# ARUN BAJAJ CLASSES

M.Com, B.Ed., M.B.A (Finance), P.G. Diploma in Financial Management

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

## Paper II – Financial Accounting 2011

**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.**

***Q1.*** State with reason whether the statements are True or False :

(i) Depreciation is decrease in the market value of a fixed asset.

(ii) Revenue and income are one and the same thing.

(iii) According to accrual concept, revenues are recognised only when cash is actually received.

(iv) Assets represent expired while expenses are unexpired costs.

(v) Outstanding rent account is a personal account. **5**

***Q2.*** ABC Ltd. purchased on 1st October , 2004, a machinery for ˆ 4,50,000 and spent ˆ 10,000 on freight and transit insurance. On 25th December, 2004, it further spent ˆ 40,000 on its erection. The machinery was put to use on 1-1-2005. On 1st July 2005, it purchased another machinery for ˆ 1,00,000. During the year 2006, it spent ˆ 10,000 for repairs on 1-4-2006.

However on 1-4-2007, a part of the machinery, purchased on 1-10-2004, costing ˆ 2,00,000 was sold for ˆ 1,50,000. On 1-10-2007 it purchased another machinery for ˆ 3,00,000.

On 1st July, 2008, however, machinery purchased on 1st July, 2005 was sold for ˆ 65,000. Depreciation was charged by the firm @ 10% p.a. by written down value method. During the year 2008. ABC Ltd. decided to change the method of provising depreciation and adopted the Straight Line Method of charging depreciation @ 10% p.a.

Prepare Machinery Account as per the provision of AS-6 upto the year ending 31-12-2008. **14**

OR

(a) What is meant by accounting standards ? State briefly the merits of issuing accounting standard. **4**

(b) The following are the details of material in respect of a certain item of M/s Ajay & Company :

| | | |
|---|---|---|
| 1-1-2008 | Purchase | 600 units @ ˆ 20 each |
| 1-2-2008 | Purchases | 200 units @ ˆ 24 each |
| 15-2-2008 | Sales | 200 units @ ˆ 30 each |
| 1-4-2008 | Purchases | 300 units @ ˆ 30 each |
| 15-4-2008 | Sales | 400 units @ ˆ 40 each |
| 1-6-2008 | Purchases | 300 units @ ˆ 40 each |
| 15-6-2008 | Sales | 350 units @ ˆ 50 each |

Find out the cost of closing stock as on 30-6-2008 according to :

(i) First-in-first out basis; and

(ii) Weighted average basis using perpetual inventory system. **10**

***Q3.*** Mr. Anand commenced business on 1st January 2007 with a capital of ˆ 45,000. He immediately purchased furniture for ˆ 24,000. During the year he received from his uncle a gift of ˆ 3,000 and he borrowed from his father a sum of ˆ 50,000. He had withdrawn ˆ 600 per month for his household expenses. He had no bank account and all dealings were in cash. He did not maintain any books but the following information is given :

| | ˆ |
|---|---|
| Sales (including cash sales ˆ 30,000) | 1,00,000 |
| Purchases (including cash purchases ˆ 10,000) | 75,000 |
| Carriage inwards | 700 |
| Wages | 300 |
| Discount allowed to Debtors | 800 |
| Salaries | 6,200 |
| Bad Debts written-off | 1,500 |
| Trade Expenses | 1,200 |
| Advertisements | 2,200 |

He used good worth ˆ 1,300 for personal purposes and paid ˆ 500 to his son for examination and college fees.

On 31st December, 2007 his debtors were worth ˆ 21,000 and creditors ˆ 15,000. Stock-in-trade was valued at ˆ 10,000. Furniture to be depreciated by 10% p.a.

