INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2018

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) Both cash and credit transactions are recorded, on the basis of

(A) Accounting Period Concept

(B) Going Concern Concept

(C) Business Entity Concept

(D) Accrual Concept

(ii) Which of the following book is both a journal and a ledger?

(A) Cash Book

(B) Sales Day Book

(C) Bills Receivable Book

(D) Journal Proper

(iii) Interest received in advance account is a

(A) Nominal Account

(B) Real Account

(C) Artificial Personal Account

(D) Representative Personal Account

(iv) Shiva draws a bill on Sanat on 25th October, 2018 for 90 days, the maturity date of the bill will be

(A) 27th January, 2019

(B) 26th January, 2019

(C) 25th January, 2019

(D) 28th January, 2019

(v) Peeru and Simu are entered in the business of buy and sale of food grain for a period of one year and sharing the profit in the ratio of 3 : 2, this agreement is a

(A) Partnership

(B) Consignment

(C) Joint-venture

(D) Lease

(vi) At the end of the year 2017-18, Prepaid Insurance Premium Rs. 7,500 appeared in the Trial Balance, it will be shown

(A) only in Profit & Loss Account.

(B) only in Balance Sheet.

(C) both in Profit & Loss Account and in Balance Sheet.

(D) not in Both in Profit & Loss Account and in Balance Sheet.

(vii) Contingent Liability would appear

(A) on the liabilities side of the Balance Sheet.

(B) on the assets side of the Balance Sheet.

(C) as a note in the Balance Sheet.

(D) None of the above

(viii) Debtors Ledger Adjustment Account is opened in the

(A) Debtors Ledger

(B) Creditors Ledger

(C) General Ledger

(D) Both Creditors Ledger and General Ledger

(ix) Generally sacrifice ratio is concerned with the situation of

(A) Admission of a new partner

(B) Retirement of a partner

(C) Dissolution of firm

(D) Conversion of firm into company

(x) KCS purchased a machine from JPS on hire purchase system, whose cash price was Rs.8,64,000. Rs.2,16,000 being paid on delivery and balance in three annual instalments of Rs.2,88,000 each. The amount of interest included in first installment would be

(A) Rs. 72,000

(B) Rs. 57,600

(C) Rs. 1,08,000

(D) Rs. 36,000

(b) Match the following: 1×5=5

Column-I		Column-II	
(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) 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 ………………

(d) State with reason whether the following statements are true or false (No marks shall be awarded without valid reason): **1×5=5**

(i) Bank reconciliation statement is prepared to arrive at the bank balance.

(ii) Deferred revenue expenditure is current year's revenue expenditure to be paid in the later years.

(iii) Reducing balance method for depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

(iv) Reserve for Discount on Creditors has a credit balance.

(v) A promissory note can be made payable to the bearer.

Answer: 1 (a)

(i) D

(ii) A

(iii) D

(iv) C

(v) C

(vi) B

(vii) C

(viii) C

(ix) A

(x) C

Answer: 1 (b)

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

Answer: 1 (c)

(i) To Balance b/f

(ii) allocation .valuation

(iii) Net Realisable Value

(iv) Agent and Principal

(v) Co-owners

Answer: 1 (d)

(i) False

(ii) False

(iii) True

(iv) False

(v) False

Section – B
Answer any five from the following.
Each Question carries 15 marks. **15 ×5=75**

2. (a) A bookkeeper extracted the following Trial Balance as on 31st March, 2018:

Heads of Accounts	Dr. Balance (Rs.)	Cr. Balance (Rs.)
Furniture	20,000	--------
Capital	--------	2,00,000
Debtors	2,00,000	--------
Stock (1st April, 2017)	1,04,000	--------
Creditors	---------	80,000
Trade Expenses	50,000	------
Sales	---------	8,58,000
Wages	30,000	--------
Stock (31st March, 2018)	98,000	--------
Machinery	---------	50,000
Purchases	6,25,000	--------
Wife's loan to the business	50,000	--------
Discount Allowed	--------	4,000
Drawings made by the Proprietor	--------	45,000
Motor Van	60,000	-------
Total	12,37,000	12,37,000

