INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 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:

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

(i) When stock is valued at cost in one accounting period and at lower of cost and Net realizable value in another accounting period
- (A) Prudence Principle conflicts with Consistency Principle.
- (B) Matching Principle conflicts with Consistency principle.
- (C) Consistency Principle conflicts with Accounting Period Assumption.
- (D) None of the above

(ii) Materiality Principle is an exception to the
- (A) Consistency principle
- (B) Full disclosure Principle
- (C) Accounting Period Assumption
- (D) Prudence Principle

(iii) In a Cash Book Debit balance of ₹ 112 brought forward as credit balance of ₹ 121, while preparing a Bank Reconciliation Statement taking the balance as per Cash Book as the starting point:
- (A) ₹ 112 to be added
- (B) ₹ 121 to be added
- (C) ₹ 233 to be added
- (D) ₹ 112 to be subtracted

(iv) _____________ 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

(v) 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 and ₹ 17,58,333

(B) ₹ 3,63,333 and ₹ 18,16,667

(C) ₹ 3,87,500 and ₹ 19,37,500

(D) ₹ 3,10,000 and ₹ 15,50,000

(vi) Following information is given:

	₹
Opening Stock	2,13,000
Purchase	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) ₹ 2,25,300

(D) ₹ 3,30,000

(vii) Provision for Doubtful Debt on 1st April, 2018 was ₹ 21,500. During the year 2018 – 19 the Bad-debt and Recovery of Bad-debt were ₹ 10,500 and ₹ 2,100 respectively. The Sundry Debtors on 31st March, 2019 were ₹ 2,25,000. Provision is to be made @ 5% on Debtors. If on 31st March, 2019, there was additional Bad-debt of ₹ 2,500 then Provision for doubtful-debt will be

(A) debited to Profit & Loss Account by ₹ 11,250.

(B) debited to Profit & Loss Account by ₹ 2,625.

(C) debited to Profit & Loss Account by ₹ 3,000.

(D) debited to Profit & Loss Account by ₹ 900.

(viii) A and B enter into a joint venture sharing profit and losses in the ratio of 3:2. A purchased goods costing ₹ 2,00,000. B sold 95% goods for ₹ 2,50,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales. A drew a bill on B for an amount equivalent to 80% of original cost of goods. A got it discounted at ₹ 1,50,000. What is A's share of profit?

(A) ₹ 15,300

(B) ₹ 21,300

(C) ₹ 18,900

(D) None of the above

(ix) Subscription of ₹ 6,25,000 had been shown in the Income and Expenditure Account prepared for the year ending 31st March, 2019. Additional information is as below:

	On 31st March, 2018 (₹)	On 31st March, 2019 (₹)
Subscription Outstanding	55,000	72,000
Subscription Received in Advance	31,000	37,000

The amount of subscription received during the year 2018-19 would be

(A) ₹ 6,36,000

(B) ₹ 6,02,000

(C) ₹ 6,14,000

(D) ₹ 6,48,000

(x) X and Y are partners with the capital of ₹ 50,000 and ₹ 30,000 respectively. Interest Payable on Capital is 10% p.a. If the profits earned by the firm is ₹ 4,800, what will be the Interest on Capital for X and Y?

(A) ₹ 5,000 and ₹ 3,000

(B) ₹ 3,000 and ₹ 1,800

(C) No interest will be paid to the partners

(D) None of the above

(b) Match the following: 1x5=5

Column A		Column B	
(i)	Endorsement	(A)	AS 7
(ii)	Amortisation	(B)	AS 10
(iii)	Average Clause	(C)	Depreciation
(iv)	Percentage of Completion	(D)	Bills Receivable
(v)	Recoverable Amount	(E)	Insurance Claim

(c) State with reason whether the following statements are 'True' or 'False' (No Marks shall be awarded without valid reason): 1x5=5

(i) Prudence is a concept to recognise all losses and not profits.

(ii) Revenues are matched with expenses in accordance with the matching principle.

(iii) Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.

(iv) Net Profit is reflected in higher cash balances and net loss is reflected in lower net worth.

(v) If Partnership Deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.a.

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

(i) ___________ method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(ii) Reserve for Discount on Creditors has a ____________ balance.

(iii) ____________ can be made payable to the bearer.

(iv) The gain from sale of capital assets need not be added to revenue to ascertain the ______________ of a business.

(v) ______________ property may be the subject matter of consignment.

