



ARUN BAJAJ CLASSES

B.Com. (Hons.) / I-NS

Paper II – Financial Accounting 2010

Time : Part A – 2½ Hrs.

Max. Marks : Part A – 45

Time : Part B – 30 Min.

Max. Marks : Part B – 10

General Instruction :

This questions paper has 2 parts. Part A is compulsory for all examines. Part B is meant only for those examinees who have not offered Computerised Accounts. Applicable for student's of Regular College). Student of SOL have to Attempt Part A & B. Part A and B are to be answered on separate answer books.

PART - A

1. State with reasons whether the following statements are True or False. 5
 - (i) A business entity can keep its accounts on accrual basis of accounting.
 - (ii) Legal Fees paid to acquire a property is capital expenditure.
 - (iii) Higher depreciation will not affect cash profit of the business.
 - (iv) Receipts and Payments Account highlights total income and expenditure.
 - (v) Deferred revenue expenditure is current year's revenue expenditure to be paid in later years.
2. (a) Define depreciation. What are the contributory factors for decline in the value of fixed assets ? 4
 (b) Mayur Traders, which depreciates its machinery at 10% p.a. according to Diminishing balance method, had on 1-1-2009 ₹ 4,86,000 balance in Machinery Account. Part of the machinery purchased on 1-1-2007 for ₹ 60,000 was sold for ₹ 40,000 on 1st July, 2009 and a new machinery at a cost of ₹ 70,000 was purchased and installed on the same date, installation charges being ₹ 5,000.
 Mayur Traders wanted to change its method of depreciation on 1-1-2009 from Diminishing balance method to Straight line method with effect from 1-1-2007. The rate of depreciation remains the same as before.
 Show Machinery Account for the year 2009. Also show your working clearly. 10

OR

The following are the details of material of Sai Mills :

01-01-2009	Opening Stock	100 units @ ₹ 25 per unit
01-01-2009	Purchases	200 units @ ₹ 30 per unit
15-01-2009	Issued for consumption	100 units
01-02-2009	Purchases	400 units @ ₹ 40 per unit
15-02-2009	Issued for consumption	200 units
20-02-2009	Issued for consumption	300 units @ ₹ 50 per unit
01-03-2009	Purchases	200 units

15-03-2009 Issued for consumption 200 units

Find out the cost of closing stock as on 31-3-2009 according to :

(i) First in first out basis and

(ii) Weighted average price basis,

using perpetual inventory system. Also calculate cost of closing inventory on LIFO basis under periodic system.

3. A trader keeps his books of account under Single entry system. On 31st March, 2009, his Statement of Affairs stood as follows :

Liabilities	^	Assets	^
Capital	2,50,000	Furniture (cost Rs. 1,50,000)	1,00,000
Trade Creditors	5,80,000	Stock	6,10,000
Bills Payable	1,25,000	Trade Debtors	1,48,000
Outstanding Expenses	45,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash and bank	80,000
	10,00,000		10,00,000

The following was the summary of Cash Book for the year ended 31st March 2010 :

Receipts	^	Payments	^
To Balance	80,000	By Trade Creditors	75,07,000
To Cash Sales	73,80,000	By Bills Payable met	8,15,000
To Receipts from Trade Debtors	15,10,000	By Sundry Debtors	6,20,700
To Receipts from Bills Receivables	3,40,000	By Drawings	2,40,000
		By Balance c/d	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to ^ 36,000 and ^ 28,000 respectively. Bills endorsed amounted to ^ 15,000. Annual Fire Insurance Premium of ^ 6,000 was paid every year on 1st August for renewal of the policy. Furniture was subject to depreciation @ 15% per annum on reducing balance.

You are also informed about the following balance as on 31st March, 2010 :

	^
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivables	75,000
Bills Payable	1,40,000
O/s Expenses	5,000

The trader maintains a gross profit ratio of 10% on sales.

Prepare Trading and Profit & Loss Account for the year ended 31st March, 2010 and Balance Sheet as on that date.

14

OR

(a) What is a contingent liability ? Give three examples of contingent liabilities.