You are required to:
(i) State the errors giving reasons,
(ii) Redraft the Trial Balance correctly. **7**

(b) Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31st March, 2018 and Balance Sheet as at that date:

Particulars	31st March, 2017 (Rs.)	31st March, 2018 (Rs.)
Furniture	1,00,000	1,20,000
Stock of Goods-in-Trade	60,000	20,000
Sundry Debtors	1,20,000	1,40,000
Prepaid Expenses	------	4,000

Sundry Creditors	**40,000**	**?**
Unpaid Expenses	**12,000**	**20,000**
Cash	**22,000**	**6,000**

Receipts and payment during the year were as follows:

Particulars	**Rs.**
Receipts from Debtors	**4,20,000**
Paid to Creditors	**2,00,000**
Transportation	**40,000**
Drawings	**1,20,000**
Sundry Expenses	**1,40,000**
Furniture Purchased	**20,000**

Other Information: There were considerable amount of Cash Sales. Credit Purchases during the year amounted Rs. 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors. 8

Answer: 2(a) (i)

(I) Stock on 31st march, 2018, will not appear in the Trial balance because it represents a part of the goods purchased but not yet sold. As the total purchases have been included in the Trial balance, there is no need of including the Closing Stock again.

(II) Machinery is an asset and thus will appear in the debit column.

(III) Wife's loan to the business is a liability. It will appear in the credit column.

(IV) Discount allowed, being an expense, will appear in the debit column.

(V) Drawings made by the proprietor is a decrease of capital (i.e., decrease of proprietor's claim from the business). It will appear in the debit column.

(ii) **Trial balance as on 31st March, 2018**

Heads of Accounts		Dr. Balance (Rs.)	Cr. Balance (Rs.)
Furniture		20,000	--------
Capital		----------	2,00,000
Debtors		2,00,000	--------
Stock (1st April, 2017)		1,04,000	---------
Creditors		---------	80,000
Trade Expenses		50,000	------
Sales		----------	8,58,000
Wages		30,000	--------
Machinery		50,000	--------
Purchases		6,25,000	--------
Wife's loan to the business		--------	50,000
Discount Allowed		4,000	--------
Drawings made by the Proprietor		45,000	--------
Motor Van		60,000	---------
Total		11,88,000	11,88,000

Answer: 2(b)

Ram Prakash
Trading and Profit and Loss Account for the year ended 31st march, 2018

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		60,000	By Sales:		
To Purchases		2,30,000	Credit (WN 1)	4,40,000	
To Transportation		40,000	Cash (WN 3)	84,000	5,24,000
To Gross Profit c/d		2,14,000	By Closing Stock		20,000
		5,44,000			5,44,000
To Sundry Exp.	1,40,000				
Less: Unpaid exp. For 2017	12,000		By Gross Profit b/d		2,14,000
	1,28,000				
Less: Prepaid Exp. 2019	4,000				
	1,24,000				
Add: Unpaid Exp. For 2018	20,000	1,44,000			
To Provision for Doubtful debts.		14,000			
To Net Profit transferred to Capital A/c		56,000			
		2,14,000			2,14,000

Balance Sheet as at 31st March, 2018

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Creditors (WN 2)		70,000	Cash and balance		6,000
Unpaid Expenses		20,000	Debtors	1,40,000	
Capital (WN 4)	2,50,000		Less: Provision for Doubtful Debts	14,000	1,26,000
Add: Net Profit	56,000		Closing Stock		20,000
	3,06,000		Prepaid Expenses		4,000
Less: Drawing	1,20,000	1,86,000	Furniture	1,00,000	
			Add: Additions	20,000	1,20,000
		2,76,000			2,76,000

Working Notes:

1. Calculation of Credit Sales:

Total Debtors Account

Particulars	Rs.	Particulars	Rs.
To balance b/d	1,20,000	By Cash/Bank A/c	4,20,000
To Sales A/c – credit (b/f)	4,40,000	By Balance c/d	1,40,000
	5,60,000		5,60,000