Answer:

1. (a) (i) (A)

(ii) (B)

(iii) (C)

(iv) (C)

(v) (C)

(vi) (C)

(vii) (B)

(viii) (B)

(ix) (C)

(x) (B)

(b)

	Column - A		**Column - B**
(i)	Endorsement	(D)	Bills Receivable
(ii)	Amortisation	(C)	Depreciation
(iii)	Average Clause	(E)	Insurance Claim
(iv)	Percentage of Completion	(A)	AS 7
(v)	Recoverable Amount	(B)	AS 10

(c) (i) False : Prudence is a concept to recognise all unrealised losses and not profits.

(ii) False : Expenses are matched with revenues in accordance with the matching principle. Concept of matching requires accrual and periodicity concepts as accrued revenues are matched with accrued expenses of a definite accounting period.

(iii) False : Depreciation is non-cash but operating expense which is to be provided for whether there are profits/losses.

(iv) False : Net profit may not be reflected in higher cash balance because of credit transactions. On the other hand, cash may increase because of fresh loan or fresh capital. Net Worth may also be reduced by withdrawal by the proprietor/partners. So lower net worth may not necessarily reflect net loss.

(v) False : The Partnership Act has not prescribed any Rate of Interest on Loan by firm to Partner.

(d) (i) Reducing balance

(ii) Debit

(iii) Bills Receivable

(iv) Operating Profit or Loss

(v) Movable

SECTION – B

Answer any five questions from question numbers 2 to 8.
Each question carries 15 marks. 15×5=75

2. (a) A retail trader had not kept proper books of account. From the details given below you are required to prepare the Profit or Loss Account for the year ended 31st March, 2018. **8**

	1st April, 2017 (₹)	31st March, 2018 (₹)
Stock-in-Trade	16,700	18,100
Sundry Creditors	15,400	19,200
Sundry Debtors	11,200	10,600
Cash in Hand	250	1,400
Bank Overdraft	19,200	Nil
Bills Receivable	16,000	5,000
Fixtures and Fittings	1,500	1,500
Motor Van	1,900	Nil
Bank Balance	Nil	2,900

Drawings during the year amounted to ₹2,400. Depreciate Fixtures and Fittings by 10%. ₹600 is irrecoverable from Debtors. Provide 5% for Doubtful Debts and ₹200 in respect of Bills Receivable.

(b) Calculate the amount of sports material to be transferred to Income and Expenditure Account of Kanan Bala Sports Club, Ludhiana, for the year ended 31st March, 2018: **7**

	Particulars	(₹)
(i)	Sports Material sold during the year (Book value ₹ 50,000)	56,000
(ii)	Amount paid to creditors for sports material	91,000
(iii)	Cash purchase of sports material	40,000
(iv)	Stock of sports material as on 31.03.2017	50,000
(v)	Stock of sports material as on 31.03.2018	55,000
(vi)	Creditors for sports material as on 31.03.2017	37,000
(vii)	Creditors for sports material as on 31.03.2018	45,000

Answer:

2. (a)

Statement of Affairs as at 1st April 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	15,400	Cash in Hand	250
Bank Overdraft	19,200	Sundry Debtors	11,200
Capital (Balancing Figure)	12,950	Bills Receivable	16,000
		Stock-in-trade	16,700
		Fixtures & Fittings	1,500
		Motor Van	1,900
	47,550		47,550

Statement of Affairs (Before Adjustments) as at 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	19,200	Cash in Hand	1,400
Capital (Balancing Figure)	20,300	Cash at Bank	2,900
		Sundry Debtors	10,600
		Bills Receivable	5,000
		Stock-in-trade	18,100
		Fixtures & Fittings	1,500
	39,500		39,500

Statement of Profit or Loss for the year ended 31st March 2018

Particulars	Amount (₹)
Capital on 31st March 2018	20,300
Add: Drawings during the year	2,400
	22,700
Less : Capital on 1st April 2017	-12,950
Gross Profit made during the year	9,750

Profit & Loss Account for the year ended 31st March 2018

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Depreciation on Fixture & Fittings	150	By Gross Profit	9,750
To Bad Debts	600		
To Provision for Doubtful Debts	500		
To Provision for Bills Receivable	200		
To Net Profit transferred to Capital A/c.	8,300		
	9,750		9,750

(b) Calculation of Sports Materials to be Debited to Income & Expenditure Account

Particulars	Amount (₹)
Payment made for Sports Materials	91,000
Less: Creditors in the Beginning	-37,000
Add: Creditors at the end	45,000
	99,000
Add: Cash Purchases of Sports Materials	40,000
Total Purchase	1,39,000
Less: Sports Materials sold during the year (Book Value)	-50,000
	89,000
Add: Stock of Sports Materials in the beginning	50,000
Less: Stock of Sports Materials at the end	-55,000
Amount to be debited to Income & Expenditure A/c.	84,000
Amount to be credited to Income & Expenditure A/c.	
Profit on Sale of Sports Material	6,000

