

## INTERMEDIATE EXAMINATION

June 2023

P-5(FAC)

Syllabus 2016

### FINANCIAL ACCOUNTING

Time Allowed: 3 hours

Full Marks: 100

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

*Wherever necessary, candidates may make appropriate assumptions and clearly state them in the respective answer.*

*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) At the end of the accounting year, advances to suppliers are

- (A) debited to profit and loss account.
- (B) credited to profit and loss account.
- (C) shown in the balance sheet as assets.
- (D) shown in the balance sheet as liabilities.

(ii) Rates and Taxes paid ₹ 300 during 2022-2023. At March 31, 2023, the rates and taxes were prepaid to the following 31st January, the yearly charge being ₹ 300. Calculate the Prepaid Rates and Taxes to be shown in the Closing Balance Sheet.

- (A) ₹ 250
- (B) ₹ 50
- (C) ₹ 25
- (D) None of the above

(iii) The Cost of the Closing Stock was ₹ 5,00,000. Realizable Value 120%. Realizable Expenses 5%. At what amount stock will be shown in the Income Statement of Mallaya Co. which is not a going concern?

- (A) ₹ 5,00,000
- (B) ₹ 6,00,000
- (C) ₹ 5,70,000
- (D) None of the above

(iv) Property, Plant & Equipment appeared at ₹ 50,00,000 in the Trial Balance of Nirav Co. which is not a going concern. Property, Plant & Equipment are subject to depreciation @10% on WDV basis. Realizable value of Property, Plant & Equipment 80%. Realizable Expenses 5%. At what amount depreciation will be shown in the Income Statement of Nirav Co.?

- (A) ₹ 4,00,000
- (B) ₹ 5,00,000
- (C) ₹ 12,00,000
- (D) None of the above

(v) Cost of goods available for sale ₹ 2,00,000; Total Sales ₹ 1,60,000; Opening stock of goods ₹ 40,000; Gross Profit Margin 25%; Closing stock of goods was;

- (A) ₹ 1,60,000
- (B) ₹ 1,20,000
- (C) ₹ 80,000
- (D) ₹ 72,000

(vi) K of Kanpur sent out certain goods to D of Delhi at cost plus 25%. 3/4th of the goods received by D is sold at ₹ 4,70,250 at 10% above invoice price. Invoice value of goods sent out is

- (A) ₹ 4,75,000
- (B) ₹ 5,64,300
- (C) ₹ 6,27,000
- (D) ₹ 5,70,000

(vii) At the end of the accounting year, subscription received in advance and outstanding rent of a club will be shown \_\_\_\_\_ in the balance sheet.

- (A) both on assets side
- (B) both on liabilities side
- (C) subscription received in advance on liabilities side and outstanding rent on assets side
- (D) subscription received in advance on assets side and outstanding rent on liabilities side

- (viii) Cost per kg of finished goods consisted of– Material Cost ₹ 150; Direct Wages ₹ 120; and Variable production overhead ₹ 45.

If the fixed production charges for the year on normal capacity of two lakh kg. are ₹ 40 lakh then the value of closing stock of 10000 kg as per AS-2 will be

- (A) ₹ 27 lakh  
 (B) ₹ 31.5 lakh  
 (C) ₹ 33.5 lakh  
 (D) ₹ 32.5 lakh
- (ix) Telephone charges paid ₹ 1,500 during 2022-2023. A quarter's charge for telephone is outstanding, the amount accrued being ₹ 300. The charge for each quarter is same for both 2021-2022 and 2022-2023. Calculate O/s Telephone charges to be shown in the Opening Balance Sheet as at 1.4.2022.
- (A) ₹ 600  
 (B) ₹ 300  
 (C) ₹ 1,200  
 (D) None of the above
- (x) X Ltd. entered into an agreement with Y Ltd. for sale of goods costing ₹ 2,00,000 at a profit of 20 % on sale. The sale transaction took place on 1st February, 2022. On the same day X Ltd. entered into another agreement with Y Ltd. for repurchasing the same goods at ₹ 2,80,000 on 1st August, 2022. The predetermined repurchasing price covers, inter alia, the holding cost of Y Ltd. Calculate the amount of revenue as per AS-9 for the financial statements of X Ltd. for the year 2021-2022.
- (A) ₹ 2,40,000  
 (B) ₹ 2,50,000  
 (C) ₹ 0  
 (D) ₹ 2,00,000