2. Calculation of Closing balance of Creditors:

Total Creditors Account

Particulars	Rs.	Particulars	Rs.
To Cash/Bank A/c	2,00,000	By Balance c/d	40,000
To Balance c/d (b/f)	70,000	By purchase A/c (Credit Purchases)	2,30,000
	2,70,000		2,70,000

3. Calculation of Cash Sales:

Cash Book

Particulars	Rs.	Particulars	Rs.
To Balance b/d	22,000	By Total creditors A/c	2,00,000
To Total Debtors A/c	4,20,000	By Drawings A/c	1,20,000
To Sales A/c (b/f)	84,000	By Sundry Exp. A/c	1,40,000

		By Transportation A/c	40,000
		By Furniture A/c	20,000
		By balance c/d	6,000
	5,26,000		5,26,000

4. Calculation of Capital in the Beginning:

Statement of Affairs as at 31st march, 2017

Particulars	Rs.	**Particulars**	Rs.
Creditors	40,000	Furniture A/c	1,00,000
Unpaid Expenses	12,000	Stock	60,000
Capital (B/F)	2,50,000	Debtors	1,20,000
		Cash in hand	22,000
	3,02,000		3,02,000

3. The following information provided by the Nav Yuvak Mandal, Delhi for the first year ended 31st March, 2018:

(i) Donations received for building Rs.25 Lakh.

(ii) Other incomes and receipts were:

(Rs. in '000)

Particulars	**Capital Income**	**Revenue Income (Rs.)**	**Actual Receipt (Rs.)**
Entrance fees	**------**	**251**	**251**
Life Membership fees	**105**	**-----**	**105**
Subscription	**------**	**1160**	**1151**
Play Ground rent	**------**	**120**	**110**
Refreshment account	**------**	**115**	**115**
Sundry incomes	**-------**	**62**	**49**

(iii) Expenditures and actual payment were:

(Rs. in '000)

Particulars	**Capital Expenditure (Rs.)**	**Revenue Expenditure (Rs.)**	**Actual Payment (Rs.)**
Land	**800**	**...**	**800**
Books	**236**	**...**	**202**
Furniture	**345**	**...**	**315**
Honorarium and salaries	**...**	**165**	**131**
Maintenance of play ground	**...**	**52**	**50**
Refreshment account	**...**	**79**	**79**
Insurance Premium	**...**	**12**	**15**
Sundry expenses	**...**	**70**	**65**

Others: Donation were utilized to the extent of Rs.13 Lakh in construction of building, balance were unutilized. In order to keep in safe, 8% Government Securities were purchased on 31st December, 2017 for Rs.10.50 Lakh. Remaining amount was put in bank as term deposit on 31st March, 2018. During the year 2017-18, Subscription received in advance Rs.52,000 for the year 2018-19. Depreciation to be charged on Building and Furniture @ 10% and on Books @ 15%.

You are required to prepare the Receipts & Payments Account, Income & Expenditure Account and Balance Sheet as on 31st March, 2018. **15**

Answer: 3

Receipts & payments Account for the year ending 31st march, 2018

(Rs. in 000)

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Donations	2,500	By Land	800
To Entrance fees	251	By Building	1,300
To Life Membership fees	105	By Books	202
To Subscription	1,151	By Furniture	315
To Play Ground rent	110	By Honorarium and salaries	131
To Refreshment account	115	By Maintenance of play ground	50
To Sundry incomes	49	By Refreshment account	79
		By Insurance Premium	15
		By Sundry expenses	65
		By Govt. Securities	1,050
		By Term Deposits	150
		By Balance c/d	124
	4,281		4,281

(Income & Expenditure Account For the year ending 31st march, 2018 (Rs. in 000)