3. **From the following Trial Balance of Bharat Tushar as on 31st March, 2019, you are required to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date, after making the necessary adjustment as mentioned hereunder:** **15**

Particulars	Debit Balance (₹)	Credit Balance (₹)
Capital and Drawings	24,000	1,60,000
Furniture and Fixtures	8,000	—
Plant and Machinery	60,000	—
Patents (ten years from 01.04.2018)	40,000	—
Opening Stock	40,000	—
Purchases and Sales	1,70,000	2,64,000
Salaries	14,800	—
Wages	30,000	—
Sundry Debtors and Creditors	20,400	24,000
Land	28,350	—
Loan from Shyam (at 6% from 01.10.2018)	—	20,000
Postage and Fax	3,000	—
Rent, Rates and Taxes	7,200	—
Bad Debts	800	—
Discount	—	1,200
Carriage Inward	400	—
Interest on loan	300	—
Insurance	1,600	—
Travelling expenses	1,000	—
Sundry expenses	600	—
Cash and Bank	33,750	—
Bank Overdraft	—	15,000
Total	4,84,200	4,84,200

Adjustments:

(a) Closing Stock is valued at ₹ 30,000.

(b) A new machine was installed on 1st April, 2018 for ₹ 3,000. No entry in this respect was passed in the books. Wages of ₹ 1,000 paid for installing the machine were debited to Wages Account.

(c) Of the Sundry Debtors, ₹ 200 are bad and are to be written off. You are required to maintain a Provision for Doubtful Debts @ 5% on Debtors and Provision for Discount on Debtors @ 2%.

(d) Goods costing ₹ 2,000 were given away as free samples for publicity.

(e) Depreciate Plant and Machinery at 20% per annum and Furniture and Fixture at 10% per annum.

(f) On 01.04.2018 Machinery of the value of ₹ 10,000 was destroyed by fire and the insurance claim settled at ₹ 8,000 was credited to Machinery Account.

(g) Goods for ₹ 1,200 were sent to a customer at a profit of 20% on cost on 30th March, 2018 on sale or return basis. This was recorded as actual sales.

Answer:

3.

Trading and Profit and Loss Account
For the year ended 31st March, 2019

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		40,000	By Sales	2,64,000	
To Purchases	1,70,000		Less: Sent for approval.	1,200	2,62,800
Less: Free samples	2,000	1,68,000	By Closing stock	30,000	
To Carriage Inward		400	Add: Sent for approval	1,000	31,000
To Wages	30,000				
Less: Installation	1,000	29,000			
To Gross Profit c/d		56,400			
		2,93,800			2,93,800
To Rent, rates and taxes		7,200	By Gross profit b/d		56,400
To Salaries		14,800	By Discount received		1,200
To Postage and fax		3,000			
To Sundry expenses		600			
To Travelling expenses		1,000			
To Interest on loan	300				
Add: Accrued interest	300	600			
To Sales Promotion Exp.		2,000			
To Insurance		1,600			
To Loss of machinery by fire		2,000			
To Bad debts	800				
Add: Written off	200				
Add: Provision	950	1,950			
To Provision for Discount on debtors		361			
To Depreciation:					
Plant and machinery	12,400				
Furniture and fixtures	800				
Patents	4,000	17,200			
To Net Profit t/f to Capital a/c		5,289			
		57,600			57,600

Balance Sheet as at 31st March, 2019

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account:			Land		28,350
Opening Balance	1,60,000		Plant and machinery	60,000	
Add: Net Profit	5,289		Add: Purchased	3,000	
Less: Drawings	24,000	1,41,289	Add: installation charges	1,000	
Loans from Shyam @6%	20,000		Less: Loss by fire	2,000	
Add: Accrued interest	300	20,300		62,000	
Sundry Creditors		24,000	Less: Depreciation	12,400	49,600
Creditor for machinery		3,000	Patents	40,000	
Bank Overdraft		15,000	Less: Depreciation	4,000	36,000
			Furniture & Fixtures	8,000	
			Less: Depreciation	800	7,200
			Closing Stock	30,000	
			Add: with Customers	1,000	31,000
			Debtors	20,400	
			Less: Sent on approval	1,200	
			Less: Bad debts w/o	200	
				19,000	
			Less: Provision doubtful debts @ 5%	950	
				18,050	
			Less: Provision for discount @ 2%	361	17,689
			Cash & bank		33,750
		2,03,589			2,03,589

4. **The Balance Sheet of *X* and *Y* who shares profits and losses in the ratio of 3 : 2, at 31st March, 2019 was as follows:**