4

(b) Given below is the Trial Balance of Mr. Ramesh as on 31st December, 2009 :

Land and Building	1,20,000	
Office Machinery	70,000	
Furniture and Fittings	20,000	
Stock on 1-1-2008	16,000	
Purchases and Sales	90,000	2,20,000
Salaries	20,000	
Bad Debts	10,000	
Debtors and Creditors	35,000	40,000
Sales Tax	10,000	
Rent, Rates and Taxes	15,000	
Advertisement	18,000	
Drawings	5,000	
Loan to Ashok @ 16% p.a. on 1-7-2009	20,000	
Wages	33,000	
Interest on Loan to Ashok	-	1,000
Bills Receivables	10,000	
Trade Mark	8,000	
Discount	1,000	
Wages Payable	-	2,000
Capital	-	1,98,000
Bank Overdraft	-	40,000
	5,01,000	5,01,000

Additional Information :

- The Value of Stock on 31-12-2009, ₹ 30,000
- Sales include ₹ 5,000 for the goods sold on approval to Hemant. Goods are sold at a profit of 25% on cost. Approval was not received till 31st December.
- Furniture purchased during the year for ₹ 5,000 was wrongly debited to Purchase Book.
- A Cheque of ₹ 8,000 received from customers was deposited in the bank in the last week of December. It was reported to have been dishonoured.
- Free samples worth ₹ 4,000 were distributed during the year.
- Write off further bad debts ₹ 2,000. Also create a provision for doubtful debts at 10% on debtors.
- Depreciate furniture by 10% and office machinery by 5%.

Prepare Trading and Profit & Loss Account for the year ended 31st December, 2009 and a Balance Sheet as on that date.

10

4. X Co. Ltd. purchased on 1-1-2008 from M/s R.V. traders four machines having cash price ₹ 80,000 each on hire purchase basis. The payment was to be made as follows :

10% of cash price down, and

25% of cash price at the end of each of the following four year.

X Co. Ltd. paid the first instalment but failed to pay the second instalment due on 31-12-2009. M/s R.V. Traders repossessed three machines leaving remaining one machine with the buyer. The value of three

machines was taken at cost less depreciation @ 20% p.a. on reducing balance method. M/s X Co. Ltd. charges depreciation at 10% p.a. on reducing balance method on 31st December of each year.

M/s R.V. Traders spent ₹ 42,000 on overhauling of the machines repossessed and sold two of the repossessed machines for ₹ 1,20,000.

Prepare necessary Ledger Accounts in the books of both the parties.

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OR

From the following Income and Expenditure Account of Mayur Club for the year ended 31st December, 2009, prepare Receipts and Payment Account for the year ended 31st December, 2009 and a Balance Sheet as on that date

Income and Expenditure Account
(for the year ended 31-12-2009)

Expenditure	₹	Income	₹
To Salaries	48,000	By Subscriptions	1,56,000
To Stationery	3,200	By Donations	16,000
To Postage and Telephone	6,400	By Billiard Room Collections	14,000
To Rates and Taxes	12,000	By Entrance Fees	24,000
To Repairs	16,000	By Interest from Investments	5,400
To Table Tennis Balls	2,400		
To Printing of Magazines	4,000		
To Electricity Charges	12,000		
To Billiard Room Expenses	6,000		
To Unkeep of Ground	18,800		
To Depreciation on Assets	4,000		
To Excess of Income over Exp.	82,600		
	2,15,400		2,15,400

	As on 1-1-2009	31-12-2009
	₹	₹
Fixed Assets	96,000	64,000
Investments	54,000	94,000
Cash at Bank	3,600	?
Subscription Outstanding	6,000	10,000
Subscriptions received in advance	12,000	20,000
Expenses Outstanding :		
Stationery	1,200	800
Telephone	600	400
Electricity	1,400	600

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5. X Co. Ltd. Mumbai invoices goods to its Delhi Branch at cost plus 25%. All expenses of the Branch are met by Head Office and cash collected by the branch is set to Head Office. From the following information, prepare Branch Account and Goods sent to Branch A/c in the books of Head Office :

Branch Stock at invoice price on 1-1-09	20,000
Branch Debtors on 1-1-09	25,000
Branch Furniture on 1-1-09	40,000
Petty Cash on 1-1-09	3,000
Salary due for December, 2008	4,000
Goods sent to branch during the year (including goods in transit)	2,00,000
Goods returned by Branch to Head Office	5,000
Goods returned by customers to Branch	4,000
Loss of Goods in transit at I.P. (not insured)	10,000
Cash Sales	70,000
Cash received from customers	90,000
Goods spoiled at I.P. (normal)	4,000
Bad Debts	1,000
Discount allowed	2,000
Petty expenses incurred by Branch	2,000
Cheque received from Head Office for :	
Salaries @ 4000 p.m.	48,000
Rent	10,000
Petty Cash	3,000
Delivery Van	<u>5,000</u> 1,11,000
Branch Debtors on 31-12-2009	30,000
Branch stock on 31-12-2009	?

Depreciation furniture and delivery van @ 10%.

