

INTERMEDIATE EXAMINATION

December 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.

All working notes must form part of your answer.

Where considered necessary, suitable assumptions may be made and clearly indicated in the respective answer.

Section-A

1. Answer the following questions:

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

- (i) _____ represents a potential obligation that could be created depending on the outcome of an event.
- (A) Internal Liability
 - (B) Current Liability
 - (C) Contingent Liability
 - (D) Non-current Liability
- (ii) On the basis of which of the following concept, a business is assumed to exist for an indefinite period and is not established with the objective of closing it down:
- (A) Business Entity Concept
 - (B) Going Concern Concept
 - (C) The Accounting Period Concept
 - (D) The Concept of Consistency
- (iii) Accounting events can be
- (A) Internal
 - (B) External
 - (C) Either Internal or External
 - (D) Neither Internal nor External

(iv) In a loss of profit policy, Net Profit, Insured Standing Charges, Uninsured Standing Charges and Rate of Gross Profit for the last financial year are ₹ 6,20,000; ₹ 2,60,000; ₹ 80,000; and 25% respectively. If the firm incurred additional expenses amounted to ₹ 85,000 which reduced the loss in turnover of ₹ 3,50,000, then admissible amount for claim of additional expenses will be

- (A) ₹ 85,000
- (B) ₹ 77,917
- (C) ₹ 21,250
- (D) ₹ 87,500

(v) Provision for Doubtful Debt on 1st April, 2022 was ₹ 21,500. During the year 2022-23 the bad-debt and recovery of bad-debt were ₹ 10,500 and ₹ 2,100 respectively. The sundry debtors on 31st March, 2023 were ₹ 2,25,000. Provision is to be made @5% on debtors. If on 31st March, 2023, there was additional bad-debt of ₹ 2,500 then provision for doubtful-debt will be

- (A) debited to Profit and Loss Account by ₹ 11,250.
- (B) debited to Profit and Loss Account by ₹ 2,625.
- (C) debited to Profit and Loss Account by ₹ 3,000.
- (D) debited to Profit and Loss Account by ₹ 900.

(vi) Following information is given:

	₹
Opening Stock	2,13,000
Purchases	16,55,000
Sales	21,32,000
Carriage Inwards	32,500
Carriage Outwards	38,600
Return Inwards	38,000

If the rate of gross profit is 25% on cost then value of closing stock will be

- (A) ₹ 2,57,800
- (B) ₹ 1,94,900
- (C) ₹ 3,30,000
- (D) ₹ 2,25,300

- (vii) Subscription of ₹ 6,25,000 had been shown in the Income and Expenditure Account prepared for the year ending 31st March, 2023. Additional information is as below:

	On 31st March, 2022 ₹	On 31st March, 2023 ₹
Subscription Outstanding	55,000	72,000
Subscription Received in Advance	31,000	37,000

The amount of subscription received during the year 2022-23 would be

- (A) ₹ 6,14,000
 (B) ₹ 6,36,000
 (C) ₹ 6,02,000
 (D) ₹ 6,48,000
- (viii) Opening Debtors, Collection from Debtors and Discount Allowed were ₹ 3,15,000; ₹ 18,30,000; and ₹ 35,000 respectively. If the closing debtors were 20% of credit sales of the period then closing debtors and credit sales would be
- (A) ₹ 3,51,667 & ₹ 17,58,333
 (B) ₹ 3,63,333 & ₹ 18,16,667
 (C) ₹ 3,87,500 & ₹ 19,37,500
 (D) ₹ 3,10,000 & ₹ 15,50,000
- (ix) A, B and C were partners in a firm. On B's date of retirement 31st July, 2022 his unsettled capital was ₹ 18,50,000. During the year ended 31st March, 2023, Net Profit earned by the firm after B's retirement was ₹ 2,08,125. If A's and C's Capitals were ₹ 21,00,000 and ₹ 16,00,000 respectively then according to Section 37 of the Indian Partnership Act, 1932, B is entitled to
- (A) ₹ 1,07,917
 (B) ₹ 69,375
 (C) ₹ 46,250
 (D) ₹ 74,000
- (x) Goods costing ₹ 68,000 were transferred from Department 'A' to Department 'B' at a profit of 25% on cost. Out of this, goods having transfer price of ₹ 25,000 were included in the closing stock of Department 'B'. The amount of provision for unrealised profit will be
- (A) ₹ 6,250
 (B) ₹ 5,000
 (C) ₹ 17,000
 (D) None of the above