Liabilities	₹	Assets		₹
Creditors	**36,000**	**Cash at Bank**		**20,000**
Workmen's Compensation Fund	**24,000**	**Debtors**	**1,30,000**	
Employees' Provident Fund	**20,000**	**Less: Provision**	**10,000**	**1,20,000**
General Reserve	**40,000**	**Stock**		**60,000**
X's Capital	**1,68,000**	**Investments**		**1,00,000**
Y's Capital	**1,12,000**	**Patents**		**20,000**
		Goodwill		**80,000**
	4,00,000			**4,00,000**

They decided to admit *Z* on that date for 1/4th share on the following terms:

(a) New Profit sharing ratio will be 6 : 9 : 5. *Z* is to bring in capital equal to 1/4th of the total capital of the new firm.

(b) Goodwill of the firm is to be valued at 4 years' purchase of the average super profits of the last three years. Average profits of the last three years are ₹ 70,000,

while the normal profits that can be earned with the capital employed are ₹ 30,000. No Goodwill is to appear in the books. Z brings in ₹ 24,000 cash out of his share of Goodwill.

(c) Patents to be written down to ₹ 3,000 and Stock is undervalued by ₹ 2,000. 20% of General Reserve to be transferred to Provision for Doubtful Debts. ₹ 9,000 included in Sundry Creditors be written back as no longer payable.

(d) Out of the amount of insurance which was debited entirely to P&L A/c,₹ 10,000 be carried forward as an Unexpired Insurance. Unaccounted Accrued Income of ₹ 2,000 to be provided for. A debtor whose dues of ₹ 10,000 were written off as Bad Debts paid 80% in full settlement. A claim of ₹ 6,000 on account of workmen's compensation to be provided for.

(e) The market value of investments was ₹ 90,000. Half of the investments were to be taken over by old partners in their old profit sharing ratio.

Prepare Revaluation Account, Capital Accounts of the Partners and the Balance Sheet of new firm. 15

Answer:

4.

Revaluation Account

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Patents		17,000	By Sundry Creditors	9,000
To Investments		10,000	By Prepaid Insurance	10,000
To Profit on Revaluation t/f to:			By Bad Debts Recovered	8,000
X's Capital A/c	2,400		By Stock	2,000
Y's Capital A/c	1,600	4,000	By Accrued Income	2,000
		31,000		31,000

Partners Capital Accounts

Dr. **Cr.**

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Goodwill A/c	48,000	32,000	—	By Balance b/d	1,68,000	1,12,000	—
To Investments A/c	27,000	18,000	'—	By General Reserve A/c	19,200	12,800	—
To X's Capital A/c	—	8,000	40,000	By Revaluation A/c	2,400	1,600	—
To Balance c/d	1,73,400	75,600	83,000	By Workmen's Com.	10,800	7,200	
				By,Bank A/c (Premium for Goodwill)	----	---	24,000
				By Z's Current A/c			16,000
				By Y's Capital A/c	8,000	—	—
				By,Z's Capital A/c	40,000		
				By Bank A/c	—	—	83,000
	2,48,400	1,33,600	1,23,000		2,48,400	1,33,600	1,23,000

Balance Sheet of New Firm as at 31st March, 2019

Dr. **Cr.**

Liabilities	**Amounts (₹)**	**Assets**		**Amounts (₹)**
Creditors	27,000	Cash at Bank		1,35,000
Employees' Provident Fund	20,000	Debtors	1,30,000	
Workmen's Compensation Claim	6,000	Less: Provision	18,000	1,12,000
X's Capital A/c	1,73,400	Stock		62,000
Y's Capital A/c	75,600	Investments		45,000
Z's Capital A/c	83,000	Patents		3,000
		Prepaid Insurance		10,000
		Accrued Income		2,000
		Z's Current A/c		16,000
	3,85,000			3,85,000

Working Notes:

1. X's sacrifice = 3/5 - 6/20 = 6/20, Y's gain = 2/5 - 9/20 = (1/20)
2. Firm's Goodwill = Super Profits x 4 = (₹ 70,000 - ₹ 30,000) x 4 = ₹ 1,60,000
3. Z's Share of Goodwill = ₹ 1,60,000 x 1/4 = ₹ 40,000
4. Y's Share of Goodwill = ₹ 1,60,000 x 1/20 = ₹ 8,000
5. Z's New Capital = (₹ 1,73,400 + ₹ 75,600) x 1/3 = ₹ 83,000

