

**INTERMEDIATE EXAMINATION  
GROUP - I  
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS  
JUNE - 2018**

**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:

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

- (i) Which of the following is not a Qualitative Characteristics of Financial Statement?
  - (A) Cost Principle
  - (B) Understandability
  - (C) Relevance
  - (D) Reliability
- (ii) Name the book in which, entries are recorded on the basis of credit notes issued.
  - (A) Sales Book
  - (B) Purchase Book
  - (C) Sales Return Book
  - (D) Purchase Return Book
- (iii) Exception to consistency principle is
  - (A) Cost Principle
  - (B) Going Concern Principle
  - (C) Matching Principle
  - (D) Prudence Principle
- (iv) Interest charged by vendor in Hire Purchase System, is calculated on the basis of
  - (A) Outstanding hire purchase price
  - (B) Outstanding cash price
  - (C) Instalment amount
  - (D) Cost price of the asset
- (v) The balance in consignment account shows
  - (A) Amount receivable from consignee
  - (B) Amount payable to consignee
  - (C) Profit/ loss on consignment
  - (D) Closing stock with consignee
- (vi) Provision for bad debts is
  - (A) Real Account
  - (B) Nominal account
  - (C) Personal account
  - (D) None of the above

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- (vii) The business is treated as distinct and separate from its owners on the basis of the  
 (A) Going concern concept  
 (B) Conservatism concept  
 (C) Matching concept  
 (D) Business entity concept
- (viii) Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is  
 (A) Prior - period item  
 (B) Extra - ordinary item  
 (C) Ordinary item requiring separate disclosure  
 (D) Contingent item
- (ix) Discount given in the Sales - Invoice itself is  
 (A) Cash discount  
 (B) Trade discount  
 (C) Rebate  
 (D) Allowance
- (x) Canteen expenses are apportioned among departments in the proportion of  
 (A) Departmental floor space  
 (B) Departmental direct wages  
 (C) Departmental sales  
 (D) Departmental No. of employees

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

	Column-I		Column-II
(i)	Receipt & Payment A/c	(a)	AS-10
(ii)	Revaluation model of Asset	(b)	Consignment
(iii)	Proforma Invoice	(c)	Not-for-Profit Organization
(iv)	Stage of Completion Method	(d)	Hire Purchase
(v)	Partial Repossession	(e)	AS-7
		(f)	AS-6

- (c) State whether the following statements given below are True or False: 1×5=5
- (i) Receipt & Payment Account only records the revenue nature of receipts and expenses.
- (ii) Sales Book records both cash and credit sales.
- (iii) Normal loss of goods sent on consignment is shown in Consignment Account.
- (iv) In case of trading concern, cost of goods sold and cost of sales are same.
- (v) In Proprietorship business, Income-tax payable is shown as a liability in Balance Sheet.
- (d) Fill in the blanks: 1x5=5
- (i) The Bank A/c is a \_\_\_\_\_ Account.
- (ii) Assets are classified as non-current asset and current assets as per \_\_\_\_\_ Principle.
- (iii) \_\_\_\_\_ Amount is the higher of asset's net selling price and its value in use.
- (iv) The \_\_\_\_\_ Loss is included in the valuation of inventories.
- (v) \_\_\_\_\_ is the amount by which minimum rent exceeds the actual royalty.

Answer:

1. (a) (i) (A)  
 (ii) (C)  
 (iii) (D)  
 (iv) (B)  
 (v) (C)  
 (vi) (C)

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- (vii) (D)  
 (viii) (C)  
 (ix) (B)  
 (x) (D)

(b)

	Column-I		Column-II
(i)	Receipt & Payment A/c	(c)	Not-for-Profit Organization
(ii)	Revaluation model of Asset	(a)	AS-10
(iii)	Proforma Invoice	(b)	Consignment
(iv)	Stage of Completion Method	(e)	AS-7
(v)	Partial Repossession	(d)	Hire Purchase

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

- (d) (i) Personal  
 (ii) Going - Concern  
 (iii) Recoverable/ Fair Value  
 (iv) Normal  
 (v) Short - workings

### Section - B

Answer any five from the following.  
 Each question carries 15 marks.