(b) Match the following:

1×5=5

Column A		Column B	
1.	Dead Rent	A	Bills Receivable
2.	Marshalling	B	Consignment
3.	Protesting	C	Liquidity Order
4.	Account Sales	D	Accounting Policies
5.	Substance over form	E	Royalty



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

- (i) Branch Account prepared under Debtors Method of Branch Accounting is a nominal account.
- (ii) Fundamental Assumptions are always required to be disclosed in the financial statements.
- (iii) Change in Accounting Estimate has to be given retrospective effect.
- (iv) Change in Method of Depreciation is regarded as change in Accounting Policy of the entity.
- (v) Straight Line method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(d) Fill in the blanks: 1×5=5

- (i) While posting an opening entry in the ledger, in case of an Account having debit balance, in 'Particulars' column the words \_\_\_\_\_ are written on debit side.
- (ii) Depreciation Accounting is the process of \_\_\_\_\_ and not \_\_\_\_\_.
- (iii) Finished goods are normally valued at Cost or \_\_\_\_\_ whichever is lower.
- (iv) The relation between Consignee and Consignor is that of \_\_\_\_\_.
- (v) The relationship between Co-Venturers is that of \_\_\_\_\_.

### Section-B

Answer *any five* questions from question numbers 2 to 8.

Each question carries 15 marks.

2. (a) On 1st April, 2019, Jaggu Ltd. purchased a machine for ₹ 7,20,000 and spent ₹ 20,000 on freight and cartage; ₹ 15,000 as transit insurance; ₹ 30,000 for installation and ₹ 15,000 as brokerage. It was estimated that the machine will have a scrap value of ₹ 50,000 at the end of its useful life which is 15 years. On 1st January, 2021 repairs and renewals of ₹ 40,000 were carried out. On 1st October, 2021 this machine was sold for ₹ 6,10,000 and another machine was purchased costing ₹ 15,00,000. The new machine was estimated that the machine will have a scrap value of ₹ 1,20,000 at the end of its useful life which is 10 years. Prepare Machinery Account for the 3 years.



- (b) JP sold goods for ₹ 2,10,000 to PK on 1st July, 2022 and on the same day JP draws two bills on PK for the amount of ₹ 1,30,000 and ₹ 80,000 respectively for 3 months each. PK accepts these and returns these to JP. On 4th July, 2022, JP discounts these bills with bank at a discount of 15% per annum. PK met the first bill on due date, by paying to the bank, but he showed his inability to pay full amount of second bill on the due date and paid ₹ 35,000 in cash. He requested JP to write a fresh bill including interest @ 15% per annum for two months which was accepted by JP. Before the fresh bill became due, PK retires the bill with a rebate of ₹ 625. Pass journal entries in books of JP.

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3. The following is the statement of Receipts and Payments of the Delhi Hospital for the year ending March 31, 2022:

Receipts	Amount (₹)	Payments	Amount (₹)
Opening Balance:		Furniture purchased	1,000
Cash	5,000	Salaries	4,30,000
Bank	80,000	Instruments purchased	5,000
Govt. Securities	18,00,000	Diet expenses	1,20,000
Receipts:		Surgery and Dispensary	4,10,000
Subscriptions	12,50,000	Rent and Taxes	3,05,000
Interest	2,00,000	Insurance	12,000
Donations	40,000	Office Expenses	97,000
Miscellaneous	3,000	Miscellaneous Expenses	11,000
		Closing Balances:	
		Bank	1,80,000
		Cash	7,000
		Govt. Securities	18,00,000
	33,78,000		33,78,000