Cash at Bank Account

Dr. **Cr.**

Particulars	**Amounts (₹)**	**Particulars**	**Amounts (₹)**
To Balance b/d	20,000	By Balance c/d	1,35,000
To Z's Capital A/c	83,000		
To Bad Debts Recovered	8,000		
To Premium for Goodwill	24,000		
	1,35,000		1,35,000

5. (a) A firm has two departments-Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018: **8**

	Sawmill (₹)	**Furniture (₹)**
Opening Stock on 1st January, 2018	**1,50,000**	**25,000**
Sales	**12,00,000**	**2,00,000**
Purchases	**10,00,000**	**7,500**
Supply to Furniture Department	**1,50,000**	**—**
Selling expenses	**10,000**	**3,000**
Wages	**30,000**	**10,000**
Closing Stock on 31st December, 2018	**1,00,000**	**30,000**

The value of stocks in the Furniture Department consist of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15% on sales

in 2017. General expenses of the business as a whole came to ₹ 55,000. The firm adopts FIFO method for assigning costs to inventories.

(b) On 02.06.2019 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the record saved:

	₹
Stock at cost on 01.04.2018	**1,35,000**
Stock at 90% of cost on 31.03.2019	**1,62,000**
Purchases for the year ended 31.03.2019	**6,45,000**
Sales for the year ended 31.03.2019	**9,00,000**
Purchases from 01.04.2019 to 02.06.2019	**2,25,000**
Sales from 01.04.2019 to 02.06.2019	**4,80,000**

Sales up to 02.06.2019 includes ₹ 75,000 (invoice price) being the goods not dispatched to the customers.

Purchases up to 02.06.2019 includes a machinery acquired for ₹ 15,000.

Purchases up to 02.06.2019 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,20,000 and it is subject to average clause.

Ascertain the amount of claim for loss of stock. **7**

Answer:

5. (a)

Departmental Trading and Profit and Loss Account

Dr. **Cr.**

Particulars	**Sawmill (₹)**	**Furniture (₹)**	**Particulars**	**Sawmill (₹)**	**Furniture (₹)**
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture department	1,50,000	
To Wages	30,000	10,000	By Closing stock	1,00,000	30,000
To Transfer from saw mill		1,50,000			
To Gross profit	2,70,000	37,500			
	14,50,000	2,30,000		14,50,000	2,30,000
To Selling expenses	10,000	3,000	By Gross profit	2,70,000	37,500
To Net Profit	2,60,000	34,500			
	2,70,000	37,500		2,70,000	37,500

General Profit & Loss Account

Dr. **Cr.**

Particulars	Amounts (₹)	Particulars	Amounts (₹)
To General Expenses	55,000	By Net Profit from	
To Stock reserve (WN – 2)	4,500	Saw Mill	2,60,000
To Net Profit	2,37,813	Furniture	34,500
		By Stock reserve (opening WN-1)	2,813
	2,97,313		2,97,313

Working Notes:

1. Calculation of Stock Reserve (opening)
   25,000 x 75% wood x 15% = ₹ 2,813

2. Calculation of closing stock reserve
   Gross profit Rate of Saw Mill of 2018
   2,70,000 / (12,00,000 + 1,50,000) x 100 = 20%
   30,000 x 75% x 20% = ₹ 4,500

(b)

In the Books of Mr. Black
Trading Account for the year ended 31.03.2019

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchase	6,45,000	By Closing Stock at Cost	1,80,000
To Gross Profit	3,00,000	$(1,62,000 \times \frac{100}{90})$	
	10,80,000		10,80,000

Memorandum Trading Account
for the period from 01.04.2019 to 02.06.2019

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock (at cost)		1,80,000	By Sales	4,80,000	
To Purchase	2,25,000		Less: goods not dispatched	75,000	4,05,000
Add: Goods received but invoice not received	30,000		By Closing Stock (Balancing Figure)		1,50,000
	2,55,000				

Less: Machinery	15,000	2,40,000			
To Gross Profit (Refer W.N.)		1,35,000			
		5,55,000			5,55,000

Calculation of Insurance Claim:

Claim subject to average clause = $\left(\frac{\text{Actual Loss of Stock}}{\text{Value of Stock on the date of fire}} \times \text{Amount of policy}\right)$

$= 1{,}20{,}000 \times \left(\frac{1{,}50{,}000}{1{,}50{,}000}\right) = ₹\ 1{,}20{,}000$

Working Notes:

G. P. Ratio = $\frac{3{,}00{,}000}{9{,}00{,}000} \times 100 \quad = 33\frac{1}{3}\%$

Amount of Gross Profit = ₹ 4,05,000 × $33\frac{1}{3}\%$ = ₹ 1,35,000

6. (a) Bharat Enterprise furnishes you the following information for the quarter January to March. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:

(i) Total sales amounted to ₹ 2,20,000 including sale of old motor car for ₹ 10,000 (book value ₹ 5,000). Total credit sales were 80% higher than the cash sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ₹ 40,000 and credit sales for the period. Debtors were allowed discount of ₹ 10,000.

