Paper 5- Financial Accounting

Paper 5- Financial Accounting

Full Marks : 100 **Time allowed: 3 hours**

Section - A

1. Answer the following questions

(a) Multiple choice questions: **[10x1=10]**

(i) _____ liabilities represent proprietor's equity, i.e. all those amount which are entitled to the proprietor
(a) External;
(b) Debenture;
(c) Internal;
(d) None of the above.

(ii) A transaction without immediate cash settlement is known as
(a) Cash Transaction
(b) Credit Transaction
(c) Deferred Transaction
(d) None of the above

(iii) The Accommodation bill is drawn
(a) to finance actual purchase or sale of goods
(b) to facilitate trade transmission
(c) when both parties are in need of funds
(d) None of the above

(iv) The Receipts and Payments Account generally begins with
(a) Credit Balance
(b) Debit Balance
(c) Both Debit and Credit Balance
(d) None of the above

(v) Goods are transferred from Department A to Department B at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department B is ₹90,000, then the amount of stock reserve on closing stock will be
(a) ₹30,000
(b) ₹22,500
(c) ₹45,000
(d) None of the above

(vi) Ground Rent or Surface rent means
(a) Minimum Royalty payable
(b) Maximum Royalty payable
(c) Fixed rent payable in addition to minimum rent
(d) Rent recovered at the end of lease term

(vii) _____ _____ contains the transactions relating to goods that are returned by us to our creditors
(a) Return Inward
(b) Return Outward
(c) Sales Daybook
(d) None of the above

(viii) The basic principles of _____ concept is that business is assumed to exist for an indefinite period
(a) Going Concern
(b) Business Entity
(c) Money Measurement
(d) None of the above

(ix) Capital Profit arises from which of the following?
(a) Sale of goods
(b) Premium received on issue of shares
(c) Profit made on re-issue of forfeited shares
(d) Both (b) and (c)

(x) Contingent liability would appear
(a) on the liability side of the Balance Sheet
(b) on the assets side of the Balance Sheet
(c) do not shown in the books of accounts
(d) as a note in Balance Sheet

(b) Match the following: **[5x1=5]**

	Column 'A'		Column 'B'
1.	Timing of recognition of Revenue	A	Income and Expenditure Account
2.	Art of recording business transactions	B	Balance Sheet
3.	Statement of financial position of the business entity on a particular date	C	Account Sales
4.	Periodical statement prepared by consignee	D	Book-keeping
5.	It follows Nominal Account	E	AS 9

(c) Fill in the blanks: **[5x1=5]**

(i) _____ are uncollectable or irrecoverable debt or debts.
(ii) The _____ discount is never entered in the books of accounts.
(iii) Outstanding subscription is shown in the _____ side of Balance Sheet.
(iv) According to AS-2 inventories should be valued at lower of cost and _____ value.
(v) Realisation account is opened at the time of _____ of firm.

(d) State whether the following statements are true or false: **[5x1=5]**

(i) Depreciation indicates diminution in service potential.
(ii) Shortworkings refer to the amount by which the actual royalty exceeds the minimum rent.
(iii) Drawer is the seller or a creditor.
(iv) Closing stock will be posted to Trading A/c as well as in the Balance Sheet as a liability.
(v) Assets are classified into fixed and current assets as per cost principle.

Section - B

Answer any five from the following. Each question carries 15 marks (5x15=75)

2. (a) Classify the following between Capital and Revenue, giving reasons:

(i) Heavy expenditure incurred on advertisement at the time of introducing a new product.
(ii) Accrued Dividend or Interest included in the cost price of investment.
(iii) Cost of imported goods confiscated by Customs Authority for non-disclosure of material facts.
(iv) Construction of College common room for students. **[2+2+1+1=6]**

(b) M and N entered into a one joint venture agreement to share the profits and losses in the ration 2:1. M supplied goods worth ₹1,20,000 to N incurring expenses amounting to ₹4,000 for freight and insurance. During transit goods costing 10,000 became damaged and a sum of 6,000 was recovered from the insurance company. N reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance Inventories lying unsold with N was damaged. The goods were not insured and N agreed to compensate M by paying in cash 80% of the aggregate amount of the original cost of such goods plus proportionate expenses incurred by M. Apart from the share of profit N was also entitled to a commission of 5% of net profit of joint venture after charging such commission as per the agreement. Selling expenses incurred by N totaled ₹2,000. N had earlier remitted an advance of ₹20,000. N duly paid the balance due to M by Bank Draft.
Prepare Joint Venture Account and N's Account in the books of M. **[9]**

3. The statement of Affairs of Mr. M on 31st December 2017 was as follows:

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

Mr. M did not maintain his books on the Double Entry System. But he carefully follows the following system:
(a) Every week he draws ₹ 250.
(b) After meeting his weekly sundry expenses (₹ 100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.
(c) No cash purchase is made and creditors are paid by cheques.
(d) Sales are at fixed price which include 20% profit on sales.
(e) Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.
(f) Expenses other than sundries and other special drawings are made in cheques.
(g) All unpaid bills are kept in a file carefully.