2. (a) The Trial Balance of S Ltd. as on 31/03/2018 showed the credit in excess by ₹ 415 which was been carried to Suspense Account. On a closed scrutiny of the books, the following errors were revealed:
- (i) A cheque of ₹ 3,456 received from AB Ltd. after allowing it a discount of ₹ 46 was endorsed to CD Ltd. in full settlement for ₹ 3,500. The cheque was finally dishonoured but no entries are passed in the books of account.
  - (ii) Goods of the value of ₹ 230 returned by PQ Ltd. were entered in Purchase Day book and posted there from to MN Ltd. as ₹ 320.
  - (iii) Bad debts aggregating ₹ 505 written off during the year in Sales Ledger but were not recorded in General Ledger.
  - (iv) Bill for ₹ 750 received from Z Ltd. for repairs to Machinery was entered in the Inward Invoice Book as ₹ 650.
  - (v) Goods worth ₹ 1,234 purchased from Y Ltd. on 28/03/2018 had not been entered in Day book and credited to Y Ltd. but Goods were not delivered till 5th April, 2018. The title of Goods was however passed on 28/03/2018 and was taken into stock on 31-03-2018.
  - (vi) ₹ 79 paid for Freight on Machinery was debited to Freight account as ₹ 97.

Pass the necessary Journal Entries to rectify the above mentioned errors.

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- (b) A company maintains its reserve for bad debts @ 5% and a reserve for discount on debtors @ 2%. You are given the following details:

Particulars	2016	2017
Bad debts	800	1,500
Discount allowed	1,200	500
Sundry debtors (before providing all bad debts and discounts)	60,000	42,000

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On 01/01/2016, Reserve for bad debts and Reserve of discount on debtors had balance of ₹ 4,550 and ₹ 800 respectively.  
Show Reserve for Bad Debts and Reserve for Discount on Debtors Account for the year 2016 and 2017.

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Answer:

2. (a)

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	AB Ltd. A/c <span style="float: right;">Dr.</span> Discount Received A/c <span style="float: right;">Dr.</span> To CD Ltd. A/c To Discount Given A/c (Being Cheque received from AB Ltd. was endorsed to CD Ltd. However, the cheque was later dishonoured)		3,502 44	3,500 46
	Sales Return A/c <span style="float: right;">Dr.</span> MN Ltd. A/c <span style="float: right;">Dr.</span> To Purchase A/c To PQ Ltd. A/c To Suspense A/c (Being goods returned by PQ Ltd. were wrongly recorded in purchase book and from thereon wrongly posted to MN Ltd.)		230 320	230 230 90
	Bad debts A/c <span style="float: right;">Dr.</span> To Suspense A/c (Being Bad debts written off in Sales Ledger but not yet recorded in General Ledger, now recorded)		505	505
	Repairs A/c <span style="float: right;">Dr.</span> To Purchase A/c To Z Ltd. (Being repair of machinery amounting to ₹750 wrongly entered in Inward book as ₹650)		750	650 100
	Goods - in - Transit A/c <span style="float: right;">Dr.</span> To Trading A/c (Being goods - in - transit were recorded in books)		1,234	1,234
	Machinery A/c <span style="float: right;">Dr.</span> Suspense A/c <span style="float: right;">Dr.</span> To Freight A/c (Being amount paid on Freight on Machinery amounting to ₹ 79 was wrongly debited to Freight A/c as ₹ 97)		79 18	97

(b)

### Reserve for Bad Debts Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.12.2016	To Bad Debts A/c	800	01.01.2016	By Balance b/d	4,550
31.12.2016	To Profit & Loss A/c	850			
31.12.2016	To Balance c/d (5% on ₹ 58,000)	2,900			
		4,550			4,550
31.12.2017	To Bad Debts A/c	1,500	01.01.2017	By Balance b/d	2,900
31.12.2017	To Balance c/d (5% on ₹ 40,000)	2,000	31.12.2017	By Profit & Loss A/c	600
		3,500			3,500