(iii) Bills Receivables drawn during the period totaled ₹ 20,000 of which one bill of ₹ 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.

(iv) A sum of ₹ 3,000 was written off as Bad Debts, ₹ 7,000 was realized against Bad Debts written off in earlier years and provision of ₹ 6,000 was made for doubtful debts. 5

(b) On 1st January, 2015, KC Limited obtained a piece of land on lease from Juggu Limited. The terms were as follows:

(i) Royalty at ₹ 60 per tonne produced.

(ii) Minimum Rent ₹ 3,00,000 per annum up to 31st December, 2016, and after that it will be ₹ 4,00,000 per annum.

(iii) Short workings can be recouped in the next two years only but subject to a maximum of ₹ 60,000 per year.

(iv) In the event of strike, the minimum rent would be taken pro-rata on the basis of actual working days but in the event of lockout, the lease would enjoy concession in respect of minimum rent for 50% of the period of lockout.

In addition to the above, KC Limited has been granted a right to receive cash subsidy equal to 50% of the unrecoupable short workings by the Government of India up to the first five years of the lease.

The sales and closing stock up to 2018-19 were as follows:

	2014-15	2015-16	2016-17	2017-18	2018-19
Sales (in Tonnes)	**600**	**3100**	**5550**	**4300**	**7400**
Closing Stock (in Tonnes)	**150**	**460**	**630**	**150**	**650**

During the year 2017-18, a period of strike was for three months and during 2018-19, KC Limited was being locked out for 73 days.

Show the necessary Ledger Accounts in the books of KC Limited, when the books are closed on 31st March in every year. 10

Answer:

6. (a)

Debtors Ledger Adjustment Account in the General ledger

Dr. **Cr.**

Date	Particular	₹	Date	Particulars	₹
Jan. 1	To Balance b/d	40,000	Jan - Mar	By General Ledger Adj. A/c:	
Jan - Mar	To General. Ledger Adj A/c:			Collection from Debtors-bank [60% of (40,000 + 1,35,000)]	1,05,000
	Sales	1,35,000		Discount allowed	10,000
	Bills Receivables dishonoured	5,000		Bills Receivables	20,000
				Bad debts (₹ 2,500 + 3,000)	5,500
			31st March	By Balance c/d	39,500
		1,80,000			1,80,000

Note: No entries are to be made:

(a) For ₹ 7,000 realised against bad debts written off in earlier years, and

(b) For provision of ₹ 6,000 made for doubtful debts.

Working Notes: Credit Sales = (2,20,000 – 10,000) - (2,10,000 x 100/280) = ₹ 1,35,000

(b)

Analytical Table

Year	Minimum Rent	Actual Royalty	S.W.(-) or E.W.(+)	S.W. Recouped	S.W. Transferred to P/L A/c	Subsidy	Actual Payment	Closing Bal. Of S.W.
	₹	₹	₹	₹	₹	₹	₹	₹
2014-15	75,000	45,000	(-) 30,000	---	---	---	75,000	30,000
2015-16	3,00,000	2,04,600	(-) 95,400	---	---	---	3,00,000	1,25,400
2016-17	3,25,000	3,43,200	(+)18,200	18,200	5,900	5,900	3,25,000	95,400
2017-18	3,00,000	2,29,200	(-) 70,800	---	47,700	47,700	3,00,000	70,800

2018-19	3,60,000	4,74,000	(+)1,14,000	60,000	---	---	4,14,000	10,800

Working Notes:

(ii) Minimum Rent:
for 2014-15 = 3,00,000 × 3/12 = ₹ 75,000 ; for 2015 -16 = 3,00,000 ;
for 2016-17= (3,00,000 × 9/12) + (4,00,000 × 3/12) = 3,25,000;
for 2017-18 (Strike) = 4,00,000 × 9/12 = ₹ 3,00,000;
for 2018-19 (Lockout) = 4,00,000 - (4,00,000 × 50% × 73/365)
= 4,00,000 – 40,000 = ₹ 3,60,000.

