

**INTERMEDIATE EXAMINATION
Syllabus 2016**

Paper 5: FINANCIAL ACCOUNTING (FAC)

Time Allowed: 3 Hours

Full Marks: 100

**There are Sections A, B, C and D to be answered subject to instructions given against each.
(Time allotted for Sections A and B shall be limited to a maximum of 50 minutes)**

Section A			20 Marks
1.	You are required to answer all the questions. Each question carries 1 mark. Instructions: Each question is followed by 4 Answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer.		20 X 1 = 20
	a.	Which statement/account of the following is the Income Statement of a Charitable Institution?	
	(i)	Statement of Profit and Loss	
	(ii)	Receipts and Payments Account	
	(iii)	Income and Expenditure Account	(iii)
	(iv)	Profit and Loss Account	
	b.	Which class of account is Receipts and Payments Account?	
	(i)	Nominal Account	
	(ii)	Real Account	(ii)
	(iii)	Personal Account	
	(iv)	Artificial Personal Account	
	c.	Income and Expenditure Account is a _____. Fill in the blank.	
	(i)	Nominal Account	(i)
	(ii)	Real Account	
	(iii)	Personal Account	
	(iv)	Artificial Persons Account	
	d.	A resource owned by the business with purpose of using it for generating future profit, is known as	
	(i)	Capital	
	(ii)	Asset	(ii)
	(iii)	Liability	
	(iv)	Surplus	
	e.	If an employee of the business files a legal suit on business, it is considered in the books as a	
	(i)	Legal Expense	
	(ii)	Liability	
	(iii)	Contingent Asset	
	(iv)	Contingent Liability	(iv)
	f.	At the end of the Accounting Year, the Capital Expenditures are shown in the	
	(i)	Assets side of the Balance Sheet	
	(ii)	Liabilities side of the Balance Sheet	(ii)

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	(iii)	Debit side of the Profit and Loss A/c	
	(iv)	Credit side of the Profit and Loss A/c	
g.	The Accommodation Bill is drawn		
	(i)	to finance actual purchase or sale of goods	
	(ii)	to facilitate trade transmission	
	(iii)	when both parties are in need of funds	(iii)
	(iv)	when funds are not required	
h.	Which of the following is not a method of charging depreciation?		
	(i)	Sinking Fund Method	
	(ii)	Sum of Years Digit Method	
	(iii)	Working Hours Method	
	(iv)	Asset's Life-cycle Method	(iv)
i.	Which of the following is not a Qualitative Characteristics of Financial Statement?		
	(i)	Cost Principle	(i)
	(ii)	Understandability	
	(iii)	Relevance	
	(iv)	Reliability	
j.	Which of the following principles is an exception to Consistency Principle?		
	(i)	Cost Principle	
	(ii)	Going Concern Principle	
	(iii)	Matching Principle	
	(iv)	Prudence Principle	(iv)
k.	The balance in Consignment Account shows		
	(i)	amount receivable from consignee	
	(ii)	amount payable to consignee	
	(iii)	Profit/Loss on consignment	(iii)
	(iv)	Closing stock with consignee	
l.	Provision for Bad and Doubtful Debts is a		
	(i)	Real Account	
	(ii)	Nominal Account	
	(iii)	Personal Account	(iii)
	(iv)	Trading Account	
m.	Under which concept the business is treated as distinct and separate from its owners on the basis?		
	(i)	Going concern concept	
	(ii)	Conservatism concept	
	(iii)	Matching concept	
	(iv)	Business Entity concept	(iv)
n.	Due to retrospective effect on revision of salary of employees, the arrears of salary relating to past years, payable in current year is		
	(i)	Prior - period item	
	(ii)	Extra - ordinary item	

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	(iii)	Ordinary item requiring separate disclosure	(iii)
	(iv)	Contingent item	
	o.	As on 31 st March, 2021 Debtors and Additional Bad Debts are Rs. 8,00,000 and Rs. 10,000 respectively. If the Provision for Bad Debts is made at 5% on Debtors, then amount of such provision will be	
	(i)	Rs. 40,000	
	(ii)	Rs. 50,000	
	(iii)	Rs. 39,500	(iii)
	(iv)	Rs. 40,500	
	p.	Creditors Ledger Adjustment Account is opened in	
	(i)	General Ledger or Nominal Ledger	(i)
	(ii)	Debtors Ledger or Creditors Ledger	
	(iii)	General Ledger and Debtors Ledger	
	(iv)	General Ledger and Creditors Ledger	
	q.	Advertisement Expenses are apportioned among departments in the proportion	
	(i)	Sales of each department	(i)
	(ii)	Purchases of each department	
	(iii)	No. of units sold by each department	
	(iv)	Cost of Sales of each department	
	r.	Balance of X's Account in Creditors Ledger is transferred to X's Account in Debtors Ledger. Which of the following is correct?	
	(i)	X's Account in Debtors Ledger will be debited and X's Account in Creditors Ledger will be credited.	
	(ii)	X's Account in Debtors Ledger will be credited and X's Account in Creditors Ledger will be debited.	(ii)
	(iii)	X's Account in Debtors Ledger will be debited and Suspense Account will be credited.	
	(iv)	X's Account in Creditors Ledger will be credited and Suspense Account will be debited.	
	s.	Interest charged by vendor in Hire Purchase System, is calculated on the basis of	
	(i)	Outstanding hire purchase price	
	(ii)	Outstanding cash price	(ii)
	(iii)	Instalment amount	
	(iv)	Cost price of the asset	
	t.	Canteen expenses are apportioned among departments in the proportion of	
	(i)	Departmental Floor Space	
	(ii)	Departmental Direct Wages	
	(iii)	Departmental Sales	
	(iv)	Departmental No. of Employees	(iv)
Section B			20 Marks