Prepare Trading and Profit & Loss Account for the year ended 31st December, 2007 and Balance Sheet as at 31st December, 2007. **14**

**OR**

From the following Trial Balance and additional information, prepare Trading and Profit & Loss Account of Mr. Mukul for the year ended 31st March, 2008 and Balance Sheet as at the date :

| Particulars | Debtit Balance (ˆ) | Credit Balance (ˆ) |
|---|---|---|
| Capital / Drawings | 10,000 | 1,70,000 |
| Plant & Machinery | 1,10,000 | — |
| Sales / Purchases | 84,000 | 1,65,000 |
| Returns | 5,000 | 4,000 |
| Bad Debts / Bad Debts Recovered | 5,000 | 26,450 |
| Freight Inwards | 5,000 | — |
| Freight Outward | 7,000 | — |
| Discount | 2,000 | 1,000 |
| Commission | 4,000 | 3,000 |
| Rent | 3,000 | 4,000 |
| Interest | 2,500 | 3,000 |
| Office and Administrative Expenses | 6,000 | — |
| Selling and Distribution Expenses | 10,000 | — |
| Creditors / Debtors | 2,15,000 | 2,02,000 |
| Bill Payable / Bills Receivable | 10,000 | 5,600 |
| Loan | 20,000 | 50,000 |
| Investments | 50,000 | — |
| Opening Stock | 54,000 | — |
| Cash in hand | 5,000 | — |
| Cash at Dena Bank | 45,550 | — |
| Bank Overdraft at Canara Bank | — | 20,000 |
| Wages and Salaries | 1,000 | — |
| | 6,54,050 | 6,54,050 |

Additional Information :

(a) Closing Stock at market price as 31st March, 2008 was ˆ 61,500. However, its cost was ˆ 80,000.

(b) Provide for depreciation on Plant & Machinery @ 10% p.a.

(c) Provide interest on capital @ 6% p.a. and an additional capital of ˆ 10,000 was introduced on 1st Oct. 2007.

(d) Charge interest on drawings @ 9% p.a.

(e) Goods costing ˆ 10,000 were destroyed due to fire on 30th March 2008. The Insurance Company accepted claim to the extent of 60% only and paid the claim money on 10th April, 2008.

(f) Goods worth ˆ 10,000 were sent to a customer on approval basis and have been accounted in the books as actual sale. These goods remained unapproved on 31st March 2008. The cost of such goods was ˆ8,000.

(g) Received credit purchase invoice of ˆ 10,500 on 27th March 2008 and recorded in the books but the goods were not received till the end of the accounting year.

(h) Manager is entitled to a commission of 5% of net profit after charging the commission. **14**

***Q4.*** Deepak purchased four second-hand cars on hire-purchase system. Cash price being ˆ 52,500 each. The hire-purchase price for all the four cars was ˆ 2,40,000. The payment was to be made ˆ 60,000 on signing the agreement and three instalments of ˆ 60,000 each at the end of the three years. Deepak charges depreciation @ 10% p.a. on Straight Line Method.

Deepak paid the down payment and first instalment but could not pay the second instalment. The vendor, after negotiations, took back three cars. These cars were taken back after depreciating them @ 20% p.a. on written down value method. One car was left with the purchaser.

The vendor spent ˆ 3,600 on repairs and sold two of these cars for ˆ 80,000. Show necessary ledger accounts in the books of both the parties. **14**

**OR**

Prepare Income and Expenditure Account of Lions Club for the year ending 31st March 2009 and a Balance Sheet as on that date from the following :

