

# FINANCIAL ACCOUNTING 153

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 8

Total number of printed pages : 8

**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) Financial statements
- (ii) Petty cash book
- (iii) Cash system of accounting.

(5 marks each)

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

- (i) A bank reconciliation statement is prepared at the end of an accounting period only.
- (ii) At the time of receiving the goods, the consignee treats the consignor as a creditor.
- (iii) Trade discount is not recorded in the books of account.
- (iv) Interest on capital and salary to proprietor are incomes and hence are shown on the credit side of profit and loss account of the proprietary firm.
- (v) If the date of payment of a bill after taking into account the days of grace falls on a holiday, the payment of the bill is to be made on the following working day.

(2 marks each)

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

- (i) When the bank column of the columnar cash book shows a credit balance, it means that there is a bank \_\_\_\_\_.
- (ii) Acceptance of a bill of exchange is an acknowledgement of \_\_\_\_\_.
- (iii) \_\_\_\_\_ account is prepared at the time of dissolution of a firm.
- (iv) Real account usually shows a \_\_\_\_\_ balance.
- (v) When goods are returned to a supplier, a \_\_\_\_\_ note is sent to him.

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- (vi) Joint venture account is a \_\_\_\_\_ account prepared to find out profit or loss of the joint venture.
- (vii) \_\_\_\_\_ is the amount which a non-trading concern receives as per the will of a deceased person.
- (viii) Promissory note contains an unconditional \_\_\_\_\_ to pay a certain sum of money to a certain person or to his order after the specified period of time.

(1 mark each)

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

- (i) 'Reserve' and 'provision'.
- (ii) 'Bill of exchange' and 'promissory note'.
- (iii) 'Sale' and 'consignment'.

(4 marks each)

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

- (i) For a non-trading concern, subscription received in advance is —
  - (a) An income
  - (b) An expense
  - (c) An asset
  - (d) A liability.
- (ii) A manager is entitled to a commission @ 5% on profits before deducting such commission. In an accounting year, gross profit is ₹96,000 while selling and office expenses, other than commission to manager, totalled ₹12,000. Manager's commission for the year will be —
  - (a) ₹4,000
  - (b) ₹4,200
  - (c) ₹4,800
  - (d) ₹4,562.
- (iii) If an amount written off as a bad debt is recovered subsequently, it will be —
  - (a) Debited to the debtor's personal account
  - (b) Credited to the debtor's personal account
  - (c) Debited to bad debts recovered account
  - (d) Credited to bad debts recovered account.

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- (iv) Cash purchases are made of goods at the list price of ₹40,000 at a trade discount @ 5% and a cash discount @ 2%; cash payable is —
- (a) ₹40,000
  - (b) ₹38,000
  - (c) ₹37,240
  - (d) ₹38,800.
- (v) At the end of an accounting year, total debtors are ₹1,00,000. Provision for bad debts and for discount on debtors are made @ 5% and 2% respectively. The amount of provision for discount on debtors will be —
- (a) ₹2,000
  - (b) ₹5,000
  - (c) ₹1,900
  - (d) ₹1,950.
- (vi) The primary record of a credit purchase of a fixed asset is made in —
- (a) Cash book
  - (b) Sales book
  - (c) Purchases book
  - (d) Journal proper.
- (vii) A firm took an insurance policy against fire for ₹50,000. The policy contained an average clause. A fire occurred. On the date of fire, goods costing ₹75,000 were available in the stores. Goods salvaged totalled ₹15,000. The insurance company will admit a claim for —
- (a) ₹75,000
  - (b) ₹60,000
  - (c) ₹50,000
  - (d) ₹40,000.
- (viii) Closing stock is shown in the trial balance. When preparing the final accounts of a business concern, the closing stock is shown —
- (a) Only on the assets side of balance sheet
  - (b) Only on the credit side of trading account
  - (c) On the credit side of trading account as well as on the assets side of balance sheet
  - (d) Nowhere.

(1 mark each)

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

- (i) No transaction can break the accounting equation.
- (ii) Receipts and payments account is a summary of cash book.
- (iii) Columnar cash book is a combination of cash account and bank account.