M1 Question Paper and Model Answers for Online Examination

2.	You are required to answer all the questions. Each question carries 1 mark. Instructions: Each question is followed by a space where you are required to type your answer.	20 X 1 = 20
a.	State whether the following statement given below is True or False: Normal loss of goods sent on consignment is shown in Consignment Account.	
	Type your answer here False	
b.	Bank Account is a _____ Account. What is the appropriate word/words which can be used to fill in the blank as above?	
	Type your answer here Personal	
c.	State whether the following statement given below is True or False: Receipt & Payment Account only records the revenue nature of receipts and expenses.	
	Type your answer here False	
d.	What is the appropriate word/words which can be used to fill in the blank as below? _____ is the amount by which minimum rent exceeds the actual royalty.	
	Type your answer here Short-workings	
e.	State whether the following statement given below is True or False: Receipts and Payments Account is prepared by adopting cash principle of accounting.	
	Type your answer here True	
f.	What is the appropriate word/words which can be used to fill in the blank as below? Profit or Loss on revaluation is shared among the partners in _____ Ratio.	
	Type your answer here Old Profit Sharing	
g.	What is the appropriate word/words which can be used to fill in the blank as below? Memorandum revaluation account is prepared when the _____ of assets and liabilities are not altered.	
	Type your answer here Book Value	
h.	What is the appropriate word/words which can be used to fill in the blank as below? Realisation account is opened at the time of _____ of firm.	
	Type your answer here Dissolution of the firm	
i.	State whether the following statement given below is True or False: Sales Day Book records both cash and credit sales.	
	Type your answer here False	
j.	State whether the following statement given below is true or false: In absence of partnership deed, the profit or loss should be distributed among partners in their capital ratio.	
	Type your answer here False	
k.	State whether the following statement given below is true or false: Expenses incurred by branch out of petty cash balance are debited to branch account by the head office.	
	Type your answer here False	

M1 Question Paper and Model Answers for Online Examination

	i.	State whether the following statement given below is true or false: As per AS-7, expenses are recognized in the period in which the work to which such expenses relate to is performed.	
		Type your answer here True	
	m.	What is the appropriate word/words which can be used to fill in the blank as below? According to AS-2 inventories should be valued at lower of Cost and _____ Value.	
		Type your answer here Net Realizable	
	n.	State whether the following statement given below is true or false? As per AS-9, revenue from interest should be recognized on time proportion basis.	
		Type your answer here True	
	o.	What is the appropriate word/words which can be used to fill in the blank as below? _____ amount is the higher of asset's net selling price and its value in use.	
		Type your answer here Recoverable/Fair Value	
	p.	What is the appropriate word/words which can be used to fill in the blank as below? The _____ Loss is included in the valuation of inventories.	
		Type your answer here Normal	
	q.	State whether the following statement given below is true or false: One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.	
		Type your answer here True	
	r.	What is the appropriate word/words which can be used to fill in the blank as below? The _____ discount is never recorded in the books of accounts.	
		Type your answer here Trade	
	s.	What is the appropriate word/words which can be used to fill in the blank as below? A bill of exchange drawn on 12 th March, 2021 for four months, the date of maturity will be _____.	
		Type your answer here 14 th July, 2021	
	t.	What is the appropriate word/words which can be used to fill in the blank as below? The parties of joint venture is called _____.	
		Type your answer here Co-venturers	
Section C			40 Marks
You are required to answer any 4 out of 6 questions in this section Instructions: Each question is followed by a space where you are required to type your answer.			10 X 4 = 40
3.	a.	The Trial Balance of a concern has agreed but the following mistakes were discovered after the preparation of final Accounts. (i) No adjustment entry was passed for an amount of Rs. 2,000 relating to outstanding rent. (ii) PurchasesBook was overcast by Rs. 1,000. (iii) Rs. 4,000 depreciation of Machinery has been omitted to be recorded in the book. (iv) Rs. 600 paid for purchase of stationary has been debited to Purchase A/c.	6