You are asked to prepare the Income and Expenditure Account for the year and the Balance Sheet as on 31st March, 2022. The other assets on 1st April, 2021 were: Furniture ₹ 20,000; Land ₹ 5,00,000; Building ₹ 15,00,000; Instruments ₹ 35,000. Write off depreciation at 2.5% on Building; 6% on Furniture and 20% on Instruments (Including new). The Government securities of the face value of ₹ 20,00,000 (Cost ₹ 18,00,000) represent investment of the Endowment Fund. Subscriptions received include ₹ 1,00,000 for the year 2020-21 but ₹ 70,000 is outstanding for 2021-22. Salaries paid included ₹ 40,000 for 2020-21 but ₹ 45,000 is payable for 2021-22. Interest received includes ₹ 50,000 for 2020-21 but ₹ 53,000 is outstanding for 2021-22.

4. X, Y and Z are partners sharing profits and losses in the ratio of 4 : 3 : 1. Their Balance Sheet as on 31st March, 2022 was as under:

**Balance Sheet**

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	7,00,000	Cash in hand	20,000
Bills Payable	4,00,000	Cash at Bank	8,80,000
General Reserve	8,00,000	Stock	7,50,000
Capital Accounts:		Debtors	13,00,000
X	20,00,000	Less: Prov. for B.D.	50,000
Y	30,00,000	Joint Life Policy	12,50,000
Z	20,00,000	Investments	15,00,000
		Plant and Machinery	10,00,000
		Building	12,00,000
			23,00,000
	89,00,000		89,00,000

On the above date, Y retires from the firm selling his share of profits to X for ₹ 3,60,000 and to Z for ₹ 4,50,000 in the ratio of 4 : 5. Stock is to be appreciated by 20% and Building by 10%. Joint Life Policy is surrendered at ₹ 7,00,000 to Insurance Company. Provision for doubtful debts is increased to 10%. Investments are sold for ₹ 23,00,000. The Capital of the newly constituted firm is fixed at ₹ 60,00,000 to be divided among X and Z in the profit-sharing ratio and adjustments to be made in cash. Y is paid the amount due. Prepare Revaluation Account, Cash Account, Partners Capital Account and the Balance Sheet of the new firm.

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5. (a) The proprietors of Sima retail store wish to ascertain approximately separate net profits of their two particular departments A and B for the six months ended 30th September, 2022. It is not possible to take stock on that date. However, normal rates of Gross profit (calculated without reference to Direct Expenses) for the department concerned were 40% and 30% respectively on sales. There are six departments in all in the store. The following figures were extracted from the books for the period ending 30th September, 2022:

	Dept A (₹ in Thousands)	Dept B (₹ in Thousands)
Stock (April 1, 2022)	600	560
Sales	2800	2400
Purchases	1800	1440
Direct Expenses	366	568

The total indirect expenses of all the six departments for the period were ₹ 7,20,000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹ 28,00,000. The Manager of each department is also entitled to a commission of

2 per cent on the turnover of his department. Prepare Departmental Trading and Profit & Loss Account in columnar form for the period ending 30th September, 2022 making a stock reserve of 7% for each department on the estimated value on 30th September, 2022. 9

- (b) M/s Rampur & Co. of Hyderabad consigned 2400 cases of glassware costing ₹ 70 each for sale on consignment basis to R Co. of Chennai for sale on commission basis subject to the (a) normal selling price per case ₹ 70, (b) consignee's commission to be calculated at 5% on normal selling price and 1% additional commission if selling price is more than normal price and one-fourth per cent del credere commission on total sale to guarantee collection on account of credit sales. The R Co. reported the following sales as: Cash sales of 600, 500, 600 and 700 cases sold at ₹ 70, ₹ 80 each, ₹ 75 each and ₹ 80 each. Ascertain total commission due to the consignee. 6

