

Unique Paper Code : 22411101
Name of the Paper : Financial Accounting
Name of the Course : B.Com (Hons.)/CBCS
Semester : I

Duration : 3 Hours

Maximum Marks : 55

Instructions for Candidates

1. Attempt ANY FOUR Questions out of given SIX Questions.
2. Simple Calculators are allowed to be used.
3. Working Notes should form part of the answer.
4. Answers to theory questions should be brief and to the point.

1(a) State with reason whether the following statements are true or false (No Marks shall be awarded without valid reason): [1.5 x 5 = 7.5 Marks]

- (i) Branch Account prepared under Debtors Method or Branch Accounting is a nominal account.
 - (ii) Fundamental Assumptions are always required to be disclosed in the financial statements.
 - (iii) Change in Accounting Estimate has to be given retrospective effect.
 - (iv) Economic life is 6 years, lease term is 7.5 years, but the asset is of a special nature, and has been procured only for use of lessee. This is an operating lease.
 - (v) Change in Method of Depreciation is regarded as change in Accounting Policy of the entity.
- (b) Distinguish between Finance Lease and Operating Lease.
- (c) Explain in brief the relevant accounting assumption or principle which is applied in Classification of Expenditure as Capital Expenditure and Revenue Expenditure. [3.75 Marks]

2. On 01.10.2016, X purchased 5 Machines for ₹10,00,000. Payment was to be made—20% down and the balance in four annual equal instalments of ₹5,00,000 each to be paid at the end of each year. X writes off depreciation @ 20% p.a. on the original cost. On X's failure to pay the third instalment, Y e-mailed X that on 01.04.2020 he will repossess 3 machines and will allow a credit for lower of the following:

- (i) Value of Machines on the basis of 40% p.a. depreciation on WDV basis.
- (ii) the amount paid against 3 machines less 50%.

X replied Ok. 01.04.2020 Y repossessed the machines as per ₹6,00,000 spent on repairs of these machines and sold one of such machines for ₹7,00,000 on 30th June 2020. X follows financial year as its accounting year.

Required: Prepare Machinery Account and Hire Vendor's Account books of X and Hire Purchaser's Account and Goods Repossessed Account books of Y. Also Show the Items related to Hire Purchase in the Balance Sheet of X as at 31st March, 2020. [3+3+3+3+1.75 = 13.75 Marks]

3. OM Ltd. Delhi invoices goods to its Mumbai and Kolkata branch offices at 20% less than the list price which is cost plus 50% with instructions that cash sales are to be made at invoice price and credit sales at list price.

Opening Stock at Mumbai at ₹ 76,800.

Goods Sent to Mumbai (at cost to Delhi) ₹10,000.

Cash Sales 74.8% of Net Credit Sales.

Goods returned by Credit Customers to ₹45,000.

Goods returned by Mumbai to ₹26,000.

Loss of Goods by fire (at invoice price) ₹3,000 against which 80% of cost was recovered from the insurance Company.

Loss of Goods at Mumbai through normal pilferage (at 300 price)

Debtors at Mumbai: Opening ₹10,000, Closing ₹1,000

Cash remitted by Mumbai Branch ₹1,82,435.

Discount Allowed to Debtors ₹13,365.

Goods received by Mumbai till close of the year ₹2,75,000.

Provision is to be made for discount on Debtors at 15% on prompt payments at year end on the basis of year's trend of prompt payments.

Cash remitted by HO ₹ 5,000.

Branch Expenses still outstanding

Manager is entitled to a commission @ 6% of net profits after charging such commission.

Required: Prepare Mumbai Branch Debtors A/c, Mumbai Branch Stock Account, Mumbai Branch Adjustment A/c, Mumbai Branch Expenses Account and Mumbai Branch Profit & Loss Account under Stock & Debtors Method.

[2+4+4+1+2.75=13.75 Marks]

4(a) State the two circumstances under which Rule of Square Root Basis is applicable and Maximum Loss Method and Proportionate Capital Method of Piecemeal Distribution among the partners

/Proportionate Capital Method of Piecemeal Distribution among the partners ?

