INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

JUNE - 2019

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 the given following alternatives:

(i) Which of the following is a resource owned by the business with the purpose of using it for generating future profits?
(A) Loan from Bank
(B) Owner's Capital
(C) Trade Mark
(D) All of the above

(ii) Chandu & Co.'s Account is a
(A) Real Account
(B) Nominal Account
(C) Representative Personal Account
(D) Artificial Personal Accounts

(iii) Purchase of a laptop for office use wrongly debited to Purchase Account. It is an error of
(A) Omission
(B) Commission
(C) Principle
(D) Misposting

(iv) Which of the following term is most suitable for writing off Patent?
(A) Depletion
(B) Amortization
(C) Depreciation
(D) All of the above

(v) Memorandum Joint Venture Account is prepared when
- **(A) the separate set of books is maintained for Joint Venture.**
- **(B) the each Co-venturer keeps records of all transactions.**
- **(C) the each Co-venturer keeps records of their own transactions only.**
- **(D) All of the above cases**

(vi) Which of the following commission is allowed by the consignor to the consignee to encourage the consignee for putting-up hard work in introducing new product in the market?
- **(A) Del-credere Commission**
- **(B) Over-riding Commission**
- **(C) Hard work Commission**
- **(D) Ordinary Commission**

(vii) If Ram's acceptance which was endorsed by us in favour of Saleem is dishonoured, then the amount will be debited in our books to
- **(A) Saleem**
- **(B) Ram**
- **(C) Bills Receivable Account**
- **(D) None of the above**

(viii) In case of a Club, the excess of expenditure over income is called as
- **(A) Surplus**
- **(B) Deficit**
- **(C) Capital Fund**
- **(D) Investment in Fixed Assets**

(ix) A Charitable Institution has 250 members with a annual subscription of ₹ 5,000 each. The subscription received during 2018-19 were ₹ 11,25,000, which include ₹ 65,000 and ₹ 25,000 for the years of 2017-18 and 2019-20 respectively. Amount of outstanding subscription for the 2018-19 will be
- **(A) ₹ 90,000**
- **(B) ₹ 1,25,000**
- **(C) ₹ 2,15,000**
- **(D) ₹ 1,90,000**

(x) The following are details of closing stock items in Aarvi Limited:

Items	Historical Cost (₹ in Lakh)	Net Realisable Value (₹ in Lakh)
A	30	27
B	15	18
C	35	35
D	40	45

The value of Closing Stock will be
- **(A) ₹ 120 Lakh**
- **(B) ₹ 125 Lakh**
- **(C) ₹ 117 Lakh**
- **(D) ₹ 128 Lakh**

(b) Match the following in Column-I with the appropriate in Column-II: 1x5=5

	Column-I		Column-II
(1)	Highest Relative Capital Method	(A)	Departmental Accounts
(2)	Basis of Apportionment of Expenses	(B)	Insurance Claim
(3)	Partial Repossession	(C)	AS-9
(4)	Indemnity Period	(D)	Piecemeal Distribution
(5)	Revenue Recognition	(E)	Hire Purchase

(c) State whether the following statements are True or False. 1x5=5

(i) All these items of revenue nature which received during the period of accounts, are only shown in the Income and Expenditure Account.

(ii) When the capitalization of profits method is used then the value of goodwill on the basis of future maintainable profits is more than that of on the basis of super profits.

(iii) In case of transfer from Creditors Ledger to Debtors Ledger, the Debtors Ledger Adjustment Account should be debited.

(iv) Unrecoupable short-workings should be charged to Profit and Loss Account.

(v) In the Stock and Debtors Method of accounting, balance of Branch Stock Account shows either Gross Profit or Gross Loss.

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

(i) Net Worth is excess of __________________ over ______________.

(ii) The Sales ₹ 180 Lakh, Purchases ₹ 129 Lakh and Opening Stock ₹ 33 Lakh. If the rate of Gross Profit is 50% on cost, then the value of closing stock will be ________________ .

(iii) In case of Loss of Profit Policy, Gross Profit is the sum of Net Profit plus ________________ Standing Charges.

(iv) Interest to be allowed @ 0.75 per cent per month on Partners Capital of ₹ 60 Lakh; Manager's Commission @ 5 per cent of Net Profit before charging such commission. If the Net Profit before charging interest on capital and manager's commission amounted to ₹ 14.85 Lakh, then manager's commission will be_____________.