### Reserve for discount on Debtors Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.12.2016	To Discount A/c	1,200	01.01.2016	By Balance b/d	800

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31.12.2016	To Balance c/d (2% on ₹ 58,000 - ₹2,900)	1,102	31.12.2016	By Profit & Loss A/c	1,502
		2,302			2,302
31.12.2017	To Discount	500	01.01.2017	By Balance b/d	1,102
31.12.2017	To Balance c/d (2% on ₹ 40,000 - ₹2,000)	760	31.12.2017	By Profit & Loss A/c	158
		1,260			1,260

3. Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

	₹
Opening Cash Balance	56,000
Donation Received (including ₹ 50,000 for Building Fund.)	1,55,000
Payment to creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @ 9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical Camp Expenses	10,500
Miscellaneous Expenses	7,000

**Additional Information:**

Sl. No		01.04.2016 ₹	31.03.2017 ₹
1.	Subscription Due	10,500	15,400
2.	Subscription Received in Advance	8,400	4,900
3.	Stock of Medicine	70,000	1,05,000
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	3,15,000
6.	Creditor for Medicine Supply	63,000	91,000
7.	Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017. 15

Answer:

3.

**Receipts and Payments Account of Radix Clinic for the year ended 31.03.2017**

Dr.	₹	Cr.	₹
<b>Receipts</b>		<b>Payments</b>	
To Cash in Hand (Opening)	56,000	By Medical Supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on Investment	63,000	By Misc. expenses	7,000
To Medical Camp collections	87,500	By Purchase of equipment	1,05,000
		By Telephone expenses	6,000
		By Medical camp expenses	10,500
		By Cash in Hand (Closing)	1,13,000
	7,11,500		7,11,500

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### Income and Expenditure Account of Radix Clinic for the year ended 31.03.2017

Dr.			Cr.
Expenditure	₹	Income	₹
To Medicine consumed	2,03,000	By Subscription	3,58,400
To Honorarium to doctors	1,90,000	By Donation	1,05,000
To Salaries	70,000	By Interest on investments	63,000
To Telephone expenses	6,000	By Profit on Medical camp:	
To Misc. expenses	7,000	Collections	87,500
To Depreciation on:		Less: Expenses (10,500)	77,000
Medical equipment	37,800		
Building (3,50,000 – 3,15,000)	35,000		
To Surplus-excess of Income over expenditure	54,600		
	6,03,400		6,03,400

### Balance Sheet of Radix Clinic as on 31<sup>st</sup> March, 2017

Liability	₹	₹	Assets	₹	₹
Capital Fund:			Building	3,50,000	
Opening Balance	12,62,100		Less: Depreciation	(35,000)	3,15,000
Add: Surplus	54,600	13,16,700	Medical Equipment	1,47,000	
Building Fund		50,000	Add: Purchase	1,05,000	
Subscription received in advance		4,900		2,52,000	
Creditors for medicine supply		91,000	Less: Depreciation	(37,800)	2,14,200
			Stock of Medicine		1,05,000
			Investments		7,00,000
			Subscription receivable		15,400
			Cash in hand		1,13,000
		14,62,600			14,62,600

#### Working Notes:

	₹	₹
<b>1. Subscription for the year ended 31.03.2017</b>		
Subscription received during the year		3,50,000
Less: Subscription receivable on 01.04.2016	10,500	
Less: Subscription received in advance on 31.03.2017	4,900	(15,400)
		3,34,600
Add: Subscription receivable on 31.03.2017	15,400	
Add: Subscription received in advance on 01.04.2016	8,400	23,800
		3,58,400
<b>2. Purchase of medicine</b>		
Payment of medicine supply		2,10,000
Less: Amount due for medicine supply 01.04.2016		(63,000)
		1,47,000
Add: Amounts due for medicine supply on 31.03.2017		91,000
		2,38,000
<b>3. Medicine Consumed</b>		
Stock of medicine on 01.04.2016		70,000
Add: Purchase of medicine during the year		2,38,000
		3,08,000
Less: Stock of medicine on 31.03.2017		(1,05,000)
		2,03,000
<b>4. Depreciation on equipment</b>		
Value of equipment on 01.04.2016		1,47,000
Add: Purchase of equipment during the year		1,05,000

