INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

JUNE - 2017

Paper - 5 : 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.

Section - A

1. Answer the following questions: 1×10=10

(a) Choose the most appropriate one from given four alternatives:

(i) Creditors ledger adjustment account is opened in
(A) General Ledger
(B) Debtors Ledger
(C) Creditors Ledger
(D) Either (B) or (C)

(ii) Receipts and Payments account is a
(A) Nominal Account
(B) Real Account
(C) Personal Account
(D) Artificial Personal Account

(iii) A resource owned by the business with purpose of using it for generating future profit, is known as
(A) Capital
(B) Asset
(C) Liability
(D) Surplus

(iv) Outward Invoice issued is a source document of
(A) Purchase Book
(B) Sales Book
(C) Return Inward Book
(D) Return Outward Book

(v) Which of the following is of capital nature?
(A) Commission on purchases
(B) Cost of repairs
(C) Rent of factory
(D) Wages paid for installation of machinery

(vi) If any stock is taken by a co-venturer, it will be treated as
(A) an income of the joint venture.
(B) an expense of the joint venture.
(C) to be ignored from joint venture.
(D) it will be treated in the personal books of the co-venturer.

(vii) Contingent liability would appear
- (A) on the liability side of the Balance Sheet.
- (B) on the assets side of the Balance Sheet.
- (C) do not shown in the books of accounts.
- (D) as a note in Balance Sheet.

(viii)Income statement of a Charitable Institution is known as
- (A) Statement of profit and loss
- (B) Receipts and Payments Account
- (C) Income and Expenditure Account
- (D) Profit and Loss Account

(ix) Which of the following account is mainly prepared at the time of dissolution of the firm
- (A) Revaluation A/c
- (B) Goodwill A/c
- (C) Realization A/c
- (D) Memorandum Revaluation A/c

(x) Advertisement expenses are apportioned among departments in the proportion of
- (A) sales of each department
- (B) purchases of each department
- (C) no. of units sold by each department
- (D) cost of sales of each department

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

Column-I		Column-II	
(i)	Garner Vs. Murray case	(A)	AS-10
(ii)	Repossession of goods	(B)	Computerized Accounting System
(iii)	Provision for unrealized profit	(C)	Insolvency of a partner
(iv)	Property, Plant and Equipment	(D)	Royalty Accounts
(v)	Automatic Financial Statements	(E)	Hire Vendor
		(F)	Inter-departmental transfer at invoice price
		(G)	Retirement of a Partner

(c) State whether the following statements given below are true or false: 1×5=5

- (i) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.
- (ii) Royalty account is a real account in nature.
- (iii) As per AS-7 expenses recognized in the period in which the work to which expenses relate is performed.
- (iv) Expenses incurred by branch out of petty cash balance are debited to branch account by the head office.
- (v) In absence of partnership deed the profit or loss should be distributed among partners in their capital ratio.

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

- (i) The___________ discount is never entered in the books of accounts.
- (ii) A bill of exchange drown on 12th April, 2017 for four months, the date of maturity will be ___________.
- (iii) The parties of joint venture is called _________.
- (iv) Outstanding subscription is shown in the___________side of Balance Sheet.

(v) According to AS-2 inventories should be valued at lower of cost and ______ value.

Answer:

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

(b) (i) — (C)
(ii) — (E)
(iii) — (F)
(iv) — (A)
(v) — (B)

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

(d) (i) Trade
(ii) 14th August, 2017
(iii) Co-venturers
(iv) Assets
(v) Net realizable

Section - B

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

2. **(a) Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April.**
Sunil accepts it and returns it to Anil. On 15th April, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges ₹ 100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July. Before the new bill become due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil. 9

(b) The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of Final Accounts. 6
(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.