(v) A machinery was purchased on Hire Purchase System. Its cash price was ₹ 5,20,000 which was payable in annual instalments of ₹ 1,80,000 each including interest @ 15 per cent per annum. The amount of interest included in 2nd instalment would be _______________.

Answer:

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

(v) (C)
(vi) (B)
(vii) (B)
(viii) (B)
(ix) (C)
(x) (C)

(b)

	Column-I		Column-II
(i)	Highest Relative Capital Method	(D)	Piecemeal Distribution
(ii)	Basis of Apportionment of Expenses	(A)	Departmental Accounts
(iii)	Partial Repossession	(E)	Hire Purchase
(iv)	Indemnity Period	(B)	Insurance Claim
(v)	Revenue Recognition	(C)	AS – 9

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

(d) (i) Total assets, total liabilities
(ii) ₹ 42 Lakh
(iii) Insured
(iv) ₹ 47,250
(v) ₹ 62,700

SECTION – B

Answer any five questions from the remaining seven questions. Each question carries 15 marks. 15×5=75

2. (a) Rectify the following errors: 8

(i) A Credit Sale of goods to X ₹ 3,000 posted as ₹ 30,000.
(ii) A Cash Sale of goods to Y ₹ 3,000 posted as ₹ 30,000.
(iii) A Credit Sale of Furniture to Z ₹ 3,000 posted as ₹ 30,000.
(iv) A Credit Sale of goods of ₹ 3,000 to Krishan entered in the purchases book, as ₹ 30,000 and posted therefrom to the credit of Kishan as ₹ 3,000.
(v) A Cash Sale of goods of ₹ 3,000 to Krishan posted to the credited of Kishan as ₹ 30,000.
(vi) A Credit Purchase of old machinery from Sohan for ₹ 17,000 was entered in the Purchases Book as purchase from Mohan for ₹ 71,000. ₹ 3,000 paid as Repair Charges of this Machinery debited to General Expenses Account.
(vii) A Bill drawn on Meenu for ₹ 30,000 was passed through bills payable book with ₹ 3,000 and posted therefrom to the credit of Meena as ₹ 300.
(viii) Sales included a sale of furniture having a book of value of ₹ 900 for ₹ 850 on 31st March, 2018.

(b) Mr. Kanan is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Kanan for the financial year 2018-19, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March, 2018	
Sundry Assets	**₹ 16,65,000**
Liabilities	**₹ 4,13,000**
On 31st March, 2019	
Sundry Assets	**₹ 28,40,000**
Liabilities	**₹ 5,80,000**
Mr. Kanan's drawings for the year 2018-19	**₹ 32,000 per month**
Income declared to the Income Tax Officer	**₹ 9,12,000**

During the year 2018-19, one life insurance policy of Mr. Kanan was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working. 7

Answer:

2. (a)

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Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Suspense A/c To X A/c (Being wrong posting now rectified)	Dr.	27,000	 27,000
	Or,			
	Sales A/c To, X A/c (being credit sale of ₹3,000 wrongly posted as ₹30,000, now rectified)	Dr.	27,000	 27,000
(ii)	Sales A/c To Suspense A/c (Being wrong posting now rectified)	Dr.	27,000	 27,000
	Or,			
	Sales A/c To, Cash A/c (Being, cash sale of ₹3,000 wrongly posted as ₹30,000, now rectified)	Dr.	27,000	 27,000
(iii)	Furniture A/c To Z A/c (Being wrong posting, now rectified)	Dr.	27,000	 27,000
(iv)	Krishan A/c Kishan A/c Suspense A/c	Dr. Dr. Dr.	3,000 3,000 27,000	

	To Sales A/c			3,000
	To Purchases A/c			30,000
	(Being sale recorded as purchase with wrong amount and wrong posting therefrom, now rectified)			
(v)	Kishan A/c	Dr.	30,000	
	To Sales A/c			3,000
	To Suspense A/c			27,000
	(Being wrong posting, now rectified)			
(vi)	Mohan A/c	Dr.	71,000	
	Machinery A/c	Dr.	20,000	
	To Sohan A/c			17,000
	To Purchases A/c			71,000
	To General Expenses A/c			3,000
	(Being purchase of old machinery recorded the Purchases Book and repairing charges debited to General Expenses A/c, now rectified)			
(vii)	Bills Receivable A/c	Dr.	30,000	
	Bills Payable A/c	Dr.	3,000	
	Meena A/c	Dr.	300	
	To Meenu A/c			30,000
	To Suspense A/c			3,300
	(Being B/R drawn recorded in B/P Book, now rectified)			
(viii)	Sales A/c	Dr.	850	
	Loss on Sale of Furniture A/c	Dr.	50	
	To Furniture A/c			900
	(Being the sale of furniture recorded as sales, now rectified)			

(b) Determination of Capital balance of Mr. Kanan on 31.3.2018 and on31.3.2019

	31.3.2018	31.3.2019
	₹	₹
Assets	16,65,000	28,40,000
Less: Liabilities	4,13,000	5,80,000
Capital	12,52,000	22,60,000

Determination of Profit by applying the method of the capital comparison.

