Financial Accounting

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) Classification of assets
   (ii) Principal book of accounts
   (iii) Dual aspect concept
   (iv) Dei credere commission.

   (5 marks each)

   (b) State, with reasons in brief, whether the following statements are true or false:
   (i) The debit balance in the profit and loss account denotes a surplus.
   (ii) The purchases day book is a part of the ledger.
   (iii) Sale of old office furniture should be credited to sales account.
   (iv) Loss of goods sent on consignment is said to be an abnormal loss, if such a loss is due to the inherent characteristics of the goods consigned.
   (v) The relationship between the consignor and the consignee is that of principal and agent.

   (2 marks each)

2. (a) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s):
   (i) In the balance sheet, provision for bad debts is shown as a __________ from trade debtors.
   (ii) __________ functions both as a part of ledger and a book of original entry.
   (iii) Contra entries are passed in __________ cash book.
   (iv) While preparing final accounts, all the __________ accounts are transferred to the trading and profit and loss account.
   (v) Dissolution of a firm necessarily implies __________ of the partnership also.
   (vi) __________ account is prepared to ascertain the cost of goods manufactured.
   (vii) When the debts earlier written off as bad are recovered at a later date, the amount so recovered is credited to __________ account.
   (viii) Compensating cross __________ the agreement of trial balance.

   (1 mark each)

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(b) Distinguish between *any two* of the following:
   (i) ‘Real account’ and ‘nominal account’.
   (ii) ‘Revenue expenditure’ and ‘deferred revenue expenditure’.
   (iii) ‘Joint venture’ and ‘consignment’.

(4 marks each)

3. (a) Write the most appropriate answer from the given options in respect of the following:
   (i) A motorbike is purchased for the owner’s son and firm’s vehicles account is debited with the amount paid by the firm. It is —
      (a) An error of principle
      (b) An error of omission
      (c) An error of commission
      (d) A compensating error.
   (ii) The maximum number of partners, a non-banking partnership firm can have is —
      (a) Ten
      (b) Twenty
      (c) Fifty
      (d) Seven.
   (iii) If partnership deed is silent on the point, interest allowed on partners’ capital accounts will be —
      (a) @ 6% per annum
      (b) @ 5% per annum
      (c) @ 8% per annum
      (d) Nil.
   (iv) To provide funds to pay to the deceased partner’s heirs in case of death of a partner, the partners generally —
      (a) Create a sinking fund
      (b) Take a joint life policy
      (c) Create a reserve fund
      (d) Open a separate bank account.

(4 marks each)
(v) Goodwill brought in by an incoming partner in cash to join a partnership firm is shared by the old partners in their —
(a) Ratio of capitals
(b) New profit sharing ratio
(c) Ratio of sacrifice
(d) Old profit sharing ratio.

(vi) On 21st February, 2011, Akash draws a bill of exchange on Bhupesh for ₹10,000 payable 30 days after date. Bhupesh immediately accepts the bill. The due date of the bill will be —
(a) 24th March, 2011
(b) 22nd March, 2011
(c) 26th March, 2011
(d) 21st March, 2011.

(vii) If unsold goods costing ₹20,000 are taken over by a co-venturer for ₹15,000, the joint venture account will be credited with —
(a) ₹20,000
(b) ₹15,000
(c) ₹5,000
(d) ₹35,000.

(viii) Dinesh of Delhi consigns goods of the invoice price of ₹1,00,000 to Bharat of Ballabhgarh at cost plus 25%. The amount of loading is —
(a) ₹25,000
(b) ₹20,000
(c) ₹15,000
(d) ₹32,500.

(b) Explain any two of the following statements:
(i) Non-monetary events are not recorded in the books of account.
(ii) Trial balance is a link between ledger and final accounts.
(iii) Joint venture is in the nature of a partnership but without a firm name.