14

OR

- (a) Distinguish between Hire Purchase system and Instalment system. **4**
- (b) A Head Office invoices goods to its branch at 20% less than the list price. The list price is made up by adding 100% to cost price. Goods are sold to customers at list price both by head office and branch. From the following particulars, prepare Trading and Profit & Loss Accounts for the year ended 31st March 2010 to show profit made by Head Office and Branch on Wholesale Basis :

	Head Office	Branch	
	(^)	(^)	
Opening Stock at Cost (at invoice Price for branch)	60,000	24,000	
Purchases	6,00,000	-	
Goods sent to Branch at invoice price	-	1,44,000	
Sales	9,00,000	1,20,000	
Expenses	1,30,000	6,000	10

PART - B

6. A, B and C shared profit and losses in the ratio of 5 : 3 : 2 respectively. On 31st March, 2009 their Balance Sheet was as follows :

Liabilities	^	Assets	^
A's Capital A/c	60,000	Furniture	22,000
B's Capital A/c	40,000	Stock	96,000
C's Capital A/c	20,000	Cash	2,000
Creditors	60,000	Profit & Loss A/c	80,000
Bank Loan	20,000		
	2,00,000		2,00,000

The bank had a charge on all the assts. Furniture realised ^ 6,000 and stock was sold for ^ 50,000. B's private estate realised ^ 12,000. B's private liabilities were ^ 10,000. C was unable to contribute anything. A paid one-third of what was due from him on his own account.

Prepare Realisation Account, Cash Account and Partners' Capital Accounts, passing all matters relating to realisation of assets and payment of liabilities through Realisation Account. **14**

OR

(a) Explain the rule of Garner Vs. Murrory. **4**

(b) A, B and C were partners sharing profits and losses in the ratio of 4 : 3 : 1. Their Balance Sheet as on 31st March, 2009 was as follows :

Liabilities	^	Assets	^
A's Capital A/c	1,05,000	Building	90,000
B's Capital A/c	45,000	Machinery	30,000
C's Capital A/c	75,000	Stock	82,500
Bank Loan (Secured)	13,500	Debtors	90,000
A's Loan	15,000		
	2,92,500		2,92,500

They decided to dissolve the business. The assets were realised gradually and the net amounts were distributed immediately as follows :

2009	^	^	
May 30	33,000	Expenses paid	3,000
July 30	25,200	Expenses paid	2,200
Sept. 30	57,000	Expenses paid	4,500
Nov. 30	68,000	Expenses paid	8,000
Dec. 31	1,08,000	Expenses paid	10,000

Show the distribution of cash among partners using maximum possible loss method. **10**

END OF PAPER

ANSWERS - BCom(1st Year) 2010

1. Objective Type

- (i) **True :** In fact all business maintain their books of account on accrual basis. It is mandatory for joint stock companies.
- (ii) **True :** All expenditure paid or incurred before the asset is put to use are capital expenditure.
- (iii) **True :** Depreciation is simply with holding or savings of cash. It is not a source of cash.
- (iv) **False :** The purpose of receipts and payments account is to show the balance of cash in hand.
- (v) **False :** In fact when revenue expenditure are paid in the current year and benefits are to accrue in future, they are allocated to future accounting periods. Thus payment is made in the current year only.

2. Profit and Loss A/c (Addl. Depreciation ^ 5,400
Balance c/d ^ 4,49,250

OR

Value of Closing Stock (FIFO) = ^ 15,000
Value of Closing Stock (W.A) = ^ 13,337
Value of closing stock as per LIFO basis under Periodic System
No. of unsold units : (100 + 200 + 400 + 300) – (100 + 200 + 200) = 1,000 – 700 = 300 units

Value of Stock (LIFO)

100 units @ Rs. 25	2,500
200 units @ Rs. 30	<u>6,000</u>
	<u>8,500</u>

3. (b) Net Profit ^ 9,30,000
Net Profit ^ 3,26,300
Balance Sheet ^ 10,91,300

OR

Gross Profit ^ 1,09,000
Net Profit ^ 31,000
Balance Sheet ^ 3,14,000

4. Machinery on Hire Purchase A/c ^ 2,88,000
Value of one unsold machine ^ 65,200

OR

Receipt & Payment A/c (Bal. figure) ^ 80,800
Balance Sheet as on 1 Jan. 2009 ^ 1,59,600
Balance Sheet as on 31 Dec. 2009 ^ 2,48,800

5. P & L A/c (Bal. figure) ^ 49,600
Delhi Branch A/c ^ 4,10,600
Goods sent to Branch A/c ^ 2,01,000

OR

Net Profit ^ 3,56,000

6. Net Loss ^ 42,400
Deficiency A/c ^ 5,280

OR

Balance and Final Loss
A's A/c ^ 14,500
B's A/c ^ 10,875
C's A/c ^ 3,625