Answer:

2. (a)

Journal entries in the books of Anil

Date	Particulars	L.F.	Dr.(₹)	Cr. (₹)
April, 1	Bills Receivables A/c Dr. To, Sunil's A/c (Being acceptance by Sunil)		80,000	80,000
April, 15	Bank A/c Dr. Discount A/c Dr. To, Bills Receivables A/c (Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)		78,000 2,000	80,000
June, 30	Sunil's A/c Dr. To, Bank A/c (Being dishonour of the bill & noting charges paid by bank)		80,100	80,100
June, 30	Bank A/c Dr. To, Cash A/c (Being cash paid to bank)		80,100	80,100
July, 1	Sunil's A/c Dr. To, Interest A/c (Being interest due from Sunil)		3,000	3,000
July, 1	Bills Receivables A/c Dr. To, Sunil's A/c (Being new acceptance by Sunil for ₹ 80,100 & interest of ₹ 3,000)		83,100	83,100
July, 1	Bank A/c Dr. Rebate A/c Dr. To, Bills Receivables A/c (Being the amount received on retirement of the bill)		82,600 500	83,100

(b) Effects of the errors in Profit and Loss A/c and Balance Sheet

	Profit & Loss A/c.		Balance Sheet
a	Profit was overstated by ₹ 2,000	a	Capital was also overstated by ₹ 2,000 & outstanding liability was understated by 2,000.
b	Gross profit was under stated by ₹ 1,000 & also the Net Profit.	b	Capital was understated by ₹ 1,000.
c	Net Profit was overstated by ₹ 4,000.	c	Machinery was overstated by ₹ 4,000 & so the Capital A/c was also overstated by ₹ 4,000.
d	No effect on Net Profit.	d	No effect in Balance Sheet.
e	Gross Profit and Net Profit were overstated by ₹ 1,000.	e	Capital was overstated by ₹ 1,000.
f	Gross Profit & Net Profit were overstated by ₹ 5,000.	f	Capital & Sundry Debtors were overstated by ₹ 5,000.

3. (a) Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for current year. Comment. 3

(b) Alex. Ltd. intends to set up a solar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site.

Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired. 6

(c) State briefly the factors which should be considered while selecting pre-packaged accounting software. 6

Answer:

3. (a) As illustrated in AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription. Accordingly, in the given case the accounting treatment adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

(b)

Computation of value of land acquired

Particulars		**₹ in lakhs**
Purchase price @ ₹ 70,000 per acre for 7,500 acres		5,250.00
Stamp duty & registration charges @ 5%		262.50
Legal fees		5.00
Title guarantee insurance		2.00
Demolition expenses	50.00	
Less: Sale of salvaged materials (net of tax) (43,57,500×100/105)	41.50	8.5
Value of land		**5,528**

(c) The following factors should be considered while selecting pre-packaged accounting software:

1. Fulfillment of Business Requirements	The purchaser should ensure whether the available software meets all the business requirements.
2. Completeness of Reports:	The purchaser should ensure whether the available software can provide all the reports required by business.
3. Ease of Use	The purchaser should ensure whether the available software is easy to operate.
4. Cost	The software should not involve very high installation and running cost.
5. Reputation of the vendor	It should be ensured whether the vendor has good reputation and good track records or not.
4. Regular updates	It should be ensured whether the vendor is prepared to give updates.

4. The statement of Affairs of Mr. M on Saturday, the 31st December 2015 was as follows:

	₹		**₹**
Capital	**50,000**	**Fixed Assets**	**30,000**
Sundry Creditors	**10,000**	**Stock**	**10,000**
Liability for Expenses	**1,000**	**Debtors**	**15,000**
		Bank	**5,000**
		Cash	**1,000**
	61,000		**61,000**

Mr. M did not maintain his books on the Double Entry System. But he carefully follows the following system:

(a) Every week he draws ₹ 200.

(b) After meeting his weekly sundry expenses (₹ 100 on average) and his drawings, the

balance of weekly collection is banked at the commencement of the next week.

(c) No cash purchase is made and creditors are paid by cheques.
(d) Sales are at fixed price which include 20% profit on sales.
(e) Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.
(f) Expenses other than sundries and other special drawings are made in cheques.
(g) All unpaid bills are kept in a file carefully.