Expenditures	Rs.	Amount (Rs.)	Incomes	Rs.	Amount (Rs.)
To Honorarium and salaries	131		By Subscription	1,151	
Add: Outstanding	34	165	Less: Received in Advance	52	
To Maintnc. of play ground	50			1,099	
Add: Outstanding	2	52	Add: Outstanding	61	1,160
To Insurance Premium	15		By Entrance fees		251
Less: Prepaid	3	12	By Play Ground rent	110	
To Sundry expenses	65		Add: Outstanding	10	120
Add: Outstanding	5	70	By Profit on Refreshment		36
To Depreciation					
On Building-10% on Rs.13 Lakh		130	By Sundry incomes	49	
On Furniture-10% on Rs.3,45,000		34.50	Add: Outstanding	13	62
On Books- 15% on Rs.236000		35.40	By Interest on Govt. Securities(Accrued)		21
To Surplus		1151.10			
		1,650			1,650

Balance Sheet as at 31st march, 2018

(Rs. in 000)

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)

Capital Fund Add: Life Membership fees 105 Add: Surplus 1151.10	1256.10	Land	800
		Building (Rs.13Lakh- 1.3 Lakh)	1170
		Books(Rs.236000 - 35400)	200.6
Donations for Building	2500	Furniture(Rs.345000 - 34500)	310.5
Creditors for Books	34	8% Govt. Securities	1050
Creditors for Furniture	30	Out. Int. on Govt. Securities	21
Outstanding Hon. and salaries	34	Outstanding Subscription	61
Outs. Maintenance of play ground	2	Prepaid Insurance Premium	3
Outstanding Sundry expenses	5	Play Ground rent- Outstanding	10
Subscription Received in Advance	52	Sundry incomes-Outstanding	13
		Term Deposits	150
		Cash and Bank	124
	3,913.1		3,913.1

Working Notes:

(1) Donation received for building is treated as capital item.

(2) Amount of Term Deposit = Donations Received-(Cost of Building + 8% Govt. Securities)

Rs.25 Lakh -(13 Lakh + 10.50 Lakh) = Rs.1,50,000

(3) Profit on Refreshment = Rs.1,15,000- 79,000 = Rs.36,,000

(4) Outstanding Subscription = Rs. 1160000 - (11,51,000-52,000) = Rs. 61,000

(5) Accrued Interest on Govt. Securities: Rs.10,50,000 × 8% × 3/12 = Rs.21,000

4. (a) A, B and C are partners in a firm sharing profits and losses as 3 : 2 : 1. Their Balance Sheet as on 31st March, 2018 was as follows:

(Rs. in Lakh)

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Partners' Capital A/c:		**Land and Building**	**210**
A	**145**	**Plant and Machinery**	**255**
B	**110**	**Stock**	**125**
C	**75**	**Debtors**	**95**
General Reserve	**165**	**Bills Receivable**	**25**
Partners' Loan:		**Cash in Hand**	**3**
A	**30**	**Cash at Bank**	**37**
B	**20**		
Sundry Creditors	**205**		
	750		**750**

B died on 1st August, 2018. His account is to be settled under the following terms:

(i) Goodwill will be valued at 3 years purchase of last four accounting years average profit. Profits were : 2014-15 Rs. 135 Lakh, 2015-16 Rs. 145 Lakh, 2016-17 Rs. 131 Lakh and 2017-18 Rs. 165 Lakh.

(ii) Land and Building will be valued at Rs. 250 Lakh and Plant and Machinery will be valued at Rs. 240 Lakh.

(iii) For the purpose of calculating B's share in the profits of 01.04.2018 to 31.07.2018, the profits for the year 2017-18 will be taken as base.

(iv) Interest on Partners' Loan will be calculated @ 6% per annum.

(v) A sum of Rs.50 Lakh to be paid immediately to B's Executor and the balance to be paid on 1st December, 2018 together with interest @ 10% per annum.