(4 marks each)

4. A, B and C were equal partners. The following was their balance sheet as on 31<sup>st</sup> March, 2012 :

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Sundry creditors	1,20,000	Cash	12,000
Bills payable	66,000	Sundry debtors	2,16,000
Capital accounts :		Stock	2,28,000
₹		Furniture	48,000
A    3,36,000		Buildings	3,90,000
B    2,52,000			
C <u>1,20,000</u>	7,08,000		
	<u>8,94,000</u>		<u>8,94,000</u>

They agreed to take D into partnership with effect from 1<sup>st</sup> April, 2012 on the following terms :

- (i) D will be given one-fourth share in future profits.
- (ii) D to bring in cash ₹2,00,000 as capital and ₹1,80,000 as share in goodwill, the entire amount of ₹3,80,000 be credited to D's capital account and no goodwill account be raised.
- (iii) Old partners to withdraw in cash one-half of their shares of goodwill.
- (iv) Stock and furniture be depreciated by 10%.
- (v) A provision of 5% on sundry debtors be made for doubtful debts.
- (vi) Value of buildings be raised to ₹4,50,000.
- (vii) Amount of sundry creditors be reduced by ₹6,000 as this amount is not payable by the firm.

Prepare revaluation account and all the partners' capital accounts. Also draw the initial balance sheet of the new firm as on 1<sup>st</sup> April, 2012.

(16 marks)

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5. (a) Ravi and Kavi entered into a joint venture to purchase and sell new year gift items. They agreed to share the profits and losses equally. On 4<sup>th</sup> November, 2011, Ravi purchased goods worth ₹2,00,000 and spent ₹12,000 in sending the goods to Kavi. He also paid ₹4,000 for insurance. On the same date, Ravi drew a bill of exchange upon Kavi for ₹2,00,000 at 2 months. On 7<sup>th</sup> November, 2011, he got the bill discounted at 18% per annum.

Kavi spent ₹6,000 on cartage, ₹10,000 as rent and ₹10,000 on advertisement. He sold all the gift items for ₹4,00,000 after retaining gift items worth ₹4,000 for his personal use. He sent a cheque to Ravi for the amount due on 8<sup>th</sup> January, 2012.

You are required to prepare — (i) memorandum joint venture account; and (ii) joint venture with Kavi account in the books of Ravi.

(8 marks)

- (b) While preparing a trial balance, an accountant found a difference of ₹1,980. The difference was placed on the credit side of a newly opened suspense account. Later on, the following errors were discovered :

- (i) Sales amounting to ₹600 were posted to purchases account.
- (ii) Goods were sold to Raman for ₹3,300 and to Mohan for ₹4,500. But they were recorded in sales book as sales to Raman ₹4,500 and to Mohan ₹3,300.
- (iii) Goods returned by Mohan worth ₹2,520 were recorded in the sales book.
- (iv) An amount of ₹1,500 spent on repairs of old plant purchased stood debited to repairs account.
- (v) Goods returned to Krishna worth ₹1,590 were recorded in the purchases book. However, the account of Krishna was correctly debited.
- (vi) Ashok owed us ₹1,200, but by mistake the amount was included in creditors.

Rectify the abovementioned errors by passing journal entries and prepare the suspense account.

(8 marks)

6. Avdesh commenced business on 1<sup>st</sup> April, 2011 with a capital of ₹9,00,000. He immediately purchased furniture of ₹4,80,000. During the year, he received from his uncle a gift of ₹60,000 and he borrowed from his father a sum of ₹1,00,000. He had withdrawn ₹12,000 per month for his personal expenses. Avdesh did not maintain any books of account.

However, the following information is available :

	₹'000
Sales (including cash sales of ₹6,00,000)	2,000
Purchases (including cash purchases of ₹2,00,000)	1,500
Carriage inwards	14
Wages	6
Discount allowed to debtors	24
Salaries	124
Bad debts written off	22
Trade expenses	24
Advertisements	44

He used goods worth ₹26,000 for his personal use and paid ₹10,000 to his son for examination and college fees. On 31<sup>st</sup> March, 2012, his debtors were ₹4,20,000 and creditors were ₹3,00,000, stock in trade was valued at ₹2,00,000. Furniture was to be depreciated @ 10% per annum.