The following are his bank transactions for 13 weeks:

	₹		₹
Balance on Jan. 1 Cheques deposited Cash deposited	5,000 2,000 42,000	Creditors paid Rent paid Expenses (other than Sundry Expenses) Balance on April 1	40,000 600 3,000 5,400
	49,000		49,000

After 13 weeks on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:

(a) Stock on that day was valued at ₹ 4,000;
(b) Sundry Debtors amounted to ₹ 20,000 as per diary;
(c) Sundry Creditors were ₹ 8,000 as per unpaid bills file. Find out the amount of cash missing. **15**

Answer:

4. (a)

Sundry Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/f To Credit Sales (balancing figure)	15,000 7,000	By Bank " Balance c/f	2,000 20,000
	22,000		22,000

Sundry Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank To Balance c/f	40,000 8,000	By Balance b/f By Credit Purchases [balancing figure]	10,000 38,000
	48,000		48,000

Cash Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/f	1,000	By Drawings: (13 × ₹ 200)	2,600
" Cash Sales	48,000	Sundry Expenses: (13 × ₹ 100)	1,300
		" Bank	42.000
		Balance being cash missing	3,100
	49,000		49,000

Note: Calculation of Cash Sales

Particulars	₹
Opening Stock	10,000
Add: Purchases	38,000
	48,000
Less: Closing Stock Cost of goods sold	4,000
	44,000
Add : Gross Profit @ 20% on Sales i.e., 25% on cost	11,000
Total Sales	55,000

Less: Credit Sales	7,000
Cash Sales	48,000

5. (a) Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st year, 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year. 8

(b) Ram trader's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2015	**3,55,250**
Cost of stock on 31st March, 2016	**3,95,050**
Purchases during the year ended 31st March, 2016	**28,39,800**
Purchases from 1st April, 2016 to the date of fire	**16,55,350**
Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire	**20,500**
Cost of goods withdrawn by trader for personal use form 1st April, 2016 to the date of fire	**1,000**
Sales for the year ended 31st March, 2016	**40,00,000**
Sales from 1st April, 2016 to the date of fire	**22,68,000**

The insurance company also admitted fire fighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.
Calculate the amount of the claim that will be admitted by the insurance company. 7

Answer:

5. (a) Calculation of Interest for each year:

Interest for 1st year	₹ 3,00,000 x 150/360 =	₹ 1,25,000
Interest for 2nd year	₹ 3,00,000 x 108/360 =	₹ 90,000
Interest for 3rd year	₹ 3,00,000 x 69/360 =	₹ 57,500
Interest for 4th year	₹ 3,00,000 x 33/360 =	₹ 27,500
		₹ 3,00,000

Working Notes:
1. Hire Purchase Price = Down Payment + Installments
   = ₹ 3,00,000+(₹ 4,20,000 + ₹ 3,9,0,000 + ₹ 3,60,000 + ₹ 3,30,000) = 18,00,000
2. Total Interest = H.P. Price - Cash Price
   = 18,00,000 - ₹ 15,00,000 = ₹ 3,00,000
3. Calculation of ratio of hire purchase price outstanding in the beginning of each year

A Year	**B** Outstanding Hire Purchase Price in the beginning of each year	**C** Installment Paid	**D = B-C** Outstanding Hire Purchase Price at the end of each year
1	15,00,000	4,20,000	10,80,000
II	10,80,000	3,90,000	6,90,000
III	6,90,000	3,60,000	3,30,000
IV	3,30,000	3,30,000	Nil

Ratio of Outstanding Hire Purchase Price at the beginning of year = 150:108:69:33

(b)

Memorandum Trading Account for the period 1st April, 2016 to 29th August 2016

Particulars	₹	₹	Particulars	₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales][WN]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

Particulars	₹
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	2,350
Insurance Claim	3,89,650

Note: Since policy amount is more than claim amount, average clause will not apply Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2016

	₹		₹
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2015-16 = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$ = 12,00,000/40,00,000 × 100 = 30%.

6. P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31.3.2017 on which date Balance Sheet of the firm is as follows.

		₹		₹
Capital accounts:	**P**	**1,20,000**	**Cash**	**36,000**
	Q	**85,000**	**Debtors**	**74,000**
	R	**75,000**	**Stock**	**60,000**
Creditors		**85,000**	**Plant and Machinery**	**1,20,000**
			Land and Building	**75,000**
		3,65,000		**3,65,000**

Value of goodwill was agreed as ₹93,000. Land and building increased in value, it being agreed at ₹1,05,600, plant and machinery was revalued at ₹1,00,500 and it was agreed to provide 6% in respect of debtors. Prepare revaluation account, capital accounts and balance sheet. 5+5+5=15

Answer:

6.

Revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Depreciation on plant & machinery	19,500	By Land & building	30,600
To Provision for bad and doubtful debts	4,440		
To Profit-P	2,220		

Profit-Q	2,220		
Profit-R	2,220		
	30,600		30,600

Capital Accounts

Dr. **Cr.**

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To R's loan			1,08,220	By Balance b/d	1,20,000	85,000	75,000
Balance c/d	1,53,220	1,18,220		By Revaluation a/c	2,220	2,220	2,220
				By Goodwill	31,000	31,000	31,000
	1,53,220	1,18,220	1,08,220		1,53,220	1,18,220	1,08,220

Balance Sheet

Liabilities	₹	Assets	₹
Creditors	85,000	Cash	36,000
R's Loan	1,08,220	Debtors [74,000 -4,440]	69,560
Capital : P	1,53,220	Stock	60,000
Q	1,18,220	Plant and machinery	1,00,500
		Land and building	1,05,600
		Goodwill	93,000
	4,64,660		4,64,660

7. **(a) Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2017 assuming that H.O. supplied goods at cost plus 25%.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Stock on 1.4.2016 (LP.)	**12,500**	**Bad Debts**	**2,000**
Debtors „	**5,000**	**Allowances to customers**	**1,000**
Petty Cash „	**1,000**	**Returns Inwards**	**1,000**
Goods sent to branch (LP.)	**40,000**	**Cheques sent to Branch for expenses:**	
Goods return to H.O. (LP.)	**5,000**	**Rates & Taxes**	**3,000**
Cash Sales	**12,000**	**Salaries**	**8,000**
Cash received from debtors	**30,000**	**Misc. Exps.**	**1,000**
		Stock on 31.03.2017 (LP.)	**15,000**
		Debtors „	**4,000**
		Petty Cash „	**1,000**

9

(b) The following information is available in the books of N.R. & Sons, for the year ending 31st March 2017:

(i) Total Sales amounted to ₹ 24,43,000 including the sale of old machinery for ₹ 25,000 (book value is ₹ 43,000). The total cash sales were 70% less than total credit sales.

(ii) Cash collection from Debtors amounted to 70% of the aggregated of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹ 15,700.

(iii) Bills receivable drawn during the period totaled ₹ 84,000 of which bills amounting to ₹ 45,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ₹ 17,600 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.

(iv) Cheques received from customers ₹ 50,000 were dishonoured; a sum of ₹ 4,500 is irrecoverable.

(v) Bad Debts written-off in the earlier year realized ₹ 2,500.

(vi) Interest charged to customers ₹ 9,800.
(vii)Sundry debtors on 1st April, 2016 stood at ₹ 2,45,000.

You are required to show the General Ledger Adjustment Account in the Debtors Ledger. **6**

Answer:

7. (a)

In the books of H.O.
Branch Account

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
By Balance b/d			By Stock Reserve (Loading)		2,500
Stock	12,500		" Bank A/c:		
Debtors	5,000		" Cash Sales	12,000	
Petty Cash	1,000	18,500	" Cash Received from Debtors	30,000	42,000
Goods sent to branch A/c		40,000	" Goods sent to branch (Return to H.O.)		5,000
Bank A/c			" Goods sent to branch (Loading)		8,000
Rates & taxes	3,000		By Balance c/d		
Salaries	8,000		Stock	15,000	
Misc. Expenses	1,000	12,000	Debtors	4,000	
Goods sent to Branch (Loading on returns)		1,000	Petty Cash	1,000	20,000
Closing Stock Reserve (₹ 15,000 × $\frac{1}{5}$)		3,000			
General P & L A/c		3,000			
		77,500			77,500

Note: Here loading is $\frac{25}{125} = \frac{1}{5}$ of invoice price. Hence, loading on opening stock will be ₹ 12.500 × $\frac{1}{5}$ = ₹ 2,500 and so on.