	₹
Capital Balance as on 31.3.2019	22,60,000
Less :Fresh capital introduces(matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (₹32,000 X12)	3,84,000
	25,94,000
Less: Capital Balance as on 1.4.2018	(12,52,000)
Profit	13,42,000
Income declared	9,12,000
Suppressed Income	4,30,000

The Income Tax Officer's contention that Mr. Kanan has not declared his true income is correct. Mr. Kanan's true income is in excess of the disclosed income by ₹ 4,30,000.

Note:
- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

3. Following is the Trial Balance as on 31st March, 2019 of Bajrang Traders:

Particulars	Debit (₹)	Credit (₹)
Stock on 01.04.2018	1,35,000	
Purchases and Sales	28,50,000	46,25,000
Returns	35,000	22,500
Carriage Inwards	24,000	
Carriage Outwards	33,000	
Wages	1,25,000	
Salaries	3,52,000	
Printing and Stationery	6,500	
Insurance Premium	15,000	
Repairs	11,000	
Discounts Allowed	30,500	
Discounts Received		15,500
Bad Debts	28,000	
Provision for Bad Debts		35,000
Advertisement	38,000	
Interest on Investment		42,000
Drawings	2,10,000	
Investment	8,00,000	
Furniture and Fixtures	3,50,000	
Office Equipments	2,45,000	
Land and Building	15,00,000	
Sundry Debtors and Creditors	6,90,000	4,55,000
Establishment Expenses	35,000	
Capital		31,05,000
Cash at Bank	7,24,000	
Cash in Hand	63,000	
Total	83,00,000	83,00,000

Additional Information:

(i) Closing Stock of goods amounted to ₹ 1,85,000 and of stationery amounted to ₹ 1,500.

(ii) Depreciation to be charged on Land and Building @ 10%; On Office Equipments @ 15%; and On Furniture and Fixtures @ 10%.

(iii) Insurance Premium paid on 1st July, 2018 for one year.

(iv) Write off further as bad debts ₹ 5,000 and maintain a provision for bad debts of 5% on

debtors.

(v) Provision made for discount on debtors @ 2%.

(vi) Goods costing ₹ 12,500 used for given free samples to customers.

(vii) Goods costing ₹ 25,000 were sent on approval basis to a customer for ₹ 40,000 on 26th March, 2019. This was recorded as actual sales but approval did not receive till 31st March, 2019.

(viii) Outstanding salaries were for one month.

(ix) Investment made at 7.50% per annum on 1st May, 2018.

You are required to prepare Trading Account and Profit & Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date. 15

Answer:

3.

Books of Bajrang Traders
Trading and Profit and Loss Account
For the year ending 31st March, 2019

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Opening Stock		1,35,000	By Sales 46,25,000 Less: Returns 35,000 Less: Sent on Approval 40,000	45,50,000
To Purchases Less: Returns Less: Free Samples	28,50,000 22,500 12,500	28,15,000	By Closing Stock 1,85,000 Add: Sent on Approval 25,000	2,10,000
To Wages		1,25,000		
To Carriage Inwards		24,000		
To Gross Profit c/d		16,61,000		
		47,60,000		**47,60,000**
			By Gross Profit b/d	16,61,000
To Carriage Outwards		33,000	By Discount Received	15,500
To Salaries Add: Outstanding	3,52,000 32,000	3,84,000	By Interest 42,000 Add: Outstanding 13,000	55,000
To Printing & Stationery Less: Closing Stock	6,500 1,500	5,000		
To Insurance Premium Less: Prepaid	15,000 3,750	11,250		
To Repairs		11,000		
To Discount Allowed		30,500		
To Prov. for Discount on Debtors		12,255		