6. (a) Following information is obtained from the trial balance of Shekhar Enterprise for the year ending 31st March, 2022:

	Amount (₹)	
	Dr.	Cr.
Provision for Bad Debts	—	38,700
Provision for Discount on Debtors	—	3,666
Bad Debts	15,400	—
Discount on Debtors	3,750	—
Bad debts recovered	—	5,200
Sundry Debtors	3,50,000	—

Adjustments:

- (i) Write off further bad debts ₹ 2100.  
(ii) Make a provision for bad and doubtful debts @5% on debtors and provision for discount on debtors @ 2%.

Prepare the Bad Debts Account, Provision for Bad Debts Account and Provision for Discount on Debtors Account.

Show how these items will appear in Profit & Loss Account and Balance Sheet. 8

- (b) On 1st April, 2019, Richa Industries purchased a machine on hire-purchase system from Chinu Limited. Hire-purchase price and cash price of the machine were ₹ 27,00,000 and ₹ 21,60,000 respectively. ₹ 5,40,000 was payable immediately and the balance was to be paid in three equal annual installments. Richa Industries charges depreciation @ 15% per annum on written down value method and books are closed on 31st March each year.

Calculate interest included in each installment and prepare Chinu Limited Account and Machine Account in the books of Richa Industries. 7



7. (a) RAJASTHALI Ltd. manufactures a product 'OM' using a raw material M1. The company took Bank Overdraft at an interest rate of 15% p.a. specifically for the purpose of purchasing 10,000 kg. of material M1 at ₹ 100 per kg. The purchase price includes GST ₹ 10 per kg., in respect of which full credit is admissible. Freight, loading and unloading charges incurred amounted to ₹ 40,800. Interest on such Bank Overdraft amounted to ₹ 25,000. Normal Transit Loss is 2%. The company actually received 9,760 kg. and consumed 9,500 kg. One unit of Finished product requires five units of Raw Material. Direct Labour Cost amounted to ₹ 2,28,000, Direct Overheads Cost amounted to ₹ 57,000. Total Fixed Overheads for the year were ₹ 1,20,000 on normal capacity of 20,000 units of Finished Goods. During the year Sales of product 'OM' were ₹ 7,50,000 @ ₹ 750. There were no opening inventories.

With reference to AS-2 "Valuation of Inventory",

- (i) Calculate the amount of Abnormal Loss (if any)
  - (ii) Calculate the amount of Closing Inventory of Finished Goods and Raw Material if Finished units can be sold @ ₹ 800 subject to payment of 10% brokerage on selling price, Replacement Cost of Raw Material is ₹ 90 per kg.
  - (iii) Calculate the amount of Closing Inventory of Finished Goods and Raw Material if Finished units can be sold @ ₹ 700 subject to payment of 10% brokerage on selling price, Replacement Cost of Raw Material is ₹ 90 per kg. 3×3=9
- (b) Mention three advantages and three disadvantages of Pre-packaged Accounting Software. 3+3=6

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

- (a) Give any four points of difference between Fundamental Accounting Assumptions and Accounting Policies.
  - (b) Give any four points of difference between Provision and Contingent Liability.
  - (c) Meaning and Implications of Going Concern Assumption.
  - (d) Explain the relevant accounting assumptions or principle which is an exception to Full Disclosure Principle.
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## SUGGESTED ANSWERS TO QUESTIONS

### SECTION - A

#### 1. (a)

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

#### 1. (b)

- 1. E
- 2. C
- 3. A
- 4. B
- 5. D

#### 1. (c)

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

#### 1. (c)

- (i) To Balance b/f
- (ii) Allocation , valuation
- (iii) Net Realisable Value
- (iv) Agent and Principal
- (v) Co-owners.