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4. (a) The following errors were located in the books of Suresh after his books of account had been closed for the accounting year ended 31st March, 2011 and the difference in trial balance had been transferred to a newly opened suspense account:
(i) Sales book for the month of January, 2011 was overcast by ₹100.
(ii) A sum of ₹4,000 received from Chandan was debited to his account as ₹400.
(iii) Credit purchase of goods from Somu for ₹12,000 was debited to Munu.
(iv) Purchase of office furniture for ₹6,000 was entered in the purchases book.
(v) Credit purchase of goods for ₹15,000 from Mahesh was recorded as credit sale of goods to Mahesh.

Pass necessary journal entries to rectify the abovementioned errors. Also prepare suspense account and profit and loss adjustment account to nullify the effect of errors on the profit for the year ended 31st March, 2011.

(10 marks)

(b) On the basis of following details, prepare the bank reconciliation statement and ascertain the balance as per pass book on 28th February, 2011:
(i) Bank balance as per cash book on 28th February, 2011 : ₹1,700.
(ii) Cheques deposited with bank but not yet cleared : ₹12,000.
(iii) Cheques in hand of the cashier not yet deposited with bank : ₹3,000.
(iv) Amount charged by bank for certain services but not yet recorded in cash book : ₹100.
(vi) Cheques issued on 28th February, 2011 to suppliers, but presented to bank for payment on 3rd March, 2011 : ₹14,000.

(6 marks)

5. (a) On 1st April, 2007, Arrow Ltd. purchased machinery costing ₹1,00,000 and decided to provide depreciation on it @ 10% per annum by using straight line method. The company closes its books every year on 31st March.

On 31st March, 2011, before providing depreciation, the company decided to change the method of depreciation from straight line method to written down value method retroactively w.e.f. 1st April, 2007, the rate of depreciation remaining the same.

Prepare machinery account for the year ended 31st March, 2011.

(8 marks)

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Contd .......
6. Following is the receipts and payments account of Dhanvantri Medical Help Society for the year ended 31st March, 2011:

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Payments</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Cash at bank and in hand on 1st April, 2010</td>
<td>By Payment to suppliers of medicines</td>
<td>3,00,000</td>
</tr>
<tr>
<td>To Subscriptions</td>
<td>By Honorarium to doctors</td>
<td>1,00,000</td>
</tr>
<tr>
<td>To Donations</td>
<td>By Salaries</td>
<td>2,75,000</td>
</tr>
<tr>
<td>To Interest on investments @ 9% per annum</td>
<td>By Sundry expenses</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>By Equipments purchased</td>
<td>1,50,000</td>
</tr>
<tr>
<td></td>
<td>By Charity show expenses</td>
<td>10,000</td>
</tr>
<tr>
<td>To Charity show proceeds</td>
<td>By Cash at bank and in hand on 31st March, 2011</td>
<td>45,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8,85,000</td>
</tr>
</tbody>
</table>

Donations are mostly made by patients and are treated as income.

The following additional information is provided to you:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>On 31st March, 2010 (£)</th>
<th>On 31st March, 2011 (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions in arrear</td>
<td>3,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Subscriptions received in advance</td>
<td>1,000</td>
<td>500</td>
</tr>
<tr>
<td>Stock of medicines</td>
<td>1,00,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Amount due to suppliers of medicines</td>
<td>80,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Estimated value of equipments</td>
<td>2,10,000</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Estimated value of building</td>
<td>4,00,000</td>
<td>3,80,000</td>
</tr>
</tbody>
</table>

You are required to prepare income and expenditure account for the year ended 31st March, 2011 and balance sheet as on that date.
7. (a) On 4th September, 2009, Wintex Ltd. took a loss of profit policy for ₹5,00,000 with an indemnity period of six months. A fine broke out on 1st January, 2010 because of which there was dislocation upto 31st May, 2010. Ascertain the amount of claim for loss of profit taking into account the following additional information:

Sales for accounting year ended 31st March, 2009 24,00,000
Net profit for accounting year ended 31st March, 2009 2,60,000
Standing charges (all covered) for the year ended 31st March, 2009 3,40,000
Sales from 1st January, 2009 to 31st December, 2009 26,00,000
Sales from 1st January, 2010 to 31st May, 2010 3,10,000
Sales from 1st January, 2009 to 31st May, 2009 11,00,000

There was a 10% upward trend in business. The policy had an average clause.