To Bad Debts Add: Further B.D Add: New Provision Less: Old Provision	28,000 5,000 32,250 (35,000)	30,250		
To Advertisement		38,000		
To Establishment Exp.		35,000		
To Free Samples		12,500		
To Depreciation on -Land & Building -Office Equipments - Furniture & Fixtures	 1,50,000 36,750 35,000	2,21,750		
To Net Profit		9,06,995		
		17,31,500		**17,31,500**

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital on 1.4.18: Add: Net Profit Less: Drawings	31,05,000 9,06,995 (2,10,000)	Land & Building Less: Dep.	15,00,000 1,50,000	13,50,000
Capital on 31.3.19	38,01,995			
Sundry Creditors	4,55,000	Furniture & Fixtures Less: Dep.	3,50,000 35,000	3,15,000
Outstanding Salaries	32,000	Office Equipments Less: Dep.	2,45,000 36,750	2,08,250
		Investment		8,00,000
		Stock: Goods(1,85,000+25,000) Stationery	2,10,000 1,500	2,11,500
		Sundry Debtors(Trial Balance) Less: Goods on Approval	6,90,000 40,000	
		Sundry Debtors Less: Further B. D.	6,50,000 5,000	
		Net Sundry Debtors Less: Prov. for B.D.@ 5%	6,45,000 32,250	
		 Less: Prov. for Disc.@ 2%.	6,12,750 12,255	6,00,495
		Earned Interest		13,000
		Prepaid Insurance Prem.		3,750
		Cash at Bank		7,24,000
		Cash in Hand		63,000
	42,88,995			**42,88,995**

Working Notes:

(i) Prepaid Insurance Premium from 1.4.19 to 30.6.19 = ₹ 15,000 x 3/12 = ₹ 3,750.

(ii) Outstanding Interest on Investment:

Total Interest (1.5.18 to 31.3.19) = ₹ 8,00,000 x 7.50% x 11/12 = ₹ 55,000
Outstanding = ₹ 55,000 – ₹ 42,000 = ₹13,000.

4. A, B and C were partners in a firm sharing profits & losses in the ratio of 3 : 1 : 1 agreed upon dissolution of there partnership. They each decide to take over certain assets and liabilities and continue business separately.

Balance Sheet
as on date of dissolution

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		**6,000**	**Cash at Bank**		**3,200**
Loan		**1,500**	**Sundry Assets**		**17,000**
Capitals:			**Debtors**	**24,200**	
A	**27,500**		**Less: Bad Debts Provision**	**1,200**	**23,000**
B	**10,000**		**Stock**		**7,800**
C	**7,000**	**44,500**	**Furniture**		**1,000**
		52,000			**52,000**

It is agreed as follows:

(i) Goodwill is to be ignored.

(ii) A is to take over all the Fixtures at ₹ 800; Debtors amounting to ₹ 20,000 at ₹ 17,200. The creditors of ₹ 6,000 to be assumed by A at that figure.

(iii) B is to take over all the stocks at ₹ 7,000 and certain of the sundry assets at ₹ 7,200 (being book value less 10%).

(iv) C takes over the remaining sundry assets at 90% of book values less ₹ 100 allowances and assumes responsibility for the discharge of the loan, together with accruing interest of ₹ 30 which has not been recorded in the books of the firm.

(v) The expenses of dissolution were ₹ 270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare Realisation Account, partners' Capital Accounts and Bank Account. 15

Answer:

4. In the books of A, B and C
Realisation Account

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Sundry Assets:			By Provision for bad debts		1,200
Sundry Assets	17,000		Capital Account A:		
Debtors	24,200		Fixtures	800	
Stock	7,800		Debtors	17,200	18,000
Fixtures	1,000	50,000	B: Stock	7,000	
To Bank – Expenses		270	Sundry Assets	7,200	14,200

To Capital Account			C: Sundry Assets		8,000
C – Interest on loan		30	By Bank: Collection from Debtors		2,100
			By Loss on realization:		
			A (3/5)	4,080	
			B (1/5)	1,360	
			C (1/5)	1,360	6,800
		50,300			**50,300**

Capital Account

Dr. **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Dissolution	18,000	14,200	8,000	By Balance b/d	27,500	10,000	7,000
Assets taken				By Creditors	6,000	---	---
To Dissolution A/c Loss	4,080	1,360	1,360	By Loan (with interest)	---	---	1,530
To Bank – Final payment	11,420	---	---	By Bank			
				By Final Receipts	---	5,560	830
	33,500	**15,560**	**9,360**		**33,500**	**15,560**	**9,360**