Prepare the trading and profit and loss account for the year ended on 31<sup>st</sup> March, 2012.

*(16 marks)*

7. (a) On 30<sup>th</sup> June, 2011, an accidental fire destroyed a major part of the stocks in the godowns of Viki Associates. Stock costing ₹30,000 could be salvaged but not their store ledgers. A fire insurance policy with an average clause was in force under which the sum insured was ₹3,50,000. From available records, the following information was made available :
- (i) Total sales invoices during the period April, 2011 to June, 2011 amounted to ₹30,20,000. An analysis showed that goods of the value of ₹3,00,000 had been returned by the customers before the date of fire.
  - (ii) Opening stock as on 1<sup>st</sup> April, 2011 was ₹2,20,000 including stocks of the value of ₹20,000 being lower of cost and net value subsequently realised.
  - (iii) Purchases between 1<sup>st</sup> April, 2011 and 30<sup>th</sup> June, 2011 were ₹21,00,000.

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- (iv) Normal gross profit rate was  $33\frac{1}{3}\%$  on sales.
- (v) A sum of ₹30,000 was incurred by way of the fire fighting expenses on the date of fire.

Prepare a statement showing the insurance claim recoverable.

(8 marks)

- (b) On 31<sup>st</sup> December, 2011, the debit bank balance according to cash book of a trader was ₹6,000. On comparison with the pass book, the following information was gathered :
- (i) A cheque for ₹5,000 deposited with the bank on 28<sup>th</sup> December, 2011 was credited in pass book on 2<sup>nd</sup> January, 2012.
- (ii) On 29<sup>th</sup> December, 2011, a cheque for ₹3,000 was issued to a supplier. The cheque was presented to bank for payment on 3<sup>rd</sup> January, 2012.
- (iii) Insurance premium of ₹4,000 was paid by bank, but not yet recorded in the cash book.
- (iv) A cheque of ₹3,000 received from Ramesh was entered in the bank column of the cash book, but was omitted to be deposited in the bank.
- (v) Bank charges of ₹100 were not shown in cash book.
- (vi) Bank interest allowed by bank, ₹150 had not been entered in cash book.

Prepare the bank reconciliation statement as on 31<sup>st</sup> December, 2011.

(8 marks)

8. (a) SPL Ltd., which depreciates its machinery @ 10% per annum according to diminishing balance method, had on 1<sup>st</sup> April, 2011 a balance of ₹9,72,000 in its plant and machinery account. During the year ended 31<sup>st</sup> March, 2012, the plant and machinery purchased on 1<sup>st</sup> April, 2009 for ₹1,20,000 was sold for ₹80,000 on 1<sup>st</sup> October, 2011 and a new machinery costing ₹1,40,000 was purchased and installed on the same date; installation charges being ₹10,000.

The company wants to change its method of depreciation from diminishing balance method to straight line method with effect from 1<sup>st</sup> April, 2009 and adjust the difference before 31<sup>st</sup> March, 2012, the rate of depreciation remaining the same as before.

Show the machinery account for the year ended 31<sup>st</sup> March, 2012.

(10 marks)

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(b) Calculate the amount of stationery used for the accounting year ended 31<sup>st</sup> March, 2012 :

	₹
Stock of stationery on 1 <sup>st</sup> April, 2011	6,000
Creditors for stationery on 1 <sup>st</sup> April, 2011	4,000
Advance paid for stationery, brought forward from the year ended 31 <sup>st</sup> March, 2011	400
Amount paid for stationery during the accounting year ended 31 <sup>st</sup> March, 2012	21,600
Stock of stationery on 31 <sup>st</sup> March, 2012	1,000
Creditors for stationery on 31 <sup>st</sup> March, 2012	2,600
Advance paid for stationery as on 31 <sup>st</sup> March, 2012	2,600

*(6 marks)*

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