

FINANCIAL ACCOUNTING

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Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 8

Total number of printed pages : 7

NOTE : Answer *SIX* questions including Question No.1 which is compulsory. All working notes should be shown distinctly.

1. (a) Explain **any two** of the following :

- (i) Error of principle
- (ii) Garner *vs.* Murray rule
- (iii) Accounting equation
- (iv) Loss of profits insurance policy.

(5 marks each)

(b) State, with reasons in brief, whether the following statements are true or false :

- (i) While profit and loss account pertains to a point of time, the balance sheet is concerned with a period of time.
- (ii) Change in selling price is the only reason responsible for a change in gross profit.
- (iii) Being invisible, goodwill is a fictitious asset.
- (iv) A joint venture adheres to the going concern concept.
- (v) Receipts and payments account is based on accrual concept.

(2 marks each)

2. (a) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

- (i) Each transaction has two aspects, debit and credit; this fact is known as _____ concept.
- (ii) _____ account is prepared to ascertain the cost of goods manufactured.
- (iii) The total of purchases book is periodically posted to the _____ of purchases account.
- (iv) The relationship between the consignor and the consignee is that of a _____ and an agent.
- (v) Partnership business is carried on in the name of the _____.
- (vi) Depletion method of depreciation is applicable in case of _____ assets.

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(vii) On dishonour of a bill of exchange, the noting charges have to be ultimately borne by the _____ of the bill.

(viii) Outstanding rent account is a _____ account.

(1 mark each)

(b) Distinguish between **any two** of the following :

(i) 'Journal' and 'ledger'.

(ii) 'Statement of affairs' and 'balance sheet'.

(iii) 'Capital expenditure' and 'revenue expenditure'.

(4 marks each)

3. (a) Choose the most appropriate answer from the given options in respect of the following :

(i) Amount spent on an advertising campaign to launch a new product is —

- (a) Capital expenditure
- (b) Revenue expenditure
- (c) Deferred revenue expenditure
- (d) Income.

(ii) Rs.10,000 receivable from Sohan were written off as bad debt. Now, a sum of Rs.5,000 is received from Sohan's estate as the first and final dividend. The amount received should be credited to —

- (a) Bad debts recovered account
- (b) Sohan
- (c) Cash account
- (d) Bad debts account.

(iii) If the profit is 25% of the cost price, then it is —

- (a) $33\frac{1}{3}\%$ of the selling price
- (b) 25% of the selling price
- (c) 20% of the selling price
- (d) $12\frac{1}{2}\%$ of the selling price.

(iv) Balance sheet discloses —

- (a) Cash transactions of the business
- (b) Financial position of the business
- (c) Calculation of income of the business
- (d) Profit earning capacity of the business.

- (v) Principle of mutual agency is applicable in case of —
- (a) Consignor and consignee
 - (b) Partners of a firm
 - (c) Insurer and insured
 - (d) Drawer and acceptor of a bill of exchange.
- (vi) After adding three days of grace period, the date of maturity of a bill of exchange falls on 26th January. The effective due date of the bill will be —
- (a) 25th January
 - (b) 26th January
 - (c) 27th January
 - (d) 29th January.
- (vii) Under single entry system, normally only one subsidiary book is maintained, namely —
- (a) Cash book
 - (b) Purchases book
 - (c) Sales book
 - (d) Journal proper.
- (viii) Under single entry system, if a ledger is at all maintained, one can expect in it accounts of only —
- (a) Assets
 - (b) Trade debtors and trade creditors
 - (c) Outstanding liabilities
 - (d) Incomes and expenses.

(1 mark each)

(b) Explain **any two** of the following statements :

- (i) Depreciation is a process of allocation and not of valuation.
- (ii) Dissolution of a partnership need not necessarily lead to the dissolution of the firm.
- (iii) Agreement of a trial balance is not a conclusive proof that there are no errors in the books of account.

(4 marks each)

4. Suman of Surat consigned to his agent Puneet of Pune goods invoiced at Rs.1,20,000 which was 20% above cost. Suman spent Rs.6,000 on packing, cartage, freight and insurance in transit. Puneet accepted a bill of exchange for Rs.70,000 at one month drawn on him by Suman.

The terms of consignment were that the consignee would be allowed 5% commission on sales and all expenses incurred by him would be reimbursed.

The consignee sold $\frac{4}{5}$ th of the goods for Rs.1,03,000 incurring cash selling expenses amounting to Rs.4,700. Goods of the invoice price of Rs.6,000 were damaged due to negligence of the consignee. These goods were sold for Rs.2,800. It was agreed that the consignee would not be entitled to any commission on this amount.

Puneet agreed to take the remaining goods himself at 10% above invoice price without charging any commission on the amount. He settled the account by means of a bank draft.

Prepare the necessary ledger accounts in the books of the consignor.