	<p>(v) Sales Books was overcast by Rs. 1,000. (vi) Rs. 5,000 received in respect of Book Debt had been credited to Sales A/c.</p> <p>Show the effect of the above errors in Profit and Loss Account & Balance Sheet.</p>																						
	<p>Type your answer here</p> <table border="1"> <thead> <tr> <th></th> <th>Effect on Profit & Loss A/c</th> <th>Effect on Balance Sheet</th> </tr> </thead> <tbody> <tr> <td>(i)</td> <td>Profit was overstated by Rs. 2,000.</td> <td>Capital was also overstated by Rs. 2,000 & outstanding Liability was understated by 2,000.</td> </tr> <tr> <td>(ii)</td> <td>Gross profit was understated by Rs. 1,000 & also the Net Profit.</td> <td>Capital was understated by Rs. 1,000</td> </tr> <tr> <td>(iii)</td> <td>Net Profit was overstated by Rs. 4,000.</td> <td>Machinery was overstated by Rs. 4,000 & so the Capital A/c was also overstated by Rs. 4,000.</td> </tr> <tr> <td>(iv)</td> <td>No effect on Net Profit.</td> <td>No effect in Balance Sheet.</td> </tr> <tr> <td>(v)</td> <td>Gross Profit and Net Profit were overstated by Rs. 1,000.</td> <td>Capital Was overstated by Rs. 1,000.</td> </tr> <tr> <td>(vi)</td> <td>Gross Profit & Net Profit were overstated by, Rs. 5,000.</td> <td>Capital & Sundry Debtors were overstated by Rs. 5,000.</td> </tr> </tbody> </table>		Effect on Profit & Loss A/c	Effect on Balance Sheet	(i)	Profit was overstated by Rs. 2,000.	Capital was also overstated by Rs. 2,000 & outstanding Liability was understated by 2,000.	(ii)	Gross profit was understated by Rs. 1,000 & also the Net Profit.	Capital was understated by Rs. 1,000	(iii)	Net Profit was overstated by Rs. 4,000.	Machinery was overstated by Rs. 4,000 & so the Capital A/c was also overstated by Rs. 4,000.	(iv)	No effect on Net Profit.	No effect in Balance Sheet.	(v)	Gross Profit and Net Profit were overstated by Rs. 1,000.	Capital Was overstated by Rs. 1,000.	(vi)	Gross Profit & Net Profit were overstated by, Rs. 5,000.	Capital & Sundry Debtors were overstated by Rs. 5,000.	
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	<p>b. (i) Why is goodwill considered to be an intangible asset and not a fictitious asset? (ii) The Balance Sheet of a Partnership Firm had an Investment Fluctuation Reserve of Rs. 10,000. A new partner is admitted. Value of Investment is Rs. 60,000 against its book value of Rs. 70,000. What amount of the Investment Fluctuation Reserve will be distributed among partners? (iii) When does the Capital Account of a partner not show a debit balance in spite of regular losses incurred by the firm? (iv) At the time of dissolution of Partnership Firm realization expenses amounted to Rs. 3,000 paid by XYZ, a partner who was to bear these expenses. What entry is required in the Books of the firm?</p>	4																					
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4.	<p>a. Alpha, Beta and Gamma were partners in a firm sharing profits and losses in the ratio of 3:2:1. The firm was dissolved on 31.03.2021. After transfer of assets and liabilities to Realization A/c, the following transactions took place. Give journal entries in the books on dissolution of the firm. (i) Beta's Loan to the firm Rs. 30,000 was settled at Rs. 28,500.</p>	7																					

- (ii) A creditor for Rs. 50,000, took over Machinery of Book value Rs. 40,000 at Rs. 35,000. The balance was settled in Cash.
- (iii) Workmen Compensation Reserve - Rs. 40,000. A liability equal to 60% of the Reserve was settled.
- (iv) Gamma was to receive 5% of the value of assets realized as remuneration for completing the dissolution work and was to bear realization expenses. Realization expenses were Rs. 5,500 that was paid by Gama. Assets realized Rs. 60,000.
- (v) The Balance Sheet disclosed a footnote, contingent liability for Rs. 5,000 in respect of a bill discounted. The bill was received from ABC. On the date of dissolution ABC was declared insolvent and was not able to pay the amount due. The bill had to be met by the firm.
- (vi) Loss on realization amounted to Rs. 24,000.