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		2,52,000
	Less: Value of equipment on 31.03.2017	(2,14,200)
	Depreciation on equipment for the year	37,800

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

Liability	₹	Assets	₹
Capital Fund: (balancing Figure)	12,62,100	Building	3,50,000
Subscription received in advance	8,400	Medical Equipment	1,47,000
Creditors for medicine supply	63,000	Stock of Medicine	70,000
		Investments	7,00,000
		Subscription receivable	10,500
		Cash in hand	56,000
	13,33,500		13,33,500

4. The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and profit & loss A/c for the year ended 31<sup>st</sup> March, 2017 and a Balance Sheet as on that date:

(a) Assets and Liabilities as on:

	01.04.2016 (₹)	31.03.2017 (₹)
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

- (i) Collection from Debtors, after allowing discount of ₹15,000 amounted to ₹5,85,000.
  - (ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹1,250 by bank, totalled to ₹61,250.
  - (iii) Creditors of ₹4,00,000 were paid ₹3,92,000 in full settlement of their dues.
  - (iv) Payment of Freight inward of ₹30,000.
  - (v) Amount withdrawn for personal use ₹70,000.
  - (vi) Payment for office furniture ₹10,000.
  - (vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1<sup>st</sup> October, 2016 and payment made thereof.
  - (viii) Expenses including salaries paid ₹ 95,000.
  - (ix) Miscellaneous receipts of ₹ 5,000.
- (c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹1,00,000. Of these, bills of exchange of ₹20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.
- (d) Goods costing ₹ 9,000 were used as advertising material.
- (e) Goods are invariably sold to show a gross profit of 20% on sales.
- (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.
- (g) Provide at 2% for doubtful debts on closing debtor. 15

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Answer:

4.

### Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017

Dr.			Cr.	
Particulars	₹	₹	Particulars	₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight Inwards		30,000		
To Gross Profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross Profit b/d	1,21,750
To Advertisement		9,000	By Interest on Investment	600
To Discount Allowed -			(20,000 × 6/100 × ½)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net Profit		10,145		
		1,35,350		1,35,350

### Balance Sheet as on 31st March, 2017

Liability	₹	₹	Assets	₹	₹
Capital as on 01.04.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
	97,000		Less: Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing Inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at Bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

**Working Notes:**

(1) Capital on 1st April, 2016

### Balance Sheet as on 1st April, 2016

Liability	₹	Assets	₹
Capital (Bal. Fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at Bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

(2) Purchases made during the year

### Sundry Creditors Account

Dr.			Cr.
Particulars	₹	Particulars	₹
To, Cash & bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount Received A/c	8,000	By Sundry Debtors	4,000



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To Bills Receivable A/c	20,000	By Purchases A/c (Balancing figure)	4,56,000
To Balance C/d	1,50,000		
	5,70,000		5,70,000

### (3) Sales made during the year

Particulars	₹	₹
Opening Inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight Inwards		30,000
		5,57,000
Less: Closing Inventory		(70,000)
Cost of Goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

### (4) Debtors on 31<sup>st</sup> March, 2017

#### Sundry Debtors Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	1,60,000	By Cash and Bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(Bill Dishonoured)	4,000	By Balance c/d (Bal. Fig.)	72,750
	7,72,750		7,72,750

### (5) Additional drawings by proprietors of ABC Enterprises

#### Cash and Bank Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance A/c	12,000	By Freight Inwards A/c	30,000
To Sundry Debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous Income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings [₹ 70,000+₹ 21,000] [Additional Drawings]	91,000
		By Balance c/d	26,250
	6,63,250		6,63,250