You are required to pass necessary journal entries to record the above transactions and amount payable to B' s Executor's Account. 15

Answer: 4

Journal

(Rs. in lakh)

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
1.08.18	Land& Building A/c Dr. To Revaluation A/c (For increase in the value of land and building)		40	 40
1.08.18	Revaluation A/c Dr. To Plant & Machinery A/c (For decrease in the value of Plant & Machinery)		15	 15
1.08.18	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For profit on revaluation)		25	 12.5 8.333 4.167
1.08.18	General Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (For transfer of reserve)		165	 82.5 55 27.5
1.08.18	A's Capital A/c Dr. C's Capital A/c Dr. To B's Capital A/c (For the adjustment of goodwill)		108 36	 144
1.08.18	Profit & Loss Suspense A/c Dr. To B's Capital A/c (For the adjustment of profit from 1.4.18 to 1.8.18)		18.333	 18.333
1.08.18	B's Loan A/c Dr. To B's Capital A/c (Balance transferred)		20	 20
1.0818	Interest on B's Loan A/c Dr. To B's Capital A/c (Interest on B's Loan from 1.04.18 to 1.08.18 credited to B's Capital A/c)		0.40	 0.40
1.08.18	B's Capital A/c Dr. To B's Executor's A/c (Being balance of B's Capital A/c transferred to his Executor's A/c = **Rs.**110 +8.333+ 55 + 144+ 18.333 + 20 + 0.40)		356.066	 356.066
1.08.18	B's Executor's A/c Dr. To Bank A/c (Amount paid)		50	 50
1.12.18	Interest A/c Dr. To B's Executor's A/c (For interest due)		10.202	 10.202
1.12.18	B's Executor's A/c Dr. To Bank A/c (Amount due to B's Executor including interest, paid)		316.268	 316.268

Ledger
B's Executor's Account

(Rs. in lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
1.08.18 1.12.18	To Bank A/c To Bank A/c	50 316.268	1.08.18 1.12.18	By Capital A/c By Interest A/c	356.066 10.202
		366.268			366.268

Working Notes:

(1) Calculation of B's share in Goodwill:

Average of past four years profits = (Rs.135 Lakh + Rs.145 Lakh + Rs.131 Lakh + Rs.165 Lakh)/4 = Rs. 144 Lakh

Value of Firm's Goodwill = Rs.144 Lakh × 3 = Rs.432 Lakh

B's Share in Goodwill = Rs.432 Lakh × 2/6 = Rs. 144 Lakh, which will be credited to B's Capital A/c and Debited to A's Capital A/c & C's Capital A/c in the ratio of 3:1

(2) B's Share in profit from 01.04.18 to 1.8.18 =(Rs.165 × 4/12)× 2/6 = Rs.18.333 Lakh

(3) Interest on B's Loan from 01.04.18 to 1.8.18 = Rs.20 Lakh × 6% × 4/12 = Rs.40000

(4) Interest to B's Executor from 1.08.18 to 1.12.18 = Rs.356.066 Lakh – Rs.50 Lakh = Rs. 306.066 × 10% × 4/12 = Rs.10.2022 Lakh

5. (a) The following information provided by the Shobha Departmental Store for the year ended 31st March, 2018:

Department	Purchase(units)	Sales	Closing Stock(units)
X	2500	2550 units @ Rs. 160 per unit	250
Y	5000	4800 units @ Rs.180 per unit	400
Z	6000	6240 units @ Rs. 200 per unit	140

The total value of purchases is Rs. 15 Lakh. It is observed that the rate of gross profit is the same in each department.

You are required to prepare the Departmental Trading Account for the year ended 31 st March, 2018. **9**

(b) Following information is available from the books of Simu & Co. for the year ended 31st March, 2018:

(i) Total Sales amounted to Rs. 560 Lakh including the sale of old Machinery for Rs. 8 Lakh (Book Value Rs. 15 Lakh). The total Cash Sales were 80% less than the total Credit Sales.

(ii) Cash collection from debtors amounted to 75% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for Rs. 15.60 Lakh.

(iii) Bills Receivable drawn during the year totaled Rs.45 Lakh of which bills amounting to Rs. 28 Lakh were endorsed in favour of Creditors. Out of these endorsed B/R, some bills for Rs. 4.60 Lakh were dishonoured for non-payment as the parties became insolvent, their estate realizing nothing.

(iv) Cheques received from Sundry Customers for Rs.41 Lakh were dishonoured; a sum of Rs. 5 Lakh is irrecoverable.