The following are his bank transactions for 13 weeks:

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

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

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

4. Red, White and Blue give you the following Balance Sheet as on 31st March.

Capital and Liabilities		₹	Properties and Assets		₹
Red's Loan		15,000	Plant and Machinery at Cost		30,000
Capital Accounts:			Fixtures and Fittings		2,000
Red	30,000		Stock		10,400
White	10,000		Debtors	18,400	
Blue	2,000	42,000	Less: Provision	400	18,000
Sundry Creditors		17,800			
Loan on Hypothecation of Stock		6,200	Joint Life Policy		15,000
Joint Life Policy Reserve		12,400	Patents and Trademarks		10,000
			Cash at Bank		8,000
Total		93,400	Total		93,400

The Partners shared Profits and Losses in the ratio of Red 4/9, White 2/9 and Blue 1/3. The Firm was dissolved on the above date, and you are given the following information –

(a) Blue had taken a Loan from Insurers for ₹ 5,000 on the security of Joint Life Policy. The Policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹5,000 for Blue's Loan and ₹ 300 as Interest thereon.
(b) One of the Creditors took some of the Patents whose Book Value was ₹ 6,000 at a valuation of ₹4,500. The balance due to that Creditor was paid in cash.
(c) The Firm has previously purchased some Shares in a Joint Stock Company and had written them off on finding them useless. The Shares were now found to be worth ₹ 3,000 and the Loan Creditor agreed to accept the Shares at this value.
(d) The remaining assets realized the following amounts: Plant and Machinery ₹ 17,000, Fixtures and Fittings ₹ 1,000, Stock ₹ 9,000, Debtors ₹ 16,500, and Patents 50% of their Book Value.
(e) The Liabilities were paid and a total discount of ₹ 500 was allowed by the Creditors.
(f) The Expenses of Realisation amounted to ₹ 2,300.

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form. **[15]**

5. (a) The following details are extracted from the records of M/S Buddha & Co., a trader for the year ended March 31, 2018.

(i) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.
(ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.
(iii) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.
(iv) Bad Debt written off in the earlier years was realised ₹ 11,000.
(v) Sundry Debtors as on 01.04.2017 stood of ₹ 50,000.

You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger. **[10]**

(b) Give Journal Entries in the books of Head Office to rectify or adjust the following:

i. Goods sent to Branch ₹12,000 stolen during transit. Branch Manager refused to accept any liability.

ii. Branch paid ₹ 20,000 as Salary to the Officer of Head Office on his visit to the Branch.

iii. On 28th March, the HO despatched goods to the Branch invoiced at ₹32,000 which was not received by Branch till 31st March, being end of the financial year.

iv. A remittance of ₹ 8,000 sent by the Branch on 30th March, received by the Head Office on 1st April (in the next financial year).

v. Head Office made payment of ₹24,000 for purchase of goods by Branch and wrongly debited its own Purchase Account. **[5]**

6. (a) X Ltd has taken out a fire policy of ₹ 2,40,000 covering its stock. A fire occurred on 31st March, 2019. The following particulars are available:

	₹
Stock as on 31-12-2018	90,000
Purchases to the date of fire	3,90,000
Sales to the date of fire	2,70,000
Carriage inwards	2,400

Commission on purchase to be paid @ 2%.

Gross Profit Ratio @ 50% on cost.

You are asked to ascertain

(i) total loss of stock

(ii) amount of claim to be made against the insurance company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 62,040. **[5]**

(b) Vasu took a mine on lease from Vamsi at a royalty of ₹12,500 a year. Each year's excess of minimum rent over royalties is recoverable during the first three years of lease. In the event of strike and minimum rent not being reached, it was provided that the actual royalties earned for the year would fulfill all rental obligations.

The output for the first four years was as follows:

1st year – 2000 tons

2nd year – 2500 tons

3rd year – 4000 tons

4th year – strike (2400 tons)

Royalty is ₹4 per ton.

Prepare Short workings account and Vamsi account in the books of Vasu. **[10]**

7. (a) An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2017. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. **[6]**

(b) (i) List the advantages of Pre-packaged Accounting Software.

(ii) What is the significance of a Computerised Accounting System? **[6+3=9]**

8. Write short notes on any three of the following: **[3x5=15]**

(a) Feature's of a Trial Balance;
(b) Bills - Renewal and Retirement;
(c) Differences between Receipts and Payments Account and Income and Expenditure Account;
(d) Advantages of Self-Balancing System.