

# 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) Limitations of accounting
- (ii) Accrual concept
- (iii) Petty cash book
- (iv) Error of omission.

(5 marks each)

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

- (i) Every error affects the agreement of trial balance.
- (ii) Being invisible, goodwill is a fictitious asset.
- (iii) For preparing final accounts of non-corporate entities, there is no need to distinguish between capital expenditure and revenue expenditure.
- (iv) Single entry system has no advantages at all.
- (v) Trial balance and balance sheet are the same.

(2 marks each)

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

- (i) When an asset is shown at its original cost till its disposal, the annual depreciation is recorded by credit to \_\_\_\_\_ account.
- (ii) The relationship between the consignor and consignee is that of \_\_\_\_\_ and \_\_\_\_\_.
- (iii) A statement forwarded by the consignor to the consignee about description of goods consigned is called \_\_\_\_\_ invoice.
- (iv) Partnership business is carried on in the name of the \_\_\_\_\_.
- (v) In case of new accounts, debit in the account of a person means that the person has become the \_\_\_\_\_ of the business.
- (vi) The ledger is the \_\_\_\_\_ books of account.

- (vii) When the trial balance does not agree, the difference may be transferred to a \_\_\_\_\_ account to make the trial balance agree.
- (viii) When the benefit of a revenue expense extends over a number of years, it is called \_\_\_\_\_ expenditure.

(1 mark each)

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

- (i) 'Joint venture' and 'consignment'.
- (ii) 'Revaluation account' and 'realisation account'.
- (iii) 'Trading account' and 'profit and loss account'.

(4 marks each)

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

- (i) Plant and machinery account is a –
  - (a) Personal account
  - (b) Tangible real account
  - (c) Intangible real account
  - (d) Nominal account.
- (ii) The credit sales of goods in trade are recorded in the –
  - (a) Purchases book
  - (b) Cash book
  - (c) Sales book
  - (d) Returns outwards book.
- (iii) The person who draws a bill of exchange is called its –
  - (a) Drawee
  - (b) Payee
  - (c) Drawer
  - (d) Endorsee.
- (iv) Statement of affairs as prepared under single entry system is a statement of –
  - (a) Incomes and expenses
  - (b) Cash receipts and cash payments
  - (c) Trade debtors and trade creditors
  - (d) Assets and liabilities.

- (v) Under the straight line method of depreciation, the amount of yearly depreciation –
- (a) Remains the same
  - (b) Fluctuates
  - (c) Increases year after year
  - (d) Decreases year after year.
- (vi) The value of a fixed asset after deducting depreciation is known as its –
- (a) Book value
  - (b) Market value
  - (c) Face value
  - (d) Realisable value.
- (vii) Cash book acts as a –
- (a) Journal only
  - (b) Part of ledger only
  - (c) Financial report
  - (d) Journal as well as a part of ledger.
- (viii) The expired cost is known as –
- (a) Asset
  - (b) Expense
  - (c) Liability
  - (d) Provision.

(1 mark each)

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

- (i) Bank reconciliation statement is significant for business.
- (ii) From the point of view of accounting, it is essential to distinguish between 'capital profit' and 'revenue profit'.
- (iii) One of the objectives of providing depreciation is to know correct profit and true financial position of the business.
- (iv) Average clause is applicable only when the amount of the insurance policy is less than the value of the asset insured.

(4 marks each)

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4. Following is the receipts and payments account of Fun Club for the year ended 31<sup>st</sup> March, 2009 :

<i>Receipts</i>	<i>Rs.</i>
To Cash in hand	4,080
To Entrance fees	4,000
To Subscriptions : <i>Rs.</i>	
2007-08      1,000	
2008-09      32,200	
2009-10 <u>1,400</u>	34,600
To Sale of refreshments	30,000
To Loan taken from Y	8,000
	<u>80,680</u>
 <i>Payments</i>	
By Salary	18,640
By Cost of refreshments	20,000
By Rent	7,440
By Electricity	3,120
By Printing and stationery	1,320
By Insurance premium	720
By General expenses	1,840
By Purchase of new furniture	18,000
By Cash in hand	9,600
	<u>80,680</u>

Following information is also relevant :

- (i) Outstanding and unexpired expenses, and income due were :

	<i>Rent due (Rs.)</i>	<i>Electricity due (Rs.)</i>	<i>Subscriptions due (Rs.)</i>	<i>Unexpired insurance (Rs.)</i>
On 31 <sup>st</sup> March, 2008	720	2,560	1,000	200
On 31 <sup>st</sup> March, 2009	1,440	800	1,600	280

- (ii) On 31<sup>st</sup> March, 2008, the book value of furniture was Rs.12,000. The new furniture was purchased on 1<sup>st</sup> October, 2008. Depreciation is to be provided at 10% per annum on furniture.

- (iii) Entrance fees are to be treated as revenue receipts.