(v) Bad Debts written off in the earlier years was recovered of Rs. 7.50 Lakh.

(vi) Transfers from Creditors Ledger to Debtors Ledger were of Rs. 38 Lakh.

(vii) Sundry Debtors, as on 1st April, 2017, stood at Rs. 128 Lakh.

You are required to show the General Ledger Adjustments Accounts in the Debtors Ledger. **6**

Answer: 5(a)

(i) Computation of Opening Stock Quantity (units):

Particulars	Dept. X	Dept. Y	Dept. Z
Sales- units Add: Closing Stock- units	2550 250	4800 400	6240 140
 Less: Purchases-units	2800 2500	5200 5000	6380 6000
Opening Stock- units	300	200	380

(ii) Computation of Gross Profit Ratio:

	Rs.
Sales value of Total purchase Quantity: Department – X = Rs.160 × 2,500 Department – Y = Rs. 180 × 5,000 Department – Z = Rs.200 × 6,000	 4,00,000 9,00,000 12,00,000
Sale value of total purchase Quantity Less: total purchase price	25,00,000 15,00,000
Gross profit	10,00,000
Rate of gross profit = (Rs.10 lakh/25 lakh) × 100 = 40%	

(iii) Computation of Cost per unit for each Department

Particulars	Dept. X (Rs.)	Dept. Y (Rs.)	Dept. Z (Rs.)
Selling Price per unit Less: G. P. @ 40%	160 64	180 72	200 80
Cost per unit	96	108	120

(iv) Departmental Trading Account for the year ended 31st march, 2018

Particulars	Dept. X (Rs.)	Dept. Y (Rs.)	Dept. Z (Rs.)	Particulars	Dept. X (Rs.)	Dept. Y (Rs.)	Dept. Z (Rs.)
To op. Stock To purchases To G. P.	28,800 2,40,000 1,63,200	21,600 5,40,000 3,45,600	45,600 7,20,000 4,99,200	By Sales By Clo. Stock	4,08,000 24,000	8,64,000 43,200	12,48,000 16,800
	4,32,000	9,07,200	12,64,800		4,32,000	9,07,200	12,64,800

Answer: 5(b)

In the Debtors Ledger
General Ledger Adjustment Account

(Rs. in Lakhs)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.03.18	To Debtors Led. Adj. A/c in G.L:		1.4.17	By Balance b/d	128
	Bank	441	31.3.18	By Debtors Led. Adj.A/c in G.L:	
	B/R	45		Sales (Credit)	460
	Discount Allowed	15.6		B/R Dishonored	4.60
	Bad Debts (4.6 + 5)	9.6		Cheque Dishonored	41
	Transfer	38			
	To Balance c/d	84.4			
		633.6			633.6

Note: Cash Sales, B/R endorsed and Bad Debts recovered are not shown in Gen. Led. Adj. A/c.

Workings: Computation Credit Sales and Collection from Debtors:

Net Total Sales = Rs.560 Lakh – Rs.8 Lakh(Sale of Machinery) = Rs.552 Lakh

Cash Sales 80% less than Total Credit Sales, Hence, Cash Sales and Total Credit Sales ratio

= 1:5,then Credit Sales = Rs.552 Lakh × 5/6 = Rs.460 Lakh.

Collection from Debtors = (128 +460)× 75% = Rs.441 Lakh.

6. (a) CCL wants to take up a loss of profit policy. Turnover during the current year is expected to increase by 20%. The company will avail overdraft facilities from its bank @ 15% interest to boost up the sales. The average daily overdraft balance will be around Rs. 3 Lakh. All other fixed expenses will remain same. The following further details are also available from the previous year's account:

Particulars	Rs.
Total variable expenses	**24,00,000**
Fixed expenses:	
Salaries	**3,30,000**
Rent, Rates and Taxes	**30,000**
Travelling expenses	**50,000**
Postage, Telegram, Telephone	**60,000**
Director's fees	**10,000**
Audit fees	**20,000**
Miscellaneous income	**70,000**
Net Profit	**4,20,000**

Determine the amount of policy to be taken for the current year. **7**

(b) Mansi Ltd. acquires the lease of a mine from Nanu Ltd. on the following terms:

(i) Minimum Rent of Rs.40 Lakh per annum merging into a royalty of Rs.50 per tonne.