Type your answer here

**In the books of partnership firm of Alpha , Beta and Gama
Journal**

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Beta's Loan A/c To Bank A/c To Realization A/c (Being settlement of partner's loan)		30,000	28,500 1,500
(ii)	Realization A/c To Bank A/c (Being settlement of creditor's liability)	Dr.	15,000	15,000
(iii)	Workmen Compensation Reserve A/c To Realization A/c To Alpha's Capital A/c To Beta's Capital A/c To Gamma's Capital A/c (Being WCR transferred)	Dr.	40,000	24,000 8,000 5,333 2,667
(iv)	Realization A/c To Bank A/c (Being liability against Workmen Compensation paid)	Dr.	24,000	24,000
(v)	Realization A/c To Gamma's Capital A/c (Being remuneration payable to Gama)	Dr.	3,000	3,000
(vi)	Realization A/c To Bank A/c (Being amount paid for the bill)	Dr.	5,000	5,000
(vii)	Alpha's Capital A/c Beta's Capital A/c Gamma's Capital A/c To Realization A/c (Being loss on realization transferred)	Dr. Dr. Dr.	12,000 8,000 4,000	24,000

- b. A Limited has sold its building for Rs. 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is Rs. 35 lakhs. As at 31st March, 2021 (date of closing) documentation and legal formalities are pending. The Company has not recorded the sale as on the closing date but has shown the amount received as advance. Do you agree with this treatment?
What accounting treatment should the buyer give in his financial statements?

3

	<p>Type your answer here</p> <p>Although legal title has not been transferred, the economic reality and substance is that the rights and beneficial interest in the immovable property have been transferred. Therefore, recording of acquisition/disposal (by the transferee transferor respectively) would, in substance, represent the purchase/sale. In view of this, A Limited should record the sales and recognize the profit of Rs.15 lakhs in its Profit and Loss Account. It should eliminate building from its Balance Sheet. In Notes to Accounts, it should disclose that Building has been sold, full consideration has been received, possession has been handed over to the buyer and documentation and legal formalities are pending.</p> <p>The buyer should recognize the Building as an Asset in his Balance Sheet and should also charge depreciation on it, as applicable. The buyer should disclose in his Notes to Accounts that possession has been received however documentation and legal formalities are pending.</p>																																																	
<p>5. a.</p>	<p>The following details are available in respect of a business for the year ended 31st March, 2021</p> <table border="1" data-bbox="220 689 1369 846"> <thead> <tr> <th>Department</th> <th>Opening Stock</th> <th>Purchase</th> <th>Sales</th> </tr> </thead> <tbody> <tr> <td>X</td> <td>120 units</td> <td>1,000 units</td> <td>1,020 units at Rs. 20.00 each</td> </tr> <tr> <td>Y</td> <td>80 units</td> <td>2,000 units</td> <td>1,920 units at Rs. 22.50 each</td> </tr> <tr> <td>Z</td> <td>152 units</td> <td>2,400 units</td> <td>2,496 units at Rs. 25.00 each</td> </tr> </tbody> </table> <p>The total value of purchases is Rs. 1,00,000. It is observed that the rate of Gross Profit is the same in each department.</p> <p>You are required to</p> <p>(i) Compute Closing Stock for each department</p> <p>(ii) Compute the Sales Proceeds assuming all purchases are sold and the resultant Gross Profit Ratio</p> <p>(iii) Compute the Cost and Profit for each article and</p> <p>(iv) Prepare Departmental Trading Account for the year.</p>	Department	Opening Stock	Purchase	Sales	X	120 units	1,000 units	1,020 units at Rs. 20.00 each	Y	80 units	2,000 units	1,920 units at Rs. 22.50 each	Z	152 units	2,400 units	2,496 units at Rs. 25.00 each	<p>8</p>																																
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the Total Cost of Purchase.

Gross Profit Ratio = $25,000 / 1,25,000 \times 100 = 20\%$ of Selling Price

(iii) Computation of Cost and Profit for each article

Department	Selling Price	Profit	Cost
Department X	Rs.20.00	1/5 of Rs.20.00 = 4.00	Rs.16.00
Department Y	Rs.22.50	1/5 of Rs.22.50 = 4.50	Rs.18.00
Department Z	Rs.25.00	1/5 of Rs.25.00 = 5.00	Rs.20.00

Working Notes:

Profit = 1/5 of Selling Price

(iv)

Departmental Trading Account for the year ended 31st March, 2021

Dr.

Cr.

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Total (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Total (Rs.)
To Op. stock	1,920	1,440	3,040	6,400	By Sales	20,400	43,200	62,400	1,26,000
To Purchase	16,000	36,000	48,000	100,000	By Cl. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
	22,000	46,080	63,520	1,31,600		22,000	46,080	63,520	131,600

Working Notes:

Opening and Closing Stocks are valued at Cost.

Sales amount in the Trading Account is computed for the Sales Quantity only.

Gross Profit is calculated at 20% of Sales Value.

- b. XYZ Ltd. purchased goods at the cost of Rs. 20 lakhs in October 2020. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at Rs. 5 lakhs. The expected sale value is Rs. 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

2

Type your answer here

As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the Cost of Inventory is Rs.5 lakhs. The Net Realizable Value is Rs.4.95 lakhs (Rs.5.5 lakhs less Cost to make the Sale @ 10% of Rs.5.5 lakhs). So, the Closing Stock should be valued at Rs.4.95 lakhs.