(16 marks)

5. (a) On 30th June, 2010, the pass book of Nataraj showed a bank overdraft of Rs.46,000. The following additional information is available. You are required to prepare a bank reconciliation statement as on the above mentioned date :
- (i) Out of total cheques issued, cheques for Rs.22,000 have not been presented for payment so far.
 - (ii) Cheques paid into bank for collection, but not yet cleared total Rs.31,000.
 - (iii) Bank has charged Rs.2,300 as interest on overdraft; it does not appear in cash book.
 - (iv) A customer has directly deposited Rs.8,300 with bank in Nataraj's account for which there is no entry in cash book.
 - (v) Dividend on shares collected by bank and credited in the pass book amounts to Rs.2,000 for which no intimation has been given to Nataraj so far.
 - (vi) A bill for Rs.10,000 discounted with the bank was dishonoured on maturity. Bank has debited Nataraj with Rs.10,100 including Rs.100 for noting charges, the transaction has not yet been recorded in cash book.

(8 marks)

(b) The books of Ramesh did not agree. The difference of Rs.12,700 in trial balance was placed to the debit of suspense account. Subsequently, the following errors were located. Pass journal entries to rectify the errors and prepare the suspense account :

- (i) The total of the purchases returns book, Rs.2,100 has not been posted.
- (ii) A sale of Rs.4,300 to Ram has been credited to his account as Rs.3,400.
- (iii) A purchase from Suresh for Rs.4,000 has been entered in the sales book. However, Suresh has been correctly credited with Rs.4,000.
- (iv) Old furniture sold on credit for Rs.5,400 has been recorded in the sales book as Rs.4,500.
- (v) Goods taken away by Ramesh, the proprietor for his personal use worth Rs.750 have not been recorded in the books of account at all.

(8 marks)

6. Amar, Bharat and Chatur were equal partners. On 31st March, 2010, their balance sheet stood as follows :

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital accounts :		Building	1,95,000
Amar	1,68,000	Furniture	24,000
Bharat	1,26,000	Stock	1,14,000
Chatur	60,000	Debtors	1,08,000
Creditors	70,000	Cash at bank	6,000
Bills payable	23,000		
	4,47,000		4,47,000

On 1st April, 2010, the firm decided to admit Dalbir as an equal partner on the following terms :

- (i) Dalbir would bring Rs.90,000 as his share of goodwill and Rs.1,50,000 as capital. No goodwill account would be opened.
- (ii) 10% Depreciation be charged on furniture.
- (iii) 5% Provision for doubtful debts be created on debtors.
- (iv) A liability of Rs.7,200 be created against bills discounted.
- (v) Building be valued at Rs.2,70,000.

Pass necessary journal entries. Also prepare revaluation account and the capital accounts of all the partners.

(16 marks)

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7. (a) A fire occurred on the premises of a merchant on 31st August, 2010. From the following particulars, calculate the amount of claim to be lodged with the insurance company for the loss of stock :

	<i>Rs.</i>
Stock on 1 st April, 2009	3,60,000
Purchases for the year ended 31 st March, 2010	16,00,000
Sales for the year ended 31 st March, 2010	25,00,000
Stock on 31 st March, 2010	4,40,000
Purchases from 1 st April, 2010 to 31 st August, 2010	5,40,000
Sales from 1 st April, 2010 to 31 st August, 2010	6,60,000

Stock on 1st April, 2009 was valued at 10% below cost and the stock on 31st March 2010 was valued at 10% above cost. Salvage value of stock after fire was Rs.99,600. Value of insurance policy of the stock was Rs.3,00,000.

(8 marks)

- (b) On 1st January, 2010, Arun purchased from Barun goods invoiced at Rs.10,000. On the same date, Barun drew upon Arun a bill for the amount at 2 months and Arun accepted the same. On 4th January, 2010, Barun got the bill discounted with his bank @ 12% per annum. On due date, Arun told Barun that he was not in a position to pay the full amount and requested Barun to accept Rs.5,000 in cash and drew a fresh bill at 2 months for the remaining amount plus interest at 15% per annum. Barun agreed. The second bill was duly met on the due date.

Give journal entries to record the above transactions in the books of Barun.

(8 marks)

8. (a) On 1st April, 2007, Brite Ltd. purchased a machine for Rs.1,50,000 and spent Rs.30,000 on its installation. On 1st October, 2008, a new machine was purchased at a cost of Rs.1,20,000. On 30th June, 2009, the first machine got damaged and was sold as scrap for Rs.25,000. On 1st July, 2009, the machine was replaced by a new machine purchased for Rs.2,60,000 and a sum of Rs.40,000 was spent on its installation.

Show machinery account for the three years ended 31st March, 2010 while charging depreciation @ 10% per annum as per the written down value method. Accounts of Brite Ltd. are closed every year on 31st March.

(8 marks)

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(b) From the following information, calculate the amount of subscriptions that will appear on the credit side of income and expenditure account for the year ended 31st March, 2009. Also show how the items would appear in the opening balance sheet as on 31st March, 2008 and the closing balance sheet as on 31st March, 2009.

(i) Subscription received during the year ended 31st March, 2009 :

	<i>Rs.</i>
For 2007-08	4,000
For 2008-09	2,05,000
For 2009-10	6,000
	<u>2,15,000</u>

(ii) There are 500 members and annual subscription is Rs.500 per member.

(iii) On 31st March, 2009, Rs.5,000 was still in arrears for subscriptions for the year ended 31st March, 2008.

(8 marks)

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