- (iv) Loan from Y was taken on 1<sup>st</sup> October, 2008. Interest @ 10% per annum is to be paid on the same.

Prepare the income and expenditure account of Fun Club for the year ended 31<sup>st</sup> March, 2009 and balance sheet as on that date.

(16 marks)

5. (a) On 1<sup>st</sup> May, 2008, Kunal sold goods to Subhash invoiced at Rs.60,000 and drew upon the latter two bills of exchange, one for Rs.20,000 at two months and another for Rs.40,000 at four months. Subhash accepted both the bills. On 4<sup>th</sup> May, 2008, Kunal got the first bill discounted with bank @ 12% per annum and endorsed the second bill in favor of his creditor Mohit. Subhash met the first bill for Rs. 20,000 on due date. Before the due date of the second bill, Subhash became insolvent and his estate paid only 60 paise in a rupee on 8<sup>th</sup> November, 2008.

Pass journal entries to record all the transactions in the books of Kunal and Subhash.

(10 marks)

- (b) On the basis of following information, prepare a bank reconciliation statement as at 31<sup>st</sup> December, 2008 :

	Rs.
(i) Bank balance as per cash book as on 31 <sup>st</sup> December, 2008	10,000
(ii) Cheques deposited for collection, but not credited by the bank before 1 <sup>st</sup> January, 2009	7,500
(iii) Incidental charges appearing in the pass book on 30 <sup>th</sup> December, 2008 with no advice received yet	50
(iv) Cheques issued, but not presented to bank for payment before 1 <sup>st</sup> January, 2009	4,000

(6 marks)

6. (a) On 12<sup>th</sup> June, 2008, fire occurred in the godown of X. Cost of goods which remained undamaged was Rs.1,12,000. Value placed on goods retrieved in a damaged condition was Rs.1,05,000. From the books of account, the following particulars were available :

- (i) His stock on the close of accounts on 31<sup>st</sup> March, 2008 was valued at Rs.8,35,000.  
(ii) His purchases from 1<sup>st</sup> April, 2008 to 12<sup>th</sup> June, 2008 were Rs.11,20,000 and his sales during that period amounted to Rs.15,40,000.

On the basis of his accounts for the past three years, it appears that he earns on an average a gross profit of 30% on sales.

X has insured his stock for Rs.6,00,000. Compute the amount of insurance claim.

(8 marks)

(b) Pass journal entries to rectify the following errors. The trial balance had Rs.1,860 excess credit. The difference has been posted to a suspense account :

- (i) The total of returns inwards book has been cast Rs.2,000 short.
- (ii) The purchase of an office table costing Rs.6,000 has been passed through the purchases day book.
- (iii) A sum of Rs.7,500 paid to workman for wages for making showcases has been charged to wages account.
- (iv) A purchase of Rs.1,340 has been posted to the creditor's account as Rs.600.
- (v) A cheque of Rs.4,000 received from Y has been dishonoured; it has been posted to the debit of allowances account.

After passing journal entries, prepare the suspense account.

(8 marks)

7. On 1<sup>st</sup> January, 2009, a flour mill consigned wheat flour to Sat Pal, invoiced at Rs.4,00,000. The mill cost of the wheat flour was Rs.3,70,000. The consignor paid Rs.5,000 as freight and Rs.10,000 as loading and unloading charges.

On 31<sup>st</sup> March, 2009, an account sale was received from the consignee showing that 90% of the goods had been sold for Rs.4,10,000 with selling expenses of Rs.2,000. The consignee enclosed a cheque for the proceeds less expenses and commission of 1% on gross sales. Show necessary ledger accounts in the books of the consignor.

(16 marks)

8. P, Q and R were partners sharing profits and losses in the ratio of 5:3:2 respectively. On 31<sup>st</sup> March, 2009, their balance sheet was as follows :

<i>Liabilities</i>		<i>Rs.</i>	<i>Assets</i>		<i>Rs.</i>
Capitals :			Land and building		5,50,000
P	7,00,000		Machinery		3,00,000
Q	4,00,000		Furniture		1,65,000
R	<u>3,00,000</u>	14,00,000	Stock		2,80,000
Creditors		1,15,000	Debtors		2,00,000
			<i>Less : Provision</i>		
			for bad debts		<u>10,000</u>
			Cash at bank		30,000
		<u>15,15,000</u>			<u>15,15,000</u>

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Creditors and all the assets except debtors and cash at bank were taken over by M Ltd. for Rs.12,00,000 payable in the form of fully paid equity shares of Rs.10 each issued at par. M Ltd. valued land and building at Rs.5,70,000.

The firm was able to realise Rs.1,80,000 only from debtors. Expenses of dissolution came to Rs.3,000.

The shares were distributed among the partners in their profit sharing ratio. The remaining amounts due to partners were settled in cash.

Prepare ledger accounts in the books of the firm.

(16 marks)

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