6. a. PQR Ltd. entered into an agreement with ABC Ltd. to dispatch goods valuing Rs. 5,00,000 every month for next 6 months on receipt of entire payment. ABC Ltd. accordingly made the entire payment of Rs. 30,00,000 and PQR Ltd. started dispatching the goods. In fourth month, due to fire in premises of ABC Ltd., ABC Ltd. requested to PQR Ltd. not to dispatch goods worth Rs. 15,00,000 ready for dispatch. PQR Ltd. accounted Rs. 15,00,000 as sales and transferred the balance to Advance received against Sales account. Comment upon the above treatment by PQR Ltd. with reference to the provision of AS-9.

6

Type your answer here

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

	(iii) In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. PQR Ltd. should recognize the entire sale of Rs.30,00,000 (Rs.5,00,000 × 6) and no part of the same is to be treated as Advance Received against Sales.																																											
b.	List the significance of computerized accounting system.	4																																										
	<p>Type your answer here</p> <p>Significance of computerized accounting system</p> <ol style="list-style-type: none"> The speed with which accounts can be maintained is several fold higher; Automatic Correct Balancing of Ledger Accounts; Automatic Talled Trial balance unless some mistake is made while recording the opening balance; Automatic Income Statement; Automatic Balance Sheet. 																																											
7.	<p>P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31.3.2021 on which date Balance Sheet of the firm is as follows.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2">Capital & Liabilities</th> <th>Rs.</th> <th colspan="2">Assets</th> <th>Rs.</th> </tr> </thead> <tbody> <tr> <td colspan="2">Capital accounts:</td> <td></td> <td>Cash</td> <td></td> <td>36,000</td> </tr> <tr> <td>P</td> <td></td> <td>1,20,000</td> <td>Debtors</td> <td></td> <td>74,000</td> </tr> <tr> <td>Q</td> <td></td> <td>85,000</td> <td>Stock</td> <td></td> <td>60,000</td> </tr> <tr> <td>R</td> <td></td> <td>75,000</td> <td>Plant and Machinery</td> <td></td> <td>1,20,000</td> </tr> <tr> <td>Creditors</td> <td></td> <td>85,000</td> <td>Land and Building</td> <td></td> <td>75,000</td> </tr> <tr> <td colspan="2"></td> <td>3,65,000</td> <td></td> <td></td> <td>3,65,000</td> </tr> </tbody> </table> <p>Value of Goodwill was agreed as Rs.93,000. Land and building increased in value, it being agreed at Rs.1,05,600, Plant and Machinery was revalued at Rs.1,00,500 and it was agreed to provide a Provision for Bad and Doubtful @ 6% in respect of Debtors.</p>	Capital & Liabilities		Rs.	Assets		Rs.	Capital accounts:			Cash		36,000	P		1,20,000	Debtors		74,000	Q		85,000	Stock		60,000	R		75,000	Plant and Machinery		1,20,000	Creditors		85,000	Land and Building		75,000			3,65,000			3,65,000	
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M1 Question Paper and Model Answers for Online Examination

To, R's Loan A/c			1,08,220	By, Balance b/d	1,20,000	85,000	75,000
To, Balance c/d	1,53,220	1,18,220		By, Revaluation A/c	2,220	2,220	2,220
				By, Goodwill A/c	31,000	31,000	31,000
	1,53,220	1,18,220	1,08,220		1,53,220	1,18,220	1,08,220

Working Notes:

Goodwill has been distributed as per the Profit Sharing Ratio between P,Q and R of 1:1:1

8.	You are required write Short Notes on any 4 out of 5	4 X 2.5 = 10
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a.	Methods/Criteria to the selection and application of Accounting Policies	
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Type your answer here

The major considerations governing the selection and application of accounting policies are:
Prudence - Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement, these uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.
Substance over form - It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.
Materiality - Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/user of financial statement.

b.	Weaknesses of Single Entry System	
----	-----------------------------------	--

Type your answer here

Weakness of Single Entry System

- (i) As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.
- (ii) Profit or loss can be found out only by estimates as nominal accounts are not maintained.
- (iii) It is not possible to make a balance sheet in absence of real accounts, d] It is very difficult to detect frauds or errors.
- (iv) Valuation of assets and liabilities is not proper.
- (v) The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
- (vi) It is quite likely that the business and personal transactions of the proprietor get mixed.

c.	Disadvantages of a Computerized Accounting Package	
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Type your answer here

Disadvantages of a Computerized Accounting Package:

- (i) A standard package may not be able to take care of complexities of a specific business.
- (ii) The reports required for existing management control may not be available in such package.
- (iii) Lack of security.
- (iv) Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system.
- (v) Bugs may remain in the software because of inadequate testing.
- (vi) Documentation may not be completed.
- (vii) Frequent changes made to the system with inadequate change management procedure may result in system compromise.
- (viii) Vendor may not be unwilling to give support of the software due to other commitments.