Receipts and Payments

for the year ending 31-3-2009

| Receipts | | Amount ˆ | Payment | | Amount ˆ |
|---|---|---|---|---|---|
| To Balance b/d | | | By Salary : | | |
| Cash | 20,000 | | Secretary | 60,000 | |
| Bank | 1,20,000 | 1,40,000 | Staff | 50,000 | 1,10,000 |
| To Subscription | | | By Canteen Expenses | | 1,20,000 |
| 2007-08 | 5,000 | | By Misc. Expenses | | 25,000 |
| 2008-09 | 55,000 | | By Contruction of builiding | | 1,50,000 |
| 2009-10 | 4,000 | 64,000 | By Balance c/d | | |
| To Interest from Bank | | 10,000 | Cash | 13,000 | |
| To Sale of old furniture | | 20,000 | Bank | 40,000 | 53,000 |
| To Sale of Newspapers | | 4,000 | | | |
| To Canteen Collections | | 1,20,000 | | | |
| To Donation for Building | | 1,00,000 | | | |
| | | 4,58,000 | | | 4,58,000 |

| Addtional Information : | 31-3-08 ˆ | 31-3-09 ˆ |
|---|---|---|
| (i) Subscription outstanding as on | 10,000 | 6,000 |
| (ii) Subscription in advance as on | 2,000 | 4,000 |
| (iii) Salary of staff outstanding | 10,000 | 20,000 |

| | | |
|---|---|---|
| (iv) Canteen expenses prepaid | 10,000 | 15,000 |
| (v) Furniture at book-value | 1,40,000 | — |
| (vi) Building (under construction) | 1,50,000 | 4,00,000 |
| (vii) Fixed Deposits with Bank | 1,00,000 | 1,00,000 |
| (viii) Building fund | 2,00,000 | — |

Book value of furniture sold during the year was ˆ 15,000 and depreciation on furniture is charged @ 10% p.a. on closing balance. **14**

***Q5.*** M/s XYZ Ltd. has branches at Delhi and Agra and goods are invoiced at cost plus a profit of 20% on sales. The following information is available of the transactions at Delhi branch for the year ending 31st March, 2011:

| | 1-4-2010<br>ˆ | 31-3-2011<br>ˆ |
|---|---|---|
| Stock at Invoice Price | 40,000 | — |
| Debtors | 12,000 | 11,000 |
| Petty Cash | 150 | 250 |
| **Transactions during 2010-11 :** | | |
| Goods sent to branch at cost to H.O. | | 3,36,000 |
| Gooods returned by branch to H.O. | | 15,000 |
| Cash Sales | | 1,05,000 |
| Credit Sales | | 1,80,000 |
| Normal Loss on I.P. | | 350 |
| Goods pilfered at I.P. | | 3,000 |
| Goods lst by fire at I.P. | | 4,000 |
| Insurance Co. paid to H.O. for loss by fire at Delhi | | 3,000 |
| Cash sent by petty expenses | | 32,000 |
| Bad Debts at Delhi branch | | 400 |
| Goods transferred to Agra branch instructions from H.O. at I.P. | | 12,000 |
| Insurance charges paid by H.O. | | 200 |
| Goods returned by Debtors | | 500 |

Note : Goods transfered to Agra branch were in transit (given above) on 31st March 2011.

Prepare

(i) Branch Stock Account;

(ii) Branch Adjustment Account;

(iii) Branch Profit & Loss Account;

(iv) Stock Reserve Account; and

(v) Branch Debtors A/c. **14**

**OR**

From the following details relating to Delhi branch for the year ending March 31st, 2011, prepare Branch Account and Goods sent to Branch Account in the books of Head Office. Show your working clearly :

| | ˆ |
|---|---|
| Stock on 1-4-2010 | 25,000 |
| Debtors on 1-4-2010 | 10,000 |
| Furniture on 1-4-2010 | 6,000 |
| Petty Cash on 1-4-2010 | 1,000 |
| Insurance prepaid on 1-4-2010 | 300 |
| Salaries outstanding on 1-4-2010 | 4,000 |
| Goods sent during the year 2010-11 | 2,00,000 |
| Cash sales during the year | 2,70,000 |

| | | |
|---|---|---|
| Total Sales | | 3,50,000 |
| Cash received from Debtors | | 65,000 |
| Cash paid by Debtors direct to H.O. | | 5,000 |
| Goods returned by branch | | 2,000 |
| Goods returned by Debtors | | 1,000 |
| Cash ent to Branch for expenses : | | |
| Rent (ˆ 800 p.m.) | 9,600 | |
| Salary (ˆ 4,000 p.m.) | 48,000 | |
| Petty Cash | 2,000 | |
| Insurance (upto June 2011) | 1,200 | 60,800 |
| Petty Cash Expenses | | 2,200 |
| Discount allowed to Debtors | | 500 |
| Stock on 31-3-2011 | | 15,000 |

Depreciation on furniture at 10% p.a.