Bank Account

Dr. **Cr.**

Particulars	Amounts (₹)	Particulars	Amounts (₹)
To Balance b/d	3,200	By Dissolution A/c	
To Dissolution A/c		Expenses	270
Collection from Debtors	2,100	By Capital A/c	
To Capital A/c		A	11,420
B 5,560			
C 830	6,390		
	11,690		**11,690**

Working Notes:

1. Realization of Sundry Assets:

	₹
Sundry Assets (Book Value)	17,000
Less: Taken by B [7,200 × (100/90)]	8,000
Remaining at book value	9,000

Taken by C: 90% of Book Value

i.e., (9,000 × (90/100) = 8,100 – 100 for allowance = 8,000

2. Collection from Debtors:

	₹
Debtors (Book Value)	24,200
Less: Taken by (Book Value)	20,000
Remaining at 50% i.e., ₹ 2,100	4,200

5. (a) Rukmani Stores, Delhi invoiced goods to its Jaipur Branch @ 20% less than the Catalogue price which is cost plus 50% with instructions that cash sales were to be made at invoice price and credit sales at catalogue price and allow discount on prompt payment. The following details related to branch are provided by Rukmani Stores for the year ended 31st March, 2019:

	₹
Invoiced Stock: On 01.04.2018	**4,50,000**
On 31.03.2019	**5,10,000**
Branch Debtors: On 01.04.2018	**3,60,000**
Branch Furniture: On 01.04.2018	**1,20,000**
Cash Sales	**13,60,000**
Credit Sales	**21,50,000**
Goods Invoiced to Branch	**32,10,000**
Goods returned by Branch (Invoice Price)	**84,000**
Expenses Paid by H.O.: Rent	**1,25,000**
Salaries	**1,80,000**
Petty Expenses paid by Branch	**11,000**
Cash received from Branch Debtors	**18,65,000**
Remittances by Branch to H.O.	**32,00,000**
Discount allowed to Branch Debtors	**1,85,000**
Branch Bad debts	**15,800**
Goods Returned by Branch Debtors	**12,600**

It was decided to make provision for discount of ₹ 42,500 on closing debtors for prompt payment. Depreciate the furniture @ 10% per annum.

You are required to prepare Jaipur Branch Account and Goods Sent to Branch Account in the books of Rukmani Stores. 8

(b) The following information related to various debtors for the year ended 31st March, 2019, are supplied by Nakul Limited:

Particulars	A(₹)	B(₹)	C(₹)	D(₹)	E(₹)
Balance on 01.04.2018	**25,000 (Dr.)**	**18,000 (Dr.)**	**4,500 (Cr.)**	**39,000 (Dr.)**	**22,000 (Dr.)**
Goods Sold	**2,85,000**	**1,98,000**	**2,60,000**	**38,000**	**2,16,000**
Sales Return	**5,400**	**7,200**	**15,000**		**7,500**
Cash & Cheques Collected	**1,86,000**	**1,52,000**	**1,95,000**	**42,000**	**2,25,000**
B/R Received	**48,000**	**41,000**	**38,000**	**32,000**	**—**
Discount Allowed	**9,000**	**7,000**	**8,500**	**900**	**11,200**

Bad Debts	**—**	**—**	**—**	**16,000**	**—**
B/R Dishonoured	**11,000**	**—**	**8,500**	**13,000**	**—**
Interest & Other Charges	**600**	**200**	**300**	**900**	**—**

On 31st March, 2019, A and C also stood in Purchase Ledger having credit balances of ₹ 3,600 and ₹ 5,100 respectively.

You are required to prepare Debtors Ledger Adjustment Account in General Ledger. 7

Answer:

5. (a) **Books of Rukmani Stores (H.O.)**

Jaipur Branch Stock Account

Dr. **Cr.**

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
1.4.18	To Balance b/d		1.4.18	By Balance b/d	
	Branch Stock A/c	4,50,000		Stock Reserve	75,000
	Branch Debtors A/c	3,60,000		(Loading on Opening	
	Branch Furniture A/c	1,20,000		Stock)	
1.4.18	To Good Sent to		1.4.18	By Good Sent to	
	Branch A/c	32,10,000		Branch A/c (Loading on Goods Sent)	5,35,000
31.3.19	To Good Sent to				
	Branch A/c (Loading on Goods Returned)	14,000	31.3.19	By Good Sent to Branch A/c (Goods Returned)	84,000
31.3.19	To Bank A/c				
	Rent 1,25,000		31.3.19	By Bank A/c	32,00,000
	Salary <u>1,80,000</u>	3,05,000		(Remittance from Branch)	
31.3.19	To P& L A/c	3,71,100	31.3.19	By Balance c/d	
	(balancing figure)			Branch Stock A/c	5,10,000
31.3.19	To balance c/d			Branch Debtors A/c	4,31,600
	Stock Reserve	85,000		Branch Furniture A/c	1,08,000
	(Loading on Closing Stock)			Branch Cash A/c	14,000
	Provision for Discount	42,500			
		49,57,600			49,57,600

Notes on Jaipur Branch A/c:

(1) Since in Question, Invoice Price is given therefore Jaipur Branch Stock A/c should be prepared at Invoice Price.