(8 marks)

(b) Mohit keeps his books of account by single entry system. On 31st March, 2010, his statement of affairs was as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>₹</th>
<th>Assets</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills payable</td>
<td>6,460</td>
<td>Cash in hand</td>
<td>2,470</td>
</tr>
<tr>
<td>Sundry creditors</td>
<td>20,290</td>
<td>Bills receivable</td>
<td>4,070</td>
</tr>
<tr>
<td>Mohit's capital</td>
<td>1,46,800</td>
<td>Sundry debtors</td>
<td>48,680</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stock</td>
<td>32,850</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Furniture</td>
<td>5,300</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plant</td>
<td>80,180</td>
</tr>
<tr>
<td></td>
<td>1,73,556</td>
<td>Total</td>
<td>1,73,556</td>
</tr>
</tbody>
</table>

Mohit provided you the following information also regarding his assets and liabilities as on 31st March, 2011:

<table>
<thead>
<tr>
<th>₹</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in hand</td>
<td>5,500</td>
</tr>
<tr>
<td>Bills receivable</td>
<td>6,840</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>57,000</td>
</tr>
<tr>
<td>Stock</td>
<td>36,730</td>
</tr>
<tr>
<td>Furniture</td>
<td>5,300</td>
</tr>
<tr>
<td>Plant</td>
<td>80,180</td>
</tr>
<tr>
<td>Bills payable</td>
<td>5,150</td>
</tr>
<tr>
<td>Sundry creditors</td>
<td>21,470</td>
</tr>
</tbody>
</table>

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Contd. .......
Mohit considered it desirable to depreciate plant @ 10% and furniture @ 5%; and to create a provision for bad debts on sundry debtors @ 5%.

During the year, Mohit withdrew ₹3,000 every month to meet his household expenses. On 1st October, 2010, he introduced ₹10,000 as fresh capital.

Ascertain the profits earned by Mohit during the year ended 31st March, 2011 and prepare his statement of affairs as on 31st March, 2011.

(8 marks)

8. Atul, Biju, Chandan and Deepak were partners in a partnership firm sharing profits and losses in the ratio of 4:3:2:1 respectively. The firm was dissolved on 31st March, 2011. The firm’s balance sheet on that date was as follows:

```
Balance Sheet as on 31st March, 2011

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>₹</th>
<th>Assets</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills payable</td>
<td>40,000</td>
<td>Cash at bank</td>
<td>16,000</td>
</tr>
<tr>
<td>Creditors</td>
<td>2,40,000</td>
<td>Bills receivable</td>
<td>80,000</td>
</tr>
<tr>
<td>Capital accounts:</td>
<td></td>
<td>Debtors</td>
<td>2,80,000</td>
</tr>
<tr>
<td>Atul</td>
<td>1,60,000</td>
<td>Stock</td>
<td>1,84,000</td>
</tr>
<tr>
<td>Chandan</td>
<td>2,40,000</td>
<td>Capital Accounts:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Biju</td>
<td>80,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deepak</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>6,80,000</td>
<td></td>
<td>6,80,000</td>
</tr>
</tbody>
</table>
```

Bills receivable and debtors realised 90% of their book values. Stock was sold for ₹1,56,000. Outstanding salary of ₹4,000 which was not shown in the above balance sheet was also paid. The realisation expenses amounted to ₹12,000 and were paid by Deepak. Biju was insolvent and only ₹64,000 could be recovered from his estate. Garner & Murray rule was applied. Prepare realisation account and partners’ capital accounts.

(16 marks)