### (6) Amount of expenses debited to Profit and Loss Account

#### Sundry Expenses Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Prepaid Expenses A/c (on 01.04.16)	6,000	By Outstanding Expenses A/c (on 01.04.16)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Bal. Figure)	92,000
To Outstanding Expenses/c (on 31.03.17)	18,000	By Prepaid Expenses A/c (On 31.03.17)	7,000
	1,19,000		1,19,000

### (7) Bills Receivable on 31<sup>st</sup> March, 2017

#### Bills Receivable Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000

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	By Bank A/c	61,250
	By Discount on Bills Receivable A/c	1,250
	By Balance c/d (Balancing Figure)	17,500
1,00,000		1,00,000

**Note:** All sales and purchases are assumed to be on credit basis.

5. (a) (i) M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), Prepare Hire-Purchase Trading Account for the year ending, March 31, 2017:

	₹
April 01, 2016 goods with customers (Instalments not yet due)	80,000
Goods sold on Hire-purchase during the year	4,00,000
Cash received during the year from customers	3,00,000
Instalments due but not yet received at the end of the year, customers paying	10,000

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- (ii) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.

On 3rd January, 2018 the accountant of the company located the following errors in the books of account:

(A) An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, another customer.

(B) The sales book for December, 2017 was under cast by ₹ 1,000.

(C) Goods invoiced at ₹ 15,600 were returned to supplier, M/s Mega Ltd. but no entry was made in the books for this return made on 28th December, 2017.

Pass the necessary Journal Entries to rectify the above mentioned errors.

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- (b) On 15th December, 2017, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of Stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available:

(i) Stock at the close of account on 31st March, 2017 was valued at ₹ 9,40,000.

(ii) Purchases from 01.04.2017 to 15-12-2017 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹ 4,00,000.

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**Answer:**

5. (a) (i)

### Hire-purchase Trading Account (On the basis of Hire-Purchase Price) for the year ending 31st March, 2017

Dr.		Particulars	₹
To Balance b/d H.P. Stock as on 01.04.2016	80,000	By Bank A/c	3,00,000
		By Goods sold on hire purchase A/c (Loading)(1/5 <sup>th</sup> of 4,00,000)	80,000
To Goods sold on hire purchase A/c	4,00,000	By Stock Reserve (Opening) (1/5 <sup>th</sup> of 80,000)	16,000
To Stock reserve (Closing) (1/5 <sup>th</sup> of 1,70,000)	34,000	By Balance c/d: H.P. Debtors (Installment due)	10,000
To Profit & Loss A/c	62,000	H.P. Stock as on 31.03.2017 (Working Note)	1,70,000
	5,76,000		5,76,000

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### Working Note:

#### H.P. Stock on 31.03.2017

Particulars	₹	₹
Stock with customers (Installment not due) on 01.04.2016		80,000
Goods sold on hire purchase during the year		4,00,000
		4,80,000
Less: Cash received during the year	3,00,000	
Installments due but not received	10,000	(3,10,000)
H.P. Stock on 31.03.2017		1,70,000

(ii)

#### Journal Entries In the books of M/s Big Systematic Ltd.

	Particulars	Dr. (₹)	Cr. (₹)
(i)	Mehta (In Sales/Debtors Ledger) A/c Dr. To Mehra (In Sales/Debtors Ledger) A/c (Being amount received from Mehra was wrongly credited to Mehta, now rectified)	8,700	8,700
(ii)	(a) Suspense Account (In Sales/Debtors Ledger) Dr. To Sales A/c (In General Ledger) (b) Sales/Debtors Ledger Adjustment A/c (In General Ledger) Dr. To General Ledger Adjustment A/c (In Sales/Debtors Ledger) (Being rectification of the error resulting from under casting of the Sales Books)	1,000 1,000	1,000 1,000
(iii)	(a) M/s. Mega Ltd. Account (In Creditors/Bought Ledger) Dr. To Purchase Returns A/c (In General Ledger) (b) Creditors/Bought Ledger Adjustment A/c (In General Ledger) Dr. To General Ledger Adjustment A/c (In Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)	15,600 15,600	15,600 15,600