(ii)

Production and Actual Royalty:

	2014-15	2015-16	2016-17	2017-18	2018-19
Sales(in Tonnes)	600	3100	5550	4300	7400
Add: Closing Stock (tonnes)	150	460	630	150	650
	750	3560	6180	4450	8050
Less: Opening Stock(tonnes)	---	150	460	630	150
Production in tonnes	750	3410	5720	3820	7900
Actual Royalty (₹) @ ₹60	45,000	2,04,600	3,43,200	2,29,200	4,74,000

Ledger of KC Limited

Royalty Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.15	To Juggu Limited	45,000	31.3.15	By Statement of P/L	45,000
31.3.16	To Juggu Limited	2,04,600	31.3.16	By Statement of P/L	2,04,600
31.3.17	To Juggu Limited	3,43,200	31.3.17	By Statement of P/L	3,43,200
31.3.18	To Juggu Limited	2,29,200	31.3.18	By Statement of P/L	2,29,200
31.3.19	To Juggu Limited	4,74,000	31.3.19	By Statement of P/L	4,74,000

Short-workings Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.15	To Juggu Limited	30,000	31.3.15	By Balance c/d	30,000
1.4.15	To Balance b/d	30,000	31.3.16	By Balance c/d	1,25,400
31.3.16	To Juggu Limited	95,400			
		1,25,400			1,25,400
1.4.16	To Balance b/d	1,25,400	31.3.17	By Juggu Limited	18,200
			31.3.17	By Bank A/c (Subsidy)	5,900
			31.3.17	By Statement of P/L	5,900

			31.3.17	By Balance c/d	95,400
		1,25,400			1,25,400
1.4.17	To Balance b/d	95,400	31.3.18	By Bank A/c (Subsidy)	47,700
31.3.18	To Juggu Limited	70,800	31.3.18	By Statement of P/L	47,700
			31.3.18	By Balance c/d	70,800
		1,66,200			1,66,200
1.4.18	To Balance b/d	70,800	31.3.19	By Juggu Limited	60,000
			31.3.19	By Balance c/d	10,800
		70,800			70,800

Juggu Limited Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.15	To Bank A/c	75,000	31.3.15	By Royalty A/c	45,000
			31.3.15	By Short-workings A/c	30,000
		75,000			75,000
31.3.16	To Bank A/c	3,00,000	31.3.16	By Royalty A/c	2,04,600
			31.3.16	By Short-workings A/c	95,400
		3,00,000			3,00,000
31.3.17	To Short-workings A/c	18,200	31.3.17	By Royalty A/c	3,43,200
	To Bank A/c	3,25,000			
		3,43,200			3,43,200
31.3.18	To Bank A/c	3,00,000	31.3.18	By Royalty A/c	2,29,200
			31.3.18	By Short-workings A/c	70,800
		3,00,000			3,00,000
31.3.19	To Short-workings	60,000	31.3.19	By Royalty A/c	4,74,000
	To Bank A/c	4,14,000			
		4,74,000			4,74,000

7. (a) Briefly explain the objectives and applicability of Accounting Standard for Construction Contracts (AS-7). Describe the basic principles of recognition of revenue and expenses as per AS-7. 8

(b) What do you mean by 'Customised Accounting Software'? Discuss its advantages. 7

Answer:

7. (a) Objective of AS-7 :

Accounting for long-term construction contracts involves question as to when revenue should be recognized and how to measure the revenue in the books of contractor. The primary objective of this AS is the allocation of 'contract revenue' and 'contract cost' to the accounting period in which construction work is performed.

Applicability of AS-7:

This Standard is applicable in accounting for construction contracts in contractor's financial statements. In other words the AS does not apply to customer (Contractee). This would not be applicable for the construction projects undertaken by the enterprise on its own account as a commercial venture in the nature of production activities.

Basic principles of recognition of revenue and expenses:

- Revenue recognized in the period in which work is performed;
- Expenses recognized in the period in which the work to which expenses relate is performed.

  Conditions for recognizing the contract revenue:

  - Following conditions must be fulfilled for recognizing the contract revenue:
    (i) Total contract revenue can be measured reliably
    (ii) It is probable that economic benefits associated with contract will flow to the enterprise / contractor
    (iii) Total contract cost and cost upto the stage of completion is measured reliably
    (iv) Contract cost attributable to contract can be clearly identified.

  Uncertainty in collection amounts to expenses - When an uncertainty arises about the collectability of an amount already included in contract revenue and already recognized in profit and loss statement, it amounts to expense. This uncollectable amount of which recovery has ceased to be probable is recognized as an expense rather than as an adjustments to contract revenue.

(b) **Customised Accounting Software:**

A customised accounting software is one which is developed on the basis of specific requirements of the organisation. A feasibility study is first made before the decision to develop a software is made. The life cycle of a customized accounting software begins with the organisation providing the user requirements. Based on the these user requirement the system analyst prepares a requirement specification which is given for approval by the user management. Once the requirement specification is approved, the designing process begins. Development, testing and implementation are the other components of the system development life cycle.