(2) In this case Debtor method of Branch Accounting is used therefore petty expenses of ₹ 11,000 incurred by Branch itself would not be shown at the debit of Jaipur Branch A/c. These petty expenses are already adjusted in closing balance of Branch cash of ₹ 14,000.

(3) On similar logic we have correctly not shown Bad Debts and Discount relating to

Jaipur Branch A/c to the debit of Jaipur Branch A/c since these Bad Debts and Discount are already adjusted in closing balance of Branch Debtors.

Good Sent to Branch Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.18	To Jaipur Branch (Loading on Goods Sent)	5,35,000	1.4.18	By Jaipur Branch A/c (Goods Sent)	32,10,000
31.3.19	To Jaipur Branch A/c (Goods Returned)	84,000	31.3.19	By Jaipur Branch A/c (Loading on Goods Returned)	14,000
31.3.19	To Trading A/c	26,05,000			
		32,24,000			32,24,000

Note on Good Sent to Branch A/c: Since in Question, Invoice Price is given therefore

Good Sent to Branch A/c should be prepared at Invoice Price.

Notes :

(i) Furniture at on 31.03.2019 = ₹ 1,20,000 × 90% = ₹ 1,08,000.

(ii) Cash Balance at Branch on 31.03.2019 = ₹ 13,60,000 (Cash Sales) + ₹ 18,65,000 (Collection from Debtors) – ₹ 32,00,000 (Remittances from Branch) – ₹ 11,000 (Petty Exp. Paid by Branch) = ₹ 14,000.

(iii) Closing Branch Debtors:

Memorandum Branch Debtors Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.18	To Balance b/d	3,60,000	31.3.19	By Return to Branch A/c	12,600
31.3.19	To Sales (Credit)	21,50,000	31.3.19	By Bank A/c (Collection)	18,65,000
			31.3.19	By Discount Allowed A/c	1,85,000
			31.3.19	By Bad Debts A/c	15,800
			31.3.19	By Balance c/d	4,31,600
		25,10,000			25,10,000

(b)

In General Ledger

Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.18	To Balance b/d	1,04,000	1.4.18	By Balance b/d	4,500
31.3.19	To G. L. Adj. A/c in D. L.		31.3.19	By G. L. Adj. A/c in D. L.	
	Sales	9,97,000	31.3.19	Sales Return	35,100
	B/R Dishonoured	32,500		Cash & Cheques Collected	8,00,000
	Interest & Other Charges	2,000		B/R Received	1,59,000
31.3.19	To Balance c/d (E's A/c	5,700		Discount Allowed	36,600
				Bad Debts	16,000
				Transfer from P. L. (3,600 + 5,100)	8,700
				By Balance c/d	81,300
		11,41,200			11,41,200

Working Notes:

(i) Total Balance on 1.4.18 : 25,000+18,000+39,000+22,000 = ₹ 1,04,000(Dr.) and ₹ 4,500(Cr.)

(ii) Total Credit Sales =2,85,000+ 1,98,000+2,60,000+38,000+2,16,000 = ₹ 9,97,000

(iii) Total Sales Return = 5,400 + 7,200 + 15,000 + 7,500 = ₹35,100

(iv) Total Collection = 1,86,000 + 1,52,000 + 1,95,000 + 42,000 + 2,25,000 = ₹ 8,00,000

(v) Total B/R Received = 48,000 + 41,000 + 38,000 + 32,000 = ₹1,59,000

(vi) Total Discount Allowed = 9,000 + 7,000 + 8,500 + 900 + 11,200 = ₹ 36,600

(vii) Total B/R Dishonoured = 11,000 + 8,500 + 13,000 = ₹ 32,500

(viii) Total Interest & Other Charges = 600 + 200 + 300 + 900 = ₹ 2,000

(ix) On 31.3.2019, E has Cr. Balance of ₹ 5,700 (22,000 + 2,16,000 -7,500 – 2,25,000 – 11,200)

