also be the payee. It must be drawn on a specific person
  - The bill drawer being the creditor, orders the drawee to pay a certain of sum money.
  - A Time Bill of Exchange can be made payable to the bearer.
  - It is an instrument in writing and unconditional
  - It must be in writing, dated, stamped and signed by Drawer
  - It must be payable in demand or after a definite period of time, and for a certain amount of money
-