(b)

#### Memorandum Trading Account for the period 01.04.2017 – 15.12.2017

Dr.	₹	Cr.	₹
To Opening Stock	9,40,000	By Sales	20,25,000
To Purchases	13,20,000	By Closing stock (Balancing Figure)	6,40,000
To Gross Profit @ 20%	4,05,000		
	26,65,000		26,65,000

#### Statement of Claim

Particulars	₹
Estimated value of Stock as at date of fire	6,40,000
Less: Value of Salvaged Stock	1,40,000
Estimated Value of Stock lost by Fire	5,00,000

As the value of stock is more than insured value, amount of claim would be subject to average clause.

$$\text{Amount of Claim} = \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$\text{Amount of Claim} = \frac{4,00,000}{6,40,000} \times 5,00,000 = ₹ 3,12,500.$$

## Suggested Answers\_Syl2016\_June2018\_Paper 5

6. A and B were partners of a firm sharing profits and losses in the ratio 2:1. The Balance Sheet of the firm as at 31st March, 2017 was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
<b>Capital Accounts:</b>		<b>Plant and Machinery</b>	<b>5,00,000</b>
A	8,00,000	<b>Building</b>	<b>9,00,000</b>
B	4,00,000	<b>Sundry Debtors</b>	<b>2,50,000</b>
<b>Reserves</b>	<b>5,25,000</b>	<b>Stock</b>	<b>3,00,000</b>
<b>Sundry Creditors</b>	<b>2,75,000</b>	<b>Cash</b>	<b>1,50,000</b>
<b>Bills Payable</b>	<b>1,00,000</b>		
	<b>21,00,000</b>		<b>21,00,000</b>

They agreed to admit P and Q into the partnership on the following terms:

- (i) The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits' of the last 3 years. The relevant figures are:  
 Year ended 31.03.2014 - Profit ₹ 37,000  
 Year ended 31.03.2015 - Profit ₹ 40,000  
 Year ended 31.03.2016 - Profit ₹ 45,000
- (ii) The value of the stock and Plant & Machinery were to be reduced by 10%.
- (iii) Building was to be valued at ₹ 10,11,000.
- (iv) There was an unrecorded liability of ₹ 10,000.
- (v) A, B, P & Q agreed to share profits and losses in the ratio 3 : 2 : 1 : 1 .
- (vi) The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.
- (vii) P and Q were to bring capitals equal to their shares of Profit considering B's capital as base after all adjustments.

You are required to prepare:

- (1) Memorandum Revaluation Account,
- (2) Partner's Capital Accounts and
- (3) The Balance Sheet of the newly constructed firm.

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Answer:

6.

### Memorandum Revaluation Account

Dr.	₹	Cr.	₹
<b>Particulars</b>		<b>Particulars</b>	
To Stock	30,000	By Building	1,11,000
To Plant & machinery	50,000		
To Unrecorded liability	10,000		
To Profit transferred to Partners' Capital A/cs (in old ratio) A = 14,000 B = 7,000	21,000		
	1,11,000		1,11,000
To Building	1,11,000	By Stock	30,000
		By Plant & Machinery	50,000
		By Unrecorded liability	10,000
		By Loss transferred to Partners' Capital A/cs (in new ratio) A = 9,000 B = 6,000 P = 3,000 Q = 3,000	21,000
	1,11,000		1,11,000

## Suggested Answers\_Syl2016\_June2018\_Paper 5

### Partner's Capital Accounts

Dr.					Cr.				
Particulars	A	B	P	Q	Particulars	A	B	P	Q
To Memorandum Revaluation A/c	9,000	6,000	3,000	3,000	By Balance b/d	8,00,000	4,00,000	---	---
To Reserves A/c	2,25,000	1,50,000	75,000	75,000	By Memorandum Revaluation A/c	14,000	7,000	---	---
To A&B (W.N.2)	---	---	12,000	12,000	By Reserves A/c	3,50,000	1,75,000	---	---
To Balance c/d (Refer W.N.3)	9,50,000	4,30,000	2,15,000	2,15,000	By P&Q (W.N.2)	20,000	4,000	---	---
					By Cash (Bal. Fig.)	---	---	3,05,000	3,05,000
	11,84,000	5,86,000	3,05,000	3,05,000		11,84,000	5,86,000	3,05,000	3,05,000