M1 Question Paper and Model Answers for Online Examination

		<p>(ix) Vendor may not be willing to part with the source code or enter into an escrow agreement.</p> <p>(x) Control measures may be inadequate.</p> <p>(xi) There may be delay in completion of the software due to problems with the vendor or inadequate project management.</p>	
	d.	Criticism of the decision of Garner vs. Murray	
		<p>Type your answer here</p> <p>Criticism of the decision of Garner vs. Murray</p> <p>The following criticism may be advocated against the decisions laid down in Garner vs. Murray principle:</p> <p>(i) If any solvent partner has a debit balance in capital account, he must not bear the deficiency of the insolvent partner;</p> <p>(ii) This principle does not apply if there are only two partners;</p> <p>(iii) In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on realization which is immaterial and useless; and</p> <p>(iv) If any solvent partner who possess more private asset but contributes less capital, he will naturally, as per Garner vs. Murray decision, bear less amount of deficiency of the insolvent partner than the other solvent partner who possess less private assets but contributes more capital to the firm. This is not justified.</p>	
	e.	Operating cycle of Consignment Arrangement.	
		<p>Type your answer here</p> <p>Operating Cycle of Consignment Arrangement:</p> <p>(i) Goods are sent by consignor to the consignee.</p> <p>(ii) Consignee may pay some advance or accept a bill of exchange.</p> <p>(iii) Consignee will incur expenses for selling the goods.</p> <p>(iv) Consignee maintains records of all cash and credit sale.</p> <p>(v) Consignee prepares a summary of results called as Account sales.</p> <p>(vi) Consignor pays commission to the consignee.</p> <p>Sometimes, the consignor may send the goods at a price higher than cost so that the consignee gets no knowledge of the real cost of goods which is confidential for the consignor.</p>	
		Section D	20 Marks
		You are required to answer all the questions in this section	10 X 2
		Instructions: Each question is followed by a space where you are required to type your answer.	= 20 Marks
9.		<p>XYZ Trader has established itself since 2015 after commenced its business in 2010. It used to operate initially by Just-in-time inventory during its early years. Thereafter, it began to invest in inventories as there were too many stock-out cases.</p> <p>There was a fire in the locality in 2017. Although, XYZ Trader was not effected by such fire, they realized that they are also exposed to risk of loss due to fire.</p> <p>It did not find the necessity of taking a fire insurance policy before but it decided to take a fire insurance policy in 2018.</p> <p>XYZ Trader's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing Rs. 54,000 could be salvaged incurring firefighting expenses amounting to Rs. 2,350.</p> <p>The trader provides you the following additional information:</p>	
			Rs.