4(b) Following is the Balance Sheet of X, Y and Z who were sharing in the ratio of 2:3:5 as at 31st March, 2020, when they decided to dissolve the firm:

Liabilities	₹(lacs)	Assets	₹(lacs)
Bank Loan (Secured on 25.00)	25.00	Buildings	25.00
X's Loan (Secured on 5.00)	5.00	Stock	15.00
Y's Loan (2.50)	2.50	Debtors	20.00
X's Capital (90.00)	90.00	Cash at Bank	10.00
Y's Capital (45.00)	45.00	Others Assets	17.00
Z's Capital (15.00)	15.00		
Reserves (50.00)	50.00		
	257.50		257.50

Note: There was ₹ 50,000 due on 15th Aug. under discount. The assets were realised as follows:

15th April	Stock	₹ 16 lacs	Expenses	₹ 0.50 lacs
15th May	Land & Buildings	₹ 29.50 lacs	Expenses	₹ 1.00 lacs
15th June	Debtors	₹ 10 lacs	Expenses	₹ 0.75 lacs
15th July	Debtors	₹ 9.25 lacs	Expenses	₹ 0.75 lacs
15th July	X decided to take Machinery at	₹ 15 lacs		
15th Aug.	Other Assets	₹ 150 lacs	Expenses	₹ 5.75 lacs

Partners decided to keep a minimum capital of ₹ 25,000 thereafter. The Acceptor of the bill under discount met the bill on due date.

Required: Prepare a Statement showing the Distribution of Cash:

- among all the Claimants (4 Marks)
- among all the partners using Maximum Loss Method (4 Marks) distribution of cash.

5(a) RAJASTHALI Ltd. manufactures a product 'OM' using a raw material M1. The company took Bank Overdraft at an interest rate of 15% p.a. specifically for the purpose of purchase of 100,000 kg of the raw material M1. The purchase price includes GST @ 10% per kg., in respect of which full credit is admissible. Freight, loading and unloading charges incurred amounted to ₹ 40,800. Interest on such Bank Overdraft amount to ₹ 2,000. Transit Loss is 2%. The company actually received 9,760 kg. and consumed 9,500 kg. One unit of Finished product requires five units of Raw Material. Direct Labour Cost amounted to ₹ 2,28,000, Direct Overheads ₹ 57,000 and Fixed Overheads ₹ 20,000. The normal capacity of 20,000 units of Finished Goods. During the year 2019-20, the opening inventory of Finished Goods and Raw Material if

- Finished units can be sold at ₹ 100 each subject to payment of 10% brokerage on selling price., Replacement Cost of Raw Material is ₹ 90 per kg
- Finished units can be sold at ₹ 70 each subject to payment of 10% brokerage on selling price, Replacement Cost of Raw Material is ₹ 90 per kg [3 x 2 = 6 Marks]

5(b) X Ltd. purchased machinery from Y Ltd. on 30/09/2019 at the price of ₹ 5,00,000 including 10% GST and giving a trade discount of 5% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price. To finance the purchase of the machinery, X Ltd. took a loan of ₹ 5,00,000 at the rate of 15% per annum. Fees of Consultants used for advice ₹ 10,000 and cost of site preparation ₹ 4,50,000, Estimated dismantling costs to be ₹ 1,50,000 and penalties incurred on the trial run were: Material ₹ 5,00,000, wages ₹ 1,00,000 and overheads ₹ 2,00,000. Sale Proceeds of Goods produced during the trial run were ₹ 10,00,000. Machinery was ready for use on 01/12/2019. However, it was actually put to use only on 01/05/2020. The entire loan amount remained unpaid on 01/05/2020. X Ltd. does not intend to utilize the input tax paid on capital good.