(ii) Shortworkings are recoverable out of future earnings subject to:

(I) Only half of the excess earnings over minimum rent may be used for this purpose.

(II) No Shortworkings may be carried forward for recoupment if output falls below 40000 Tonnes, in any year.

Output for the first four years was : 32000 Tonnes; 48000 Tonnes; 64000 Tonnes and

112000 Tonnes respectively.

Prepare the necessary accounts for above four years in the books of the Lessee. 8

Answer: 6(a)

Particulars	Rs.
Gross profit on the basis of last year's sales	8,50,000
Add: 20% for increase of turnover	1,70,000
	10,20,000
Add: Increased standing charges (interest on overdraft)	45,000
Policy to be taken for current year	10,65,000

Working Notes:

1. Profit and Loss Account for the previous year

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To variable expenses	24,00,000	By Sales	32,50,000
To Fixed expenses	5,00,000	By Misc. income	70,000
To Net profit	4,20,000		
	33,20,000		33,20,000

2.Gross profit of the previous year

Particulars	(Rs.)
Sales	32,50,000
Less: Variable	24,00,000
	8,50,000

Answer: 6(b)

Analysis table for calculation of Different values

(Rs. in Lakh)

Year	Minimum Rent	Actual Royalty	Short workings (-) or Excess Workings(+)	Short workings		Actual Payment	Closing Balance of S.W.A/c
				Recouped	Transferred To P/L A/c		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	40	16	(-)24	-----	24	40	-----
2	40	24	(-)16	-----	-----	40	16
3	40	32	(-)8	-----	-----	40	24
4	40	56	(+)16	8	-----	48	16

Books of Lessee (Mansi Ltd.)

Royalty Account

(Rs. in Lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
I Year	To Nanu Ltd.	16	I Year	By Profit & Loss A/c	16
II Year	To Nanu Ltd.	24	II Year	By Profit & Loss A/c	24
III Year	To Nanu Ltd.	32	III Year	By Profit & Loss A/c	32
IV Year	To Nanu Ltd.	56	IV Year	By Profit & Loss A/c	56

Short Working Account

(Rs. in Lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
I Year	To Nanu Ltd.	24	I Year	By Profit & Loss A/c	24
II Year	To Nanu Ltd.	16	II Year	By Balance c/d	16
III Year	To Balance b/d To Nanu Ltd.	16 8	III Year	By Balance c/d	24
		24			24
IV Year	To Balance b/d	24	IV Year	By Nanu Ltd. By Balance c/d	8 16
		24			24

Nanu Limited Account

(Rs. in Lakh)

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
I Year	To Bank A/c	40	I Year	By Royalty A/c By Short workings A/c	16 24
		40			40
II Year	To Bank A/c	40	II Year	By Royalty A/c By Short workings A/c	24 16
		40			40
III Year	To Bank A/c	40	III Year	By Royalty A/c By Short workings A/c	32 8
		40			40
IV Year	To Short workings A/c To Bank A/c	8 48	IV Year	By Royalty A/c	56
		56			56

7. (a) In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs. 1,900. The entire quantity of waste is on stock at the year end. State with reference to Accounting standard, the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss, if any and the value of closing inventories. 8

(b) Enumerate the advantages of computerized Accounting. 7

Answer: 7(a)

1. Normal Loss Qty = 5% of 5,000 MT = 250 MT
   Treatment: No entry is passed for normal loss. However, normal loss increases the

cost per good unit

2. Cost of Good units = Total Cost/(Total Qty - Normal Loss Qty) = (5000 × **Rs.**1,900)/(5000 - 250) = **Rs.** 2,000
3. Abnormal Loss Qty = Total Loss - Normal Loss = 300 MT - 5% of 5,000 MT = 50 MT
4. **Cost of Abnormal Loss** = 50MT × **Rs.**2,000 = **Rs.** 1,00,000
5. **Treatment:** As per **AS** 2, abnormal amounts of waste materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.. Hence, the Cost of Abnormal Loss of **Rs.** 1,00,000 should be charged to Profit & Loss A/c.
6. Closing Inventory **Qty** = **5,000** MT - 250 MT - 50 MT = 4,700 MT
   Cost of Closing Inventory =4,700 MT × **Rs.** 2,000 = **Rs.**94,00,000