### Balance Sheet of newly reconstituted firm as on 31.03.2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Plant and Machinery	5,00,000
A – 9,50,000		Building	9,00,000
B – 4,30,000		Sundry Debtors	2,50,000
P – 2,15,000		Stock	3,00,000
Q – 2,15,000	18,10,000	Cash (1,50,000+3,05,000+3,05,000)	7,60,000
Reserves	5,25,000		
Sundry Creditors	2,75,000		
Bills Payable	1,00,000		
	27,10,000		27,10,000

#### Working Notes:

#### 1. Calculation of Goodwill

##### Weighted Average Profit:

Year	Profit (₹)	Weight	Weighted Profit (₹)
2014	37,000	1	37,000
2015	40,000	2	80,000
2016	45,000	3	1,35,000
		6	2,52,000

Weighted Average Profit = ₹ 2,52,000/6 = ₹ 1,42,000

Goodwill is valued at 2 year's purchase

Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

#### 2. (a) Profit sacrificing Ratio

Particulars	Old Shares	New Shares	Share sacrificed	Share gained
A	2/3	3/7	5/21	-
B	1/3	2/7	1/21	-
P	-	1/7	-	1/7
Q	-	1/7	-	1/7

#### (b) Adjustment for goodwill

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
A	56,000	36,000	+ 20,000	---
B	28,000	24,000	+ 4,000	---
P	---	12,000	---	12,000
Q	---	12,000	---	12,000
	84,000	84,000	24,000	24,000

## Suggested Answers\_Syl2016\_June2018\_Paper 5

### Journal Entry

Particulars	Amount (₹)	Amount (₹)
P's Capital A/c                      Dr.	12,000	
Q's Capital A/c                      Dr.	12,000	
To A's Capital A/c		20,000
To B's Capital A/c		4,000

### 3. Calculation of closing capitals of P and Q

B's capital is taken as base. Closing capital of B after all adjustments is 4,30,000.

Total capital of firm will be = 4,30,000 × 7/2 = 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 × 1/7) each i.e. at par with B (as per new profit and loss sharing ratio)

7. (a) (i) (A) X sells goods to Y for ₹ 2,00,000. Instead of one bill of ₹ 2,00,000, X draws three bills of exchange on Y for ₹ 40,000; ₹ 60,000 and ₹ 1,00,000. What is the value involved in drawing three bills instead of one?

(B) Sunny draws a bill on Vivek for three months. On the due date, Vivek finds himself in financial difficulties and requests Sunny to renew the bill for a further period of one month. Sunny agrees to his request. What is the virtue involved in renewing the bill?

(C) What is the value involved in accepting an accommodation bill?

(D) What is the reason that a drawer cannot file a suit against drawee in case of dishonour of an accommodation bill? 1x4=4

(ii) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premises of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9. 5

(b) X Ltd. has its H.O. in Delhi and a branch in Mumbai. H.O. supplied goods to its branch at cost plus  $33\frac{1}{3}\%$ . From the particulars given below prepare a Branch Trading Account for the year ended 31st March 2018 in the books of H.O.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock (I.P.)	40,000	Sales:	
Goods sent to Branch (I.P.)	2,50,000	Cash	1,00,000
Return to H.O. (I.P.)	10,000	Credit	3,00,000
		Discount allowed to customers	10,000
		Closing Stock (I.P.)	60,000

It is estimated that 2% of the goods received are lost through natural wastage. 6

**Answer:**

7. (a) (i) (A) Any of three bills may be put to different uses i.e., any of the bill may either be discounted, endorsed or kept till the date of maturity. For example, if X is in need of ₹ 30,000 he may get only the first bill discounted from the bank.