	<table border="1"> <tr> <td>Cost of stock on 1st April, 2019</td> <td>3,55,250</td> </tr> <tr> <td>Cost of stock on 31st March, 2020</td> <td>3,95,050</td> </tr> <tr> <td>Purchases during the year ended 31stMarch, 2020</td> <td>28,39,800</td> </tr> <tr> <td>Purchases from 1stApril, 2020 to the date of fire</td> <td>16,55,350</td> </tr> <tr> <td>Cost of goods distributed as samples for advertising from 1stApril, 2020 to the date of fire</td> <td>20,500</td> </tr> <tr> <td>Cost of goods withdrawn by trader for personal use form 1stApril, 2020 to the date of fire</td> <td>1,000</td> </tr> <tr> <td>Sales for the year ended 31stMarch, 2020</td> <td>40,00,000</td> </tr> <tr> <td>Sales from 1stApril, 2020 to the date of fire</td> <td>22,68,000</td> </tr> </table> <p>The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for Rs. 4,50,000 with an average clause. It was the time to calculate the loss and amount of insurance claim.</p>	Cost of stock on 1st April, 2019	3,55,250	Cost of stock on 31st March, 2020	3,95,050	Purchases during the year ended 31 st March, 2020	28,39,800	Purchases from 1 st April, 2020 to the date of fire	16,55,350	Cost of goods distributed as samples for advertising from 1 st April, 2020 to the date of fire	20,500	Cost of goods withdrawn by trader for personal use form 1 st April, 2020 to the date of fire	1,000	Sales for the year ended 31 st March, 2020	40,00,000	Sales from 1 st April, 2020 to the date of fire	22,68,000																					
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b.	<p>Prepare the Memorandum Trading Account for the period 1st April, 2020 to 29th August 2020.</p> <p>Type your answer here</p> <p style="text-align: center;">Memorandum Trading Account for the period 1stApril, 2020 to 29thAugust 2020</p> <table border="1"> <tr> <td colspan="2" style="text-align: left;">Dr.</td> <td colspan="2" style="text-align: right;">Cr.</td> </tr> <tr> <td style="text-align: center;">Particulars</td> <td style="text-align: center;">Rs.</td> <td style="text-align: center;">Rs.</td> <td style="text-align: center;">Particulars</td> </tr> <tr> <td>To Opening Stock</td> <td></td> <td>3,95,050</td> <td>By Sales</td> </tr> <tr> <td>To Purchases</td> <td style="text-align: right;">16,55,350</td> <td></td> <td>By Closing Stock (Bal. fig.)</td> </tr> <tr> <td>Less: Advertisement</td> <td style="text-align: right;">20,500</td> <td></td> <td></td> </tr> <tr> <td>Drawings</td> <td style="text-align: right;">1,000</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">16,33,850</td> <td></td> </tr> <tr> <td>To Gross Profit (30% of Sales)</td> <td></td> <td style="text-align: right;">6,80,400</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">27,09,300</td> <td style="text-align: right;">27,09,300</td> </tr> </table> <p>Working Notes: Rate of Gross Profit applied = $\frac{\text{Gross Profit for the year 2019-20}}{\text{Sales}} = 30\%$.</p>	Dr.		Cr.		Particulars	Rs.	Rs.	Particulars	To Opening Stock		3,95,050	By Sales	To Purchases	16,55,350		By Closing Stock (Bal. fig.)	Less: Advertisement	20,500			Drawings	1,000					16,33,850		To Gross Profit (30% of Sales)		6,80,400				27,09,300	27,09,300	3
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c.	<p>In the present case of XYZ Trader's where the godown was caught by fire on 29th August, 2020, which are the items to be considered for the purpose of computing the Insurance Claim other than Value of Stock Destroyed by fire.</p> <p>Type your answer here</p> <table border="1"> <tr> <th>Sl. No.</th> <th>Item</th> <th>Amount (Rs.)</th> <th>Adjustment</th> </tr> <tr> <td>1.</td> <td>Value of Salvaged Stock</td> <td style="text-align: right;">54,000</td> <td>To be deducted</td> </tr> <tr> <td>2.</td> <td>Firefighting Expenses</td> <td style="text-align: right;">2,350</td> <td>To be added</td> </tr> </table>	Sl. No.	Item	Amount (Rs.)	Adjustment	1.	Value of Salvaged Stock	54,000	To be deducted	2.	Firefighting Expenses	2,350	To be added	2																								
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	d.	Calculate the amount of insurance claim and comment on the applicability of average clause in the present case.		2																																																		
		<p>Type your answer here</p> <p align="center">Statement of Insurance Claim</p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>Rs.</th> </tr> </thead> <tbody> <tr> <td>Value of Stock Destroyed by Fire</td> <td>4,41,300</td> </tr> <tr> <td>Less: Salvaged Stock</td> <td>54,000</td> </tr> <tr> <td>Add: Firefighting Expenses</td> <td>2,350</td> </tr> <tr> <td>Insurance Claim</td> <td>3,89,650</td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table> <p>Applicability of Average Clause Since, Insurance Policy Value is more than the amount of Insurance Claim, average clause will not apply. Therefore, claim amount of Rs.3,89,650 will be admitted by the Insurance Company.</p>	Particulars	Rs.	Value of Stock Destroyed by Fire	4,41,300	Less: Salvaged Stock	54,000	Add: Firefighting Expenses	2,350	Insurance Claim	3,89,650																																										
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10.		<p>Delta Clinic has been established in 2018 but has actively commenced its operations from 1st April, 2020.</p> <p>The owners concentrated on establishing the business and its operations ignoring much of its accounting work. They were working very hard throughout day and night. However, after about a year on even after maintaining moderate accounting records, they were unable to find out the surplus/deficit of Delta Clinic.</p> <p>The owners of Delta Clinic could count and find that they had more cash at the end of the financial year than what they had at the beginning.</p> <p>A summary of Receipts and Payments of Delta Clinic for the year ended 31st March, 2021 was available as provided below:</p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>Rs.</th> </tr> </thead> <tbody> <tr> <td>Opening Cash Balance</td> <td>56,000</td> </tr> <tr> <td>Donation Received (including Rs. 50,000 for Building Fund)</td> <td>1,55,000</td> </tr> <tr> <td>Payment to Creditors for Medicines Supply</td> <td>2,10,000</td> </tr> <tr> <td>Salaries</td> <td>70,000</td> </tr> <tr> <td>Purchase of Medical Equipments</td> <td>1,05,000</td> </tr> <tr> <td>Medical Camp Collections</td> <td>87,500</td> </tr> <tr> <td>Subscription Received</td> <td>3,50,000</td> </tr> <tr> <td>Interest on Investments @ 9% p.a.</td> <td>63,000</td> </tr> <tr> <td>Honorarium to Doctors</td> <td>1,90,000</td> </tr> <tr> <td>Telephone Expenses</td> <td>6,000</td> </tr> <tr> <td>Medical Camp Expenses</td> <td>10,500</td> </tr> <tr> <td>Miscellaneous Expenses</td> <td>7,000</td> </tr> </tbody> </table> <p>Some Additional Information was also collected from the accounting records for the relevant years:</p> <table border="1"> <thead> <tr> <th>Sl. No.</th> <th>Particulars</th> <th>01.04.2020 (Rs.)</th> <th>31.03.2021 (Rs.)</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Subscription Due</td> <td>10,500</td> <td>15,400</td> </tr> <tr> <td>2.</td> <td>Subscription Received in Advance</td> <td>8,400</td> <td>4,900</td> </tr> <tr> <td>3.</td> <td>Stock of Medicine</td> <td>70,000</td> <td>1,05,000</td> </tr> <tr> <td>4.</td> <td>Medical Equipments</td> <td>1,47,000</td> <td>2,14,200</td> </tr> <tr> <td>5.</td> <td>Building</td> <td>3,50,000</td> <td>3,15,000</td> </tr> </tbody> </table>	Particulars	Rs.	Opening Cash Balance	56,000	Donation Received (including Rs. 50,000 for Building Fund)	1,55,000	Payment to Creditors for Medicines Supply	2,10,000	Salaries	70,000	Purchase of Medical Equipments	1,05,000	Medical Camp Collections	87,500	Subscription Received	3,50,000	Interest on Investments @ 9% p.a.	63,000	Honorarium to Doctors	1,90,000	Telephone Expenses	6,000	Medical Camp Expenses	10,500	Miscellaneous Expenses	7,000	Sl. No.	Particulars	01.04.2020 (Rs.)	31.03.2021 (Rs.)	1.	Subscription Due	10,500	15,400	2.	Subscription Received in Advance	8,400	4,900	3.	Stock of Medicine	70,000	1,05,000	4.	Medical Equipments	1,47,000	2,14,200	5.	Building	3,50,000	3,15,000		
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Donation Received (including Rs. 50,000 for Building Fund)	1,55,000																																																					
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Subscription Received	3,50,000																																																					
Interest on Investments @ 9% p.a.	63,000																																																					
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Sl. No.	Particulars	01.04.2020 (Rs.)	31.03.2021 (Rs.)																																																			
1.	Subscription Due	10,500	15,400																																																			
2.	Subscription Received in Advance	8,400	4,900																																																			
3.	Stock of Medicine	70,000	1,05,000																																																			
4.	Medical Equipments	1,47,000	2,14,200																																																			
5.	Building	3,50,000	3,15,000																																																			