Answer: 7(b)

1. Computers are able to perform all the tasks at high speed. It can process a millions of instructions (MIS) per second.
2. Computer results are accurate. Once the right instructions have been given to it, the chances of the committing errors are almost zero.
3. The computer never tires. It can give a consistently good performance hour after hour.
4. It can store a large amount of data in its memory. Storage of data and information on the computer allows reduction of paper filing and other mundane tasks.
5. Due to some advanced features, duplication of records is not possible.
6. Modification can be easily done. Data can be easily updated, deleted or deleted in a computer system.
7. Sharing of data is possible through networking
8. It performs the same task again and again without getting bored.
9. A computer's efficiency does not decrease by age.

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

(i) Applicability and Non-Applicability of Garner vs. Murray Rule

(ii) Consequential Loss Policy

(iii) Distinction between Hire Purchase Agreement and Instalment Purchase Agreement

(iv) Distinction between Fundamental accounting assumptions and Accounting policies

Answer: 8 (a)

In the case of dissolution of a partnership firm due to insolvency, Garner vs Murray rule is applicable at the time of any partner becoming insolvent. It requires—

1. That the solvent partners should bear the loss arising due to insolvency of a partner in their capital ratio after making adjustments for past accumulated reserves, profits or losses, drawings, interest on drawings/capitals, remuneration to partners etc., to the date of dissolution but before making adjustment for profit or loss on realization in case of fluctuating capital. In case of fixed capital no such adjustments are required.
2. That the solvent partners should bring in cash equal to their respective shares of the loss on realization.

Non-Applicability: This rule is not applicable when:

1. the solvent partner has a debit balance in the capital account.
2. only one partner is solvent.
3. all partners are insolvent.

4. the partnership deed provides for a specific method to be followed in case of insolvency of a partner, then the conditions given in the deed would prevail.

Answer: 8 (b)

Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets. Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc.

If loss of profits consequent to the event or mis-happening (Fire, flood, theft etc.) is also insured, the policy is known as loss of profit or consequential loss policy.

The Loss of Profit Policy normally covers the following items:

(i) Loss of net profit

(ii) Standing charges.

(iii) Any increased cost of working e.g., renting of temporary premises.

Answer: 8 (c)

Hire Purchase Agreement differs from Installment purchase Agreement in the following respects:

Basis of Distinction	Hire Purchase Agreement	Installment Purchase Agreement
1. Act governing	It is governed by Hire Purchase Act 1972.	It is governed by the Sale of Goods Act 1930.
2. Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3. Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4. Right to Return goods	The hirer may return goods without further payment, except for accrued installment.	Unless seller defaults, goods are not returnable.
5. Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6. Right to Dispose off	Hirer cannot hire out, sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bonafide purchaser.
7. Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8. Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9. Relationship between parties involved	The relationship between hirer and hire vendor is that of Bailee and Bailor.	The relationship between the buyer and seller is that of a debtor and creditor till last installment is paid.
10. Component other tharn Cash Price	Component other than Cash Price included in Installment is called Hire charges.	Component other than Cash price included in Installment is called Interest.

11. Method of Accounting	1. Sales Method for goods of substantial sales values 2. Stock Methods for Goods of small sales values	Interest Suspense Method.

Answer: 8 (d)

Basis of Discount ion	Fundamental Accounting Assumptions	Accounting Policies
1. **Number**	There are only three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
2. Disclosure if followed	No disclosure is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed
3. Disclosure if not followed	In case the fundamental assumptions are not followed; the fact has to be disclosed in the financial statements together with the reasons.	In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed.
4. Choice	There is no choice.	The firm has a choice to select a particular policy