(B) Virtue involved is the expression of morality and humanism towards a fellow businessman by helping him in case of need.

(C) Value involved in accepting an accommodation bill is helping a friend who is temporarily in need of money.

## Suggested Answers\_Syl2016\_June2018\_Paper 5

(D) Because accommodation bills are drawn without consideration.

(ii) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 × 6) and no part of the same is to be treated as Advance Received against Sales.

(b)

**In the books of H.O.  
Trading Account  
for the year ended 31<sup>st</sup> March, 2018**

Dr.			Cr.		
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock	40,000		By Sales:		
Less: Loading	10,000	30,000	Cash	1,00,000	
To Goods Sent to Branch	2,50,000		Credit	3,00,000	4,00,000
Less: Returns to H.O.	10,000		By Closing Stock	60,000	
	2,40,000		Less: Loading	15,000	45,000
Less: Loading ( $\frac{1}{4} \times 2,40,000$ )	60,000		( $\frac{1}{4} \times 60,000$ )		
[ $\frac{1}{3}$ on CP = $\frac{1}{4}$ on SP]		1,80,000			
To Gross Profit c/d		2,35,000			
		4,45,000			4,45,000

**Note:**

1. Discount allowed to customer will appear in Branch Profit & Loss Account.
2. Loss through natural wastage is a normal loss and as such, the same should be charged against branch gross profit. So, no adjustment is required.

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

**5×3=15**

- (a) Operating cycle of Consignment Arrangement.
- (b) Disadvantages of a Computerized Accounting Package.
- (c) Features of Single Entry System.
- (d) Bearer Plant.

**Answer:**

**8. (a) Operating Cycle of Consignment Arrangement:**

- (i) Goods are sent by consignor to the consignee.
- (ii) Consignee may pay some advance or accept a bill of exchange.
- (iii) Consignee will incur expenses for selling the goods.
- (iv) Consignee maintains records of all cash and credit sale.
- (v) Consignee prepares a summary of results called as Account sales.
- (vi) Consignor pays commission to the consignee.

Sometimes, the consignor may send the goods at a price higher than cost so that the consignee gets no knowledge of the real cost of goods which is confidential for the consignor.

## Suggested Answers\_Syl2016\_June2018\_Paper 5

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**(b)** Disadvantages of a Computerized Accounting Package:

1. A standard package may not be able to take care of complexities of a specific business.
2. The reports required for existing management control may not be available in such package.
3. Lack of security.
4. Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system.
5. Bugs may remain in the software because of inadequate testing.
6. Documentation may not be completed.
7. Frequent changes made to the system with inadequate change management procedure may result in system compromise.
8. Vendor may not be unwilling to give support of the software due to other commitments.
9. Vendor may not be willing to part with the source code or enter into an escrow agreement.
10. Control measures may be inadequate.
11. There may be delay in completion of the software due to problems with the vendor or inadequate project management.

**(c)** Single Entry System has the following features:

- (a) Maintenance of books by a sole trader or partnership firm: The books which are maintained according to this system can be kept only by a sole trader or by a partnership firm.
- (b) Maintenance of cash book: In this system it is very often to keep one cash book which mixes up business as well as private transactions.
- (c) Only personal accounts are kept: In this system, it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, sometimes, this is precisely defined as a system where only personal accounts are kept.
- (d) Collection of information from original documents: For information one has to depend on original vouchers, example, in the case of credit sales, the proprietor may keep the invoice without recording it anywhere and at the end of the year the total of the invoices gives an idea of total credit sales of the business.
- (e) Lack of uniformity: It lacks uniformity as it is a mere adjustment of double entry system according to the convenience of the person.
- (f) Difficulty in preparation of final accounts: It is much difficult to prepare trading, profit and loss account and balance sheet due to the absence of nominal and real accounts in the ledger.

**(d)** Bearer plant is a plant that

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than a period of twelve months; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants:

- (i) plants cultivated to be harvested as agricultural produce;
- (ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales;
- (iii) annual crops.