6. (a) On 31st January, 2019 the premises of Toli Textiles Limited were destroyed by fire. The records of the company revealed the following particulars:

	₹
Stock on 01.04.2017	**11,35,000**
Stock on 31.03.2018	**12,64,100**
Purchase Less returns, during the year ended 31st March, 2018	**65,45,000**
Sales Less returns, during the year ended 31st March, 2018	**91,00,000**
Purchase Less return, from 01.04.2018 to 31.01.2019	**56,64,000**
Sales Less returns, from 01.04.2018 to 31.01.2019	**78,24,000**

In valuing stock on 31st March, 2018 ₹ 45,900 had been written off out of certain stock

which was of a poor selling line, having cost ₹ 1,37,700. A portion of these goods were sold in October, 2018 at a loss ₹ 11,080 on the original cost of ₹ 55,080. The remaining stock of this goods on the date of fire was to be valued at 80% of its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged from fire was ₹ 1,23,800.

You are required to compute the amount of claim to be lodged for loss of stock. The stock was insured for ₹ 12,50,000. **7**

(b) The following particulars relate to hire purchase transactions:

(i) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.

(ii) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(iii) Two cars were seized by on hire vendor when second instalment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(iv) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

(I) Agreed value of two cars taken back by the hire vendor.

(II) Book value of car left with the hire purchaser.

(III) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(IV) Profit or loss of cars repossessed, when sold by the hire vendor. **8**

Answer:

6. (a)

Trading Account
for the year ending 31st March, 2018

Dr. **Cr.**

Particular	**₹**	**Particulars**	**₹**	**₹**
To Opening Stock	11,35,000	By Sales Less Returns		91,00,000
To Purchases Less Returns	65,45,000	By Closing Stock as valued	12,64,100	
To Gross Profit	27,30,000	Add: Amount Written off	45,900	13,10,000
	1,04,10,000			1,04,10,000

Rate of Gross Profit = ₹ 27,30,000/ ₹ 91,00,000 = 30%

Memorandum Trading Account
From 1st April, 2018 to 31st January, 2019

Dr. **Cr.**

Particulars	**Normal Items (₹)**	**Abnormal Items (₹)**	**Total (₹)**	**Particulars**	**Normal Items (₹)**	**Abnormal Items (₹)**	**Total (₹)**
To Opening Stock	11,72,300	1,37,700	13,10,000	By Sales	77,80,000	44,000	78,24,000
To	56,64,000	---	56,64,000	By Loss	---	11,080	11,080

Purchases				on Sales			
to Gross Profit (30% on Normal Sales)	23,34,000	---	23,34,000	By Est. Stock (b/f)	13,90,300	82,620	14,72,920
	91,70,300	1,37,700	93,08,000		91,70,300	1,37,700	93,08,000

Working Notes:

(i) Stock on 1.4.18.

Abnormal Items ₹ 1,37,700; and Normal Items = ₹ 13,10,000 - ₹1,37,700 = ₹ 11,72,300

(ii) Sale of Abnormal Items = ₹ 55,080 - ₹ 11,080 = ₹ 44,000

(iii) Sale of Normal Items = ₹ 78,24,000 - ₹ 44,000 = ₹ 77,80,000

Loss of Stock

	₹
Stock on the date of fire : Normal Items	13,90,300
Value of Abnormal Items (82,620 × 80%)	66,096
Value of Stock	14,56,396
Less: Stock Salvaged	1,23,800
Loss of Stock	13,32,596

Amount of Claim applying Average Clause:

Amount of Claim = (Insured Amount/ Value of Stock at the date of Fire) x Loss of Stock = (₹ 12,50,000/₹14,56,396) x ₹ 13,32,596 = ₹ 11,43,745.

(b)

	Particulars	₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x (30/100)	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @ 20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	128,000
(iii)	Book value of one car as calculated in working note (ii) above	128,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000
(iv)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which cars were taken back ₹ 1,96,000	
	Repair ₹ 10,000	2,06,000
	Loss on resale	36,000

7. (a) An infrastructure company has constructed a mall and entered into agreement with tenants towards license fee (monthly rental) and variable license fee, a percentage on the turnover of the tenant (on an annual basis). Chief Finance Officer wants to account / recognize license fee as income for 12 months during current year under audit and variable license fee as income during next year, since invoice is raised in the subsequent year. Comment whether the treatment desired by the CFO is correct or not. **6**

(b) State briefly the factors to be considered while selecting pre-packaged accounting software. **6**

(c) From the following particulars ascertain the value of unsold stock on Consignment. **3**

Goods sent (1000 kgs.)	**₹ 20,000**
Consignor's expenses	**₹ 4,000**
Consignees non-recurring expenses	**₹ 3,000**
Sold (800 kgs.)	**₹ 40,000**
Loss due to natural wastage (100 kgs.)	