Advantages of a Customised Accounting Package:

1. The functional areas which are not covered in pre-packaged software gets computerised.
2. The input screens can be tailor made to match the input documents for ease of data entry.
3. It provides many MIS reports as per the specification of the organisation.
4. It facilitates the use of Bar-code scanners as input devices suitable for the specific needs of an individual organisation.
5. It can suitably match with the organisational structure of the company.

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

(a) Users of Accounting information

(b) Objective and necessity for providing Depreciation

(c) Applicability of Section 37 of the Indian Partnership Act, 1932

(d) Difference between Sale and Consignment

Answer:

8. (a) Users of Accounting Information

Accounting provides information both to internal users and the external users. The internal users are all the organizational participants, at all levels of management (i.e. top, middle and lower). Generally top: level management requires information for planning, middle level management which requires information for controlling the operations. For internal use, the information is usually provided in the form of reports, for instance Cash Budget Reports, Production Reports, Idle Time Reports, Feedback Reports, whether to retain or replace an equipment decision reports, project appraisal report, and the like.

There are also the external users (e.g. Banks, Creditors). They do not have direct access to all the record 'of an enterprise, they have to rely on financial statements as the source of information. External users are basically, interested in the solvency and profitability of an enterprise.

(b) Objective and Necessity for Providing Depreciation

Eric Kohler defined depreciation as "the lost usefulness, expired utility, the diminution in service yield." Its measurement and charging are necessary for cost recovery. It is treated as a part of the expired cost for an asset. For determination of revenue, that part or cost should be matched against revenue. The objects or necessities of charging depreciation are:

(i) Correct calculation of cost of production: Depreciation is an allocated cost of a fixed asset. It is to be calculated and charged correctly against the revenue of an accounting period. It must be correctly included within the cost of production.

(ii) Correct calculation of profits: Costs incurred for earning revenues must be charged properly for correct calculation of profits. The consumed cost of assets (depreciation) has to be provided for correct matching of revenues with expenses.

(iii) Correct disclosure of fixed assets at reasonable value: Unless depreciation is charged, the depreciable asset cannot be correctly valued and presented in the Balance Sheet. Depreciation is charged so that the Balance Sheet exhibits a true and fair view of the affairs of the business.

(iv) Provision of replacement cost: Depreciation is a non-cash expense. But net profit, is calculated after charging it. Through annual' depreciation cash resources are saved and accumulated to provide replacement cost at the end of the useful life of an asset.

(v) Maintenance of capital: A significant portion of capital has to be invested for purchasing fixed assets. The values of such assets are gradually reduced due to their regular use and passage of time. Depreciation on the assets is treated as an expired cost and it is matched against revenue. It is charged against profits. If it is not charged the profits will remain inflated. This will cause capital erosion.

(vi) Compliance with technical and legal requirements: Depreciation has to be charged to comply with the relevant provisions of the Companies Act and Income Tax Act.

(c) Applicability of Section 37 of the Indian Partnership Act 1932:

In case of retirement, the retiring partner or in case of death, the executor of the deceased partner, if the dues are not settled, then such retired partner or the executor is entitled to the following:

Maximum of : Interest @ 6% p.a. on the amount due to them (i.e. if the amount is unsettled, like, rate of interest on loan to be allowed to the retired partner or the executor is not mentioned)

Or

The share of profit earned for the amount due to the partner

Conditions:

(a) The surviving partners/continuing partners continue to carry on the business of the firm.

(b) The business is carried on without any final settlement of accounts between the continuing partners and the outgoing partners or his estate.

(c) There is no contract to the contrary of the options contained in Section 37 i.e. share in the profits or interest @ 6% p.a. on the unsettled capital.

(d) Difference between Sale and Consignment

1. In sale the property in goods is transferred to the buyer immediately whereas in consignment the property is transferred to the buyer only when goods are sold by the consignee. The ownership of goods remains with the consignor when goods are transferred to the consignee by the consignor.
2. In sale, the risk attaching to the goods passes with ownership to the buyer. In case of a consignment, the risk attaching to the goods does not pass to the consignee who acts as a mere agent. If there is any damage or loss to the goods it is borne by the consignor provided the consignee has taken reasonable care of the goods and the damage or loss is not due to his negligence.
3. The relationship of consignor and consignee is that of a principal, and an agent as in a contract of agency whereas the relationship of buyer and seller is governed by the Sale of Goods Act.
4. Unsold goods on consignment are the property of the consignor and may be returned if not saleable in the market whereas goods sold on sale basis are normally not returnable unless there is some defect in them.