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

	Column-I		Column-II
(1)	Account Sales	(A)	Joint Venture
(2)	Endowments	(B)	Stock and Debtors Method
(3)	Limited Duration	(C)	Surplus of Actual Royalty over Minimum Rent
(4)	Excess Workings	(D)	Consignment Accounts
(5)	Branch Expenses Account	(E)	Non-profit Organisations
		(F)	Revenue Receipts

- (c) State whether the following statements are True or False: 1×5=5

- (i) When closing stock is appeared in the Trial Balance, then it will be shown on credit side of the Trading Account and on assets side of the Balance Sheet.
- (ii) According to Garner vs. Murray Case Decision, the solvent partners should bear the loss arising due to the insolvency of a partner in the ratio of their Last Agreed Capital.
- (iii) In Hire Purchase transaction, the right to sell the goods remain with seller but the right to transfer of the goods is given to purchaser.
- (iv) Expenses incurred by branch out of cash results in either reduction in cash balance at the end or the liability at the end is increased. It does not appear in Branch Account.
- (v) A pre-packaged accounting software is one which is developed on the basis of special requirements of the organisation.

- (d) Fill in the blanks: 1×5=5

- (i) Journal Folio (J.F.) Column is stood in _____.
- (ii) Intangible assets are written off over a number of accounting periods covering their estimated useful lives. This periodical write off is known as _____.
- (iii) Construction Contracts Standard (AS-7) is applicable in accounting for construction contracts in the books (or in the preparation of financial statements, of _____).
- (iv) P, Q and R were partners sharing profits/losses as 2:1:1. They admitted 'S' as a new partner for 1/8th (one-eighth) share of future profits. 'S' accured 3/4th (three-fourth) of his share from 'P' and remaing from 'R', then new profit sharing ratio will be _____.
- (v) At the time of preparation of final accounts, goods distributed as free samples were to be debited to _____ and to be credited to _____.

Section-B

Answer any five questions from the following seven questions.

15×5=75

2. (a) Rectify the following errors by passing Journal entries:

- (i) Preeti was paid cash ₹ 2,800 but Jyoti was debited by ₹ 2,000.
- (ii) Goods costing ₹ 10,000 were purchased for various members of the staff and the cost was included in 'Purchases'. A similar amount was deducted from the salaries of the staff members concerned and the net payments to them debited to Salaries Account.
- (iii) Wages amounting to ₹ 7,000 for machinery erection were debited to the Wages Account.
- (iv) Machinery written off by ₹ 1,000 has not been posted to the Depreciation Account.
- (v) Goods purchased for ₹ 1,000 for the proprietor's use were debited to the Purchases Account.
- (vi) Goods purchased for ₹ 5,000 were posted as ₹ 500 to the Purchases Account.
- (vii) Goods purchased for ₹ 200 were posted as ₹ 2,000 to the Purchases Account.
- (viii) ₹ 1,000 received from Preeti was debited to her account.
- (ix) The balance in the account of Mr. Rahim ₹ 1,000 has been written off as bad but no account has been debited.

11

(b) Hariharan had started a new mid-sized business. He being new to accounting sought advice from a cost accountant on maintenance of accounts. He was advised that he should follow Double Entry System of Accounting maintaining accounts on accrual basis. Some of his friends advised him to maintain accounts on Cash Basis of Accounting. He decided to follow the advice of the cost accountant. You have to appraise, judge and justify whether the decision of Shri Hariharan is correct.

4

3. Anil draws a bill of exchange on Bindu for goods supplied, for ₹ 10,000 dated 1st January, at three months. Bindu accepts the bill and thereafter on 4th January Anil discounts it with his Bankers at 8 percent per annum (rounded off to the nearest month). The Bill is dishonoured on presentation on the due date and the Bankers debit Anil with ₹ 20 Noting Expenses, in addition to the value of the Bill. Bindu pays Anil cash ₹ 5,000 on 5th April and simultaneously accepts a fresh Bill for the balance due by him, including ₹ 300 for interest and Noting Expenses on the first bill. The bill is paid in time. Journalise the above transactions in journals of Anil & Bindu.