Goods costing ˆ 2,500 were damaged in transit and a sum of ˆ 2,000 was recovered by branch from the insurance company in full settlement of the claim. **14**

## PART - B

***Q6.*** A and B were partners sharing profits & looses in the proportion of 3/5 and 2/5 respectively. Their Balance Sheet as on 31st December 2009 was as under :

| Liabilities | | ˆ | Assets | ˆ |
|---|---|---|---|---|
| Bill Payable | | 3,500 | Cash | 4,500 |
| Sundry Creditors | | 6,400 | Book Debtors | 7,500 |
| Reserve Fund | | 15,000 | Investments | 4,000 |
| Capitals : | | | Stock | 31,000 |
| A | 70,260 | | Plant & Machinery | 50,000 |
| B | 46,840 | 1,17,100 | Freehold Premises | 45,000 |
| | | 1,42,000 | | 1,42,000 |

AB limited was formed with an authorised capital of ˆ 5,00,000 divided into 25,000 equity shares of ˆ 10 each and 25,000 preference shares of ˆ 10 each to acquire the going concern of A and B upon the following terms :

(i) The company took over all assets except investments. It valued the stock and plant and machinery at 10 per cent less than the book value and the freehold premises at 20 per cent more than the book value.

(ii) The liabilities were to be discharged by the company.

(iii) The goodwill of the firm was to be valued at 2 year's purchased of the average profits of 3 years. The working results of the firm showed that it has made profits of ˆ 15,000 in 2007, ˆ 18,000 in 2008 and ˆ21,000 in 2009 after setting aside ˆ 5,000 to reserve fund every year.

(iv) The purchase price was agreed upon to paid ˆ 53,000 in fully paid equity shares, ˆ 50,000 in fully paid preference shares, ˆ 30,000 in debentures and the balance in Cash.

(v) The partners sold the investments and realised ˆ 4,100.

You are required to prepare in the books of the firm of A and B :

(i) Realisation Account;

(ii) Capital Accounts of the partners; and

(iii) Cash Account,

assuming that shares and debentures are to be distributed in profit sharing ratio, the final settlement being made in cash. **14**

**OR**

A, B and C were partners sharing profits and losses in the ratio of 3 : 2 : 1. On 31st December, 2008, their Balance Sheet was as follows :

| Liabilities | ˆ | Assets | ˆ |
|---|---|---|---|
| Sundry Creditors | 30,000 | Cash at Bank | 9,500 |
| Bills Payable | 5,000 | Stock | 15,500 |
| A's Loan | 6,000 | Sundry Debtors | 32,000 |
| Reserve Fund | 12,000 | Furniture | 5,000 |
| Profit & Loss Account | 6,000 | Plant | 21,000 |
| Capital Accounts : | | Drawing Accounts : | |
| A | 20,000 | A | 4,000 |
| B | 15,000 | B | 1,000 |
| | | C's Capital A/c | 6,000 |
| | 94,000 | | 94,000 |

The firm was dissolved on that date. Stock realised ˆ 12,200, Debtors ˆ 30,000 and Furniture ˆ 4,200. Plant is taken over by A' at ˆ 18,000. A contingent liability for bills discounted materilised to the extent of ˆ 600. Realisation expenses amounted to ˆ 600. C is insolvent, but his private estate paid ˆ 1,900. Prepare Realisation Account, Capital Accounts and Bank Account. Apply Garner Vs. Murray rule. **14**