M1 Question Paper and Model Answers for Online Examination

		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">6.</td> <td style="width: 35%;">Creditor for Medicine Supply</td> <td style="width: 15%; text-align: right;">63,000</td> <td style="width: 45%; text-align: right;">91,000</td> </tr> <tr> <td>7.</td> <td>Investments</td> <td style="text-align: right;">7,00,000</td> <td style="text-align: right;">7,00,000</td> </tr> </table>	6.	Creditor for Medicine Supply	63,000	91,000	7.	Investments	7,00,000	7,00,000																																																		
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		<p>They started the year with a cash in hand of Rs. 56,000 and at the end of the financial year Rs. 1,13,000. With the limited accounting acumen, they construed that their surplus for the financial year was Rs. 57,000.</p> <p>It was very important for them to know about the true surplus or deficit for the financial year 2020-21.</p> <p>So the question remains, how was the financial performance during the financial year 2020-21?</p>																																																										
	a.	Compute the amount of Subscription for the year ended 31.03.2021.		2																																																								
		<p>Type your answer here</p> <p style="text-align: center;">Computation of Amount Subscription for the year ended 31.03.2021</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Particulars</th> <th style="width: 20%;">Rs.</th> <th style="width: 20%;">Rs.</th> </tr> </thead> <tbody> <tr> <td>Subscription received during the year 2020-21</td> <td></td> <td style="text-align: right;">3,50,000</td> </tr> <tr> <td>Add:</td> <td></td> <td></td> </tr> <tr> <td>Subscription receivable on 31.03.2021</td> <td style="text-align: right;">15,400</td> <td></td> </tr> <tr> <td>Subscription received in advance on 01.04.2020</td> <td style="text-align: right;">8,400</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">23,800</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">3,73,800</td> </tr> <tr> <td>Less:</td> <td></td> <td></td> </tr> <tr> <td>Subscription receivable on 01.04.2020</td> <td style="text-align: right;">10,500</td> <td></td> </tr> <tr> <td>Subscription received in advance on 31.03.2021</td> <td style="text-align: right;">4,900</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">15,400</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">3,58,400</td> </tr> </tbody> </table>		Particulars	Rs.	Rs.	Subscription received during the year 2020-21		3,50,000	Add:			Subscription receivable on 31.03.2021	15,400		Subscription received in advance on 01.04.2020	8,400				23,800			3,73,800	Less:			Subscription receivable on 01.04.2020	10,500		Subscription received in advance on 31.03.2021	4,900				15,400			3,58,400																					
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		Depreciation on Medical Equipment for the year	37,800		
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END