(b)

In the Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.17	To Sales Ledger Adj. A/c in General Ledger		1.4.16	By Balance b/d	2,45,000
	Cash	14,73,500	31.317	By Sales Ledger Adj. A/c in General Ledger	
	Discount Allowed	15,700		Sales	18,60,000
	B/R	84,000		B/R Disohnoured	17,600
	Bad Debts (17,600+4,500)	22,100		Cheque Dishonoured	50,000
31.3.17	To Balance c/d	5,87,100		Interest Charged	9,800
		21,82,400			21,82,400

Workings:

1. **Calculation of Credit Sales**
   Cash Sales were 70% less than Credit Sales. So, if credit sales are ₹ 100 Cash Sales

will be ₹ 30;
Total Sales (Cash + Credit) will be ₹ 130. Total Sales (₹24,43,000 – ₹ 25,000) = ₹24,18,000
Amount of Credit sales will be = 24,18,000 × (100/130) = 18,60,000.

2. **Cash received**
Cash received is 70% of opening Debtors plus Credit sales i.e. ₹2,45,000 + ₹18,60,000 = ₹ 21,05,000, Cash Received ₹ 21,05,000 × (70/100) = ₹ 14,73,500.

8. Write short notes on *any three* of the following: 5×3=15
(a) The Accrual Concept
(b) Weaknesses of Single Entry System
(c) Advantages of Accounting Standard
(d) Treatment of Abnormal Loss in case of Consignment Account.

Answer:

8. (a) The Accrual Concept
The accrual concept is based on recognition of both cash and credit transactions. In case of a cash transaction, owner's equity is instantly affected as cash either is received or paid. In a credit transaction, however, a mere obligation towards or by the business is created. When credit transactions exist (which is generally the case), revenues are not the same as cash receipts and expenses are not same as cash paid during the period.
When goods are sold on credit as per normally accepted trade practices, the business gets the legal right to claim the money from the customer. Acquiring such right to claim the consideration for sale of goods or services is called accrual of revenue. The actual collection of money from customer could be at a later date.

Similarly, when the business procures goods or services with the agreement that the payment will be made at a future date, it does not mean that the expense effect should not be recognized. Because an obligation to pay for goods or services is created upon the procurement thereof, the expense effect also must be recognized.

Today's accounting systems based on accrual concept are called as Accrual System or Mercantile System of Accounting.

(b) Weakness of single entry system
(i) As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.
(ii) Profit or loss can be found out only by estimates as nominal accounts are not maintained.
(iii) It is not possible to make a balance sheet in absence of real accounts, d] It is very difficult to detect frauds or errors.
(iv) Valuation of assets and liabilities is not proper.
(v) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
(vi) It is quite likely that the business and personal transactions of the proprietor get mixed.

(c) Advantages of Accounting Standard
(i) If provides the accountancy profession with useful working rules.
(ii) It assists in improving quality of work performed by accountant.
(iii) It strengthens the accountant's resistance against the pressure from directors to use accounting policy which may be suspected in that situation in which they perform their work.
(iv) It ensures the various users of financial statements to get complete crystal information on more consistent basis from period to period.

(v) It helps the users compare the financial statements of two or more organisaitons engaged in same type of business operation.

(d) Abnormal Losses- Abnormal Losses arises as a result of negligence/accident etc., e.g., theft, fire etc. Before ascertaining the result of the consignment, value of abnormal loss should be adjusted. The method of calculation is similar to the method of calculating unsold stock. Sometimes insurance company admits the claim in part or in full. The same should also be adjusted against such abnormal loss.

While valuing the abnormal loss the proportionate expenses are taken only upto the stage of the loss. For example, if goods are lost in the transit on way to the consignee's place, the value of abnormal loss will include the basic cost of the goods plus proportionate expenses of the consignor only and not the proportionate expenses of consignee because consignee has spent nothing on account of these goods.

Treatment of Abnormal Loss

(i) For abnormal Loss -
Abnormal Loss A/c Dr
To Consignment A/c

(ii) For the insurance claim due / received by the consignor -
Insurance Co./Bank A/c Dr
To Abnormal Loss A/c

(iii) If goods are not insured -
Profit & Loss A/c Dr
To Abnormal Loss A/c

(iv) For transferring the net loss -
Profit & Loss A/c Dr
To Abnormal Loss A/c