### SECTION - B

#### 2. (a)

Depreciation 2019 – 2020 =	₹ 50,000
Depreciation 2020 – 2021 =	₹ 50,000
Depreciation 2021 – 2022 =	₹ 94,000
Loss on Sale of Assets	₹ 65,000
Machinery A/c balance as on 31-03-2022 =	₹ 14,31,000

#### 2. (b)

#### Journal

		Dr.		Cr.	
01-07-22	PK A/c To Sales A/c	Dr	2,10,000		2,10,000
01-07-22	B/R A/c B/R A/c To PK	Dr Dr	1,30,000 80,000		2,10,000
04-07-22	Bank A/c Discount A/c To B/R A/c To B/R A/c	Dr Dr	2,02,125 7,875		1,30,000 80,000
04-10-22	PK A/c To Bank A/c	Dr	80,000		80,000

04-10-22	Bank A/c To PK A/c	Dr		35,000	35,000
04-10-22	PK A/c To Interest A/c	Dr		1,125	1,125
04-10-22	B/R A/c To PK A/c	Dr		46,125	46,125
	Bank A/c Rebate A/c To B/R A/c	Dr Dr		45,500 625	46,125

3.

Surplus as per Income and Expenditure A/c = ₹ 29,240

Balance Sheet total as on 31-03-2022 (Liabilities/ Assets side) = ₹ 41,24,240

4.

Revaluation Profit as per Revaluation A/c = ₹ 8,00,000

**Closing Capital as per Capital A/c:-**

X – ₹ 40,00,000

Z – ₹ 20,00,000

Closing Bank Balance = ₹ 12,80,000

Balance Sheet (of the new firm) total Assets/ Liabilities side = ₹ 71,00,000

5. (a)

**Gross Profit as per Departmental Trading A/c:-**

A – ₹ 7,54,000

B – ₹ 1,52,000

Total – ₹ 9,06,000

**Net Profit/ (Loss) as per Departmental P & L A/c:-**

A – ₹ 4,39,600

B – ₹ (1,02,400)

Total – ₹ 3,37,200

5. (b)

Total Commission ₹ 9007.50

6. (a)

Transfer to Provision for Bad Debt A/c as per Bad Debt A/c = ₹ 17,500

New Provision as per Provision for Bad Debt A/c = ₹ 17,395

Current Provision for Discount on Debtors as per Provision for Discount on Debtors A/c = ₹ 6,610

**Presentation in Profit and Loss A/c:-**

Debit side – Discount on Debtors = ₹ 6,694

Credit side – Provision for Bad Debt = ₹ 3,805

Bad Debt Recovered = ₹ 5,200

**Presentation in Balance Sheet:-**

Assets side - Sundry Debtors = ₹ 3,23,895



**6. (b)**

Instalment	Interest included in instalment (₹)
1 <sup>st</sup>	2,70,000
2 <sup>nd</sup>	1,80,000
3 <sup>rd</sup>	90,000

Closing balance as per Chinu Limited A/c:-

2019 – 2020 = ₹ 11,70,000

2020 – 2021 = ₹ 6,30,000

2021 – 2022 = ₹ Nil

Closing balance as per Machine A/c:-

As on 31-03-2022 = ₹ 13,26,510

**7. (a)**

- (i) Abnormal loss = ₹ 3,840
- (ii) Closing inventory of material = ₹ 24,960  
Closing Inventory of Finished Stock = ₹ 5,94,000
- (iii) Closing inventory of material = ₹ 23,400  
Closing inventory of Finished goods = ₹ 5,67,000

**7. (b)****Advantages of pre-packaged accounting software**

1. Easy to install
2. Relatively inexpensive
3. Easy to use
4. Backup procedure is simple
5. Certain flexibility of report format
6. Very effective of small and medium sized businesses

**Disadvantages of pre-packaged accounting software**

1. Does not cover particularities of specific business
2. Does not cover all functional areas
3. Customization may not be possible in most such software
4. Reports generated are not sufficient or serve the purpose
5. Lack of security provided by some of the software
6. Bugs in the software