- Find out the cost of the machine. 3 Marks
- Suggest the accounting treatment for the cost incurred during the period between the date the machine was ready for use and the actual date the machine was put to use. [2 Marks]

5(c) SHEENA Ltd acquired machinery on lease from BHARAT Ltd on the following terms:

Lease Term 5 Years, Fair Value of Machinery ₹ 30 lakhs, Rental ₹ 5 lakhs payable at the end of each year, Implicit Rate of Return (IRR) 15%

Required:

- State with reason whether the Lease is Operating Lease or Finance Lease. Present value factors @ 15% for years 1 to 5 are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.
- What will be the amount of Depreciation for the First year? What will be the amount of Rental Expense for the First year? Lessee follows Depreciation on straight line basis. Lessor follows Depreciation rate @ 20% on straight line basis [5 Marks]

6 Following are the extracts from the Trial Balance of OM TAT SAT as at 31st March, 2020:

Particulars	₹	Particulars	₹
Purchases	5,70,000	Sales	7,77,500
12% Investment purchased (01.07.2019)	1,00,000	Capital	7,98,100
Bad Debts [after recovery of ₹ 2,500 w/o during 2018-2019]	50,000	Provision for Doubtful Debts (01.04.2019)	1,00,000
Trade Debtors	2,56,000	Provision for Discount on Debtors (01.04.2019)	1,800
Plant and Machinery (before rectification)	4,88,200	Outstanding Liabilities for Expenses (Dr)	55,000
Dividend received	10,000	Corporate tax paid	10,000

Additional Information:

- (a) Stock in hand was not taken on 31st March but only on 7th April. Following transactions had taken place during the period from 1st April to 7th April:
Sales ₹ 2,50,000, Purchases ₹ 50,000, Stock on 7th April ₹ 20,000. Goods are normally sold at 25% profit on cost. Market Price on 31st March, 2020 was 64% of Selling Price, Estimated Realisable Expenses 5%.
- (b) Goods (Sale Price ₹ 25,000) were taken by the proprietor for his personal use but not recorded. On 31st March Goods (Sale Price ₹ 12,500) were destroyed by fire it was fully insured but the insurance company admitted the claim to the extent of 60% of cost only and paid the claim money on 10th April, 2020. On 31st March 5,000 were sent to a customer on 'Sale or Return' basis and recorded as actual sales. Goods are normally sold at 25% profit on cost. On 1st Jan. 2020 Investments were sold at 10% profit, but the entire sales proceeds have been taken as Sales.
- (c) Write off further ₹ 4,000 as bad. Additional discount of ₹ 1,000 given to debtors. Maintain Provision for Discount on Debtors @ 2%. Maintain a Provision for Doubtful Debts @ 10%. Included amongst the Debtors from Z and included among the Creditors due to him.
- (d) It was discovered during 2019-2020 that ₹ 10,000 being repairs to Machinery incurred on 1st July, 2017 had been capitalized and ₹ 5,000 being the cost of Machinery purchased on 1st Oct, 2016 had been written off to Stores and Wages ₹ 5,000 paid for its Installation had been debited to Wages Account. A Machine ₹ 6,000 was purchased on 1st July 2019. Wages ₹ 30,000 paid for its Installation have been debited to Wages Account. Rate of depreciation on Plant & Machinery is 20% p.a. on reducing balances basis.
- (e) Printing and Stationery expenses ₹ 5,000 relating to previous year had not been provided in that year but was paid in current year by debiting Outstanding Liabilities for Expenses.

Answer the following:

- (a) Calculate the amount of Net Purchases, Net Sales and Closing Stock to be shown in the Trading Account for the year ending 31st March, 2020. [2+2+2=6 Marks] [
- (b) Calculate the total amount to be debited to the Profit & Loss Account for the year ending 31st March, 2020 in respect of Bad Debts, Discount on Debtors and Provision for Doubtful Debts & Discount on Debtors. [
- (c) Calculate the amount of Closing Balance of Debtors to be shown in the Balance Sheet as at 31st March, 2020. [
- (d) Calculate the amount of Closing Balance of Plant and Machinery to be shown in the Balance Sheet as at 31st March, 2020. [2 Marks] [
- (e) Calculate the amount of Closing Capital (before making an adjustment for current year's Net Profit/Loss) to be shown in the Balance Sheet as at 31st March 2020. [1 Mark]

[Note: Financial Statements are not required to be prepared.]