15

4. (a) From the following details prepare Balance Sheet of Ever Green Club as at 31.3.2023:
10

	₹		₹
Furniture (before Depreciation)	8,000	Printers' Bill Outstanding	1,000
Depreciation on Furniture written off	800	Allowances Outstanding	800
Building Fund	30,000	Capital Grants	10,000
Income of Building Fund	2,000	Entrance Fees (50% to be Funded)	4,000
Fixed Deposits	20,000	Legacies Received (to be Funded)	8,000
Opening Balance of General Fund	10,000	Prize Fund	10,000
Excess of Income over Expenditure	20,000	Income of Prize Fund	1,000
Capital Fund (Opening Balance)	60,000	Expenses of Prize Fund	800
Cost of Swimming Pool	40,000	Investment of Prize Fund	10,000
Equipments	20,000	Balance in Current Account	10,000
Investment of General Fund	36,000	Cash in Hand	800
Subscription Outstanding	10,000		

- (b) An accountant of a large-sized firm records all the transactions in a Journal instead of maintaining Subsidiary Books. His views on this are that it will result in better control and also large team of accountants will not be required.

Whether his decision is correct?

5

5. (a) A company purchased a machine for ₹ 20,000 and paid cost of installation ₹ 1,000. At the date of purchase, the life of the machine was estimated at 15 years and hence it was decided to create a depreciation fund to be invested in Government Securities to provide for replacement of the machine.

Before expiration of the estimated life it was decided to dismantle the machine and replace it with a modern one. The cost of dismantling was ₹ 200 and the cost of purchase and installation of new machine was ₹ 23,000. Parts of the old machine estimated to be worth ₹ 500, were retained and the remainder sold as scrap for ₹ 750.

At the date of dismantling the old machine, the depreciation fund stood in the books at ₹ 16,500 and was represented by Government Securities costing the same amount. These securities were sold for ₹ 15,600.

You are required to prepare the following ledger accounts:

- Machinery Account
- Depreciation Fund Account
- Depreciation Fund Investment Account.

10

- (b) A firm is maintaining its accounts manually and has decided to shift to computerised accounting. It has purchased a computer and also Tally Software to maintain the accounts. The Chief Accountant has asked his team not to prepare the Chart of Accounts. According to him it is not required and appropriate decision will be taken at the time of preparing financial statements.

You are required to appraise his decision and give your opinion.

5

6. (a) X Ltd. has taken out a fire policy of ₹ 1,60,000 covering its stock. A fire occurred on 31st March, 2023. The following particulars are available.

	₹
Stock as on 31.12.2022	60,000
Purchases to the date of fire	2,60,000
Sales to the date of fire	1,80,000
Carriage Inwards	1,600
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 ₹ 41,360.

8

- (b) The company deals in three products A, B and C which are neither similar nor interchangeable. At the time of closing of its account for the year 2022-23 the historical cost and net realisable value of the items of closing stock are determined as:

Items	Historical cost (₹ in lakhs)	Net Realisable Value (₹ in lakhs)
A	40	28
B	32	32
C	16	24

What will be the value of closing stock?

7

7. A, B and C were equal partners in a firm. From 1st April 2022, they decided to change their profit sharing ratio to 4 : 3 : 2. It was also decided that A, who was getting remuneration of ₹ 10,000 per month will not get any remuneration henceforth.

They also decided to value the Goodwill of the firm at 150% of the average annual profits of the last three years, which were as follows:

Year ended :	₹
31st March, 2021	1,70,000
31st March, 2022	1,40,000
31st March, 2023	2,88,000

On a scrutiny of accounts the following errors were discovered:

- (1) On 1st October, 2022, 2 Motor bikes costing ₹ 50,000 each were purchased and were wrongly debited to Travelling Expenses. Depreciation on Motor bikes be charged @20% p.a. on written down value basis.
- (2) On 1st January, 2021, a fire broke out which resulted into a loss of goods of ₹ 2,00,000. A claim of 75% was received from the insurance company.
- (3) The closing stock for the year ending on 31st March, 2022 was over-valued by ₹ 30,000.

On the basis of above information, answer the following questions:

- (a) What may be the reason for withdrawing remuneration to A with effect from 1st April, 2022?
- (b) What are the adjusted profits of the firm?
- (c) What will be the value of firm's goodwill?
- (d) What Journal entry will be passed for goodwill and why? 15

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

- (a) Distinction between Revenue Receipts and Capital Receipts
 - (b) Provision for discount on Debtors
 - (c) Distinction between Single Entry System and Double Entry System
 - (d) Applicability of Section 37 of the Indian Partnership Act, 1932.
-