**8. (a)****Distinction between fundamental accounting assumptions and accounting policy**

Fundamental accounting assumptions	Accounting policy
There are only three fundamental accounting assumptions viz. going concern, consultancy, and accrual	They are in no simple list of accounting policies which are applied in all circumstances As a result, there may be different accounting policies adopt by different enterprises
No disclosure is required if all the fundamental assumptions have been followed	Disclosure is required if the particular accounting policy have been followed
In case of the fundamental assumption are not followed, the fact has to be disclosed in the financial statements together with the reason	In case the policy is changed in the subsequent year, the reason for such change and the resulting financial consequences have to be disclosed
There is no choice	The firm has a choice to select a particular policy

## 8. (b)

### Distinguish between probation and contingent liability

Provision	Contingent Liability
Provision is a present liability of uncertain amount which can be measured reliably by using a subsequent degree of estimation	It is an obligation which may or may not arise depending on the happening or not happening of an uncertain future event
A provision meet the recognition criteria	A contingent liability failed to meet the same
Provision is recognised when (a) an enterprise has a present obligation arise from past events and outflow of resources embodying economic benefit is probable and (b) a reliable estimate can be made of the amount of obligation	Contingent liability includes present obligations that do not meet the recognition criteria, because either it is not probable that settlement of those obligations will be required. Outflow of economic benefits or the amount cannot be reliably estimate
Provision is disclosed in income statement and balance sheet	Contingent liability is disclosed in note to accounts

## 8. (c)

### Meaning of going concern assumption

1. The enterprise is normally viewed as a going concern that is, as containing operations of the foreseeable future.
2. It is assumed that the enterprise has neither the intention nor the necessary of liquidation or curtailing materially its scale of operations.
3. If an enterprise is not a going concern valuation of its assets and liability on historical cost become irrelevant and as a consequence, its profit or loss may not give reliable information.

### Implication of going concern assumption

It is because of the going concern assumption:-

1. That the assets are classified as current assets and fixed assets
2. That the liabilities are classified as short term liability and long term liability
3. That the unused resources are shown as unutilized cost or unexpected cost as against the break up value as in the case of liquidation enterprise. According the earning power and not the breakup value of evolution, the continuing enterprise.

### Disclosure of going concern assumption

According to accounting standard 1 issued by The Institute of Chartered Accountants of India If this fundamental assumption is followed, the fact need not to be disclosed in the financial statements, since its acceptance and use are assumed in case this concept is not followed, the fact should be disclosed in the financial statement together with reasons.

## 8. (d)

### Meaning of materiality principle

1. According to the maturity principle, all relatively relevant item, the knowledge of which might influence the decision of the user of the financial statements, should be disclosed in the financial statement.
2. Which information is more relevant than? Others are largely a matter of judgement For instance, accounting and recording of a small calculator of an asset in the balance sheet may Justified due to the excess cost of recording over the benefit in terms of usefulness of recording and the accounting of calculators as assets.

### What is materiality

1. The materiality depend not only upon the amount of item, but also upon the size of business level and nature of information. Level of the person department who makes the judgement about materiality for instance, a worker reporting to his foreman about the production in grams. That is (part of kilogramme), A foreman to his superior in kilograms. A superior to his production manager in Quintals And the production manager to the top management in turns may be justified with regard

in circumstances It hardly makes any difference if the production manager reports to the top management that the production is 1,99,000.90 kilogramme of simply 200 tonnes (nearly).

2. It is desirable to establish the follow uniform policy governing material or non material items so that, while measuring income for an accounting. And the non material item can be ignored on uniform basis.

#### **Exception to the Full Disclosure Principle**

1. This principle is basically an exception to the full disclosure principle
  2. The full discovery principle required that all facts necessary to ensure that the financial statement are not misleading. Must be disclosed, whereas the materiality principle requires that the item or event having an insignificant economic effect are not relevant to the users need not to be disclosed.
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