Answer:

7. (a) AS 9 on Revenue Recognition, is mainly concerned with the timing of recognition of revenue in the Statement of Profit and Loss of an enterprise. The amount of revenue arising on a transaction is usually determined by agreement between the parties involved in the transaction. However, when uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

Further, as per accrual concept of fundamental accounting assumptions given in AS 1 "Disclosure of Accounting Policies", revenue should be recognised as and when it is accrued i.e. recorded in the financial statements of the periods to which they relate.

In the present case, monthly rental towards licence fee and variable licence fee as a percentage on the turnover of the tenant though on annual basis is the income related to common financial year. Therefore, recognising the fee as revenue cannot be deferred simply because the invoice is raised in subsequent period. Hence it should be recognised in the financial year of accrual.

Therefore, the contention of the Chief Financial Officer is not in accordance with AS 9.

(b) Factors to 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.

6. Regular updates: It should be ensured whether the vendor is prepared to give updates.

(c) Value of Unsold Stocks

	₹
Total cost of goods sent	20,000
Add: Consignor's expenses	4,000
Add: Non-recurring expenses	3,000
Cost of (1,000 Kgs – 100 Kgs) = 900 Kgs	27,000

∴ Value of unsold stock (1,000 – 800 – 100) = 100 Kgs. will be = 27,000 × (100 Kgs. / 900 Kgs.) = ₹ 3,000.

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

(a) The Accrual concept.

(b) Provision for Discount on Debtors

(c) Features of Income and Expenditure Account

(d) Maximum Possible Loss Method

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 effect of expense 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) Provision for Discount On Debtors:

We know that Cash discount is allowed by the suppliers to customer for prompt settlement of cash. Naturally a provision is created for this purpose. Thus, the provision which is created on Sundry Debtors for allowing discount on receipt of Cash in that accounting period is called Provision for Discount on Debtors. It is needless to say that if the customer pays their debts before the due dates, they may claim discounts and that is why discount is allowed to debtors for prompt settlement is an usual practice. Where goods are sold on credit, debtors accounts are debited but the amount may not be realized in this same accounting periods. Naturally, a possible aim is to allow discount whether cash is received. The same will happen in the next accounting period. Due to this reason a provision for discount on debtors is made on the basis of past experience at an estimate rate on Sundry Debtors. Care should be taken while calculating discount. Discount should be calculated at a specified rate on of debtors (i.e. after discounting bad debts and provision for bad debts).

(c) Features of Income and Expenditure Account:

1. It follows Nominal Account.
2. All expenses of revenue nature for the particular period are debited to this Account on accrual basis.
3. Similarly all revenue incomes related to the particular period are credited to this account on accrual basis.
4. All Capital Incomes and Expenditures are excluded.
5. Only current year's incomes and expenses are recorded. Amounts related to other periods are deducted. Amounts outstanding for the current year are added.
6. Profit on Sale of Asset is credited. Loss on Sale of Asset is debited. Annual Depreciation on Assets is also debited.
7. If income is more than expenditure, it is called a Surplus, and is added with Capital or General Fund etc. in the Balance Sheet.
8. If expenditure is more than income, it is a deficit, and is deducted from Capital or General Fund etc. in the Balance Sheet.

(d) Maximum Possible Loss Method:

Steps:

(1) Prepare a statement showing distribution of cash

(2) Pay off the external Liabilities

(3) After all the payment is made for the external liabilities, the partners will be paid off.

Total Due of Partners	xxx
Less : Net/Balance of Realisation	(x)
Maximum Loss	xxx

(4) The maximum loss shall be shared amongst the partners in their profit sharing ratio, as if, there will be no further realisation.

(5) If any of the partner capitals, after step (4) is negative, that partner shall be treated like an insolvent partner.

(6) The deficiency of the insolvent partner as per step (5) shall be shared by the other solvent partners (i.e. those partners who has positive capital balances) in their capital contribution ratio as per Garner vs. Murray Rule.

(7) Repeat the steps (3) to (6) till final realisation.