Odd Semester, 2020

(Held in March, 2021)

COMMERCE

(Honours)

(BC–103)

(Financial Accounting)

Marks : 75

Time : 3 hours

The figures in the margin indicate full marks for the questions

1. *(a)* Which depreciation method will you recommend and why in the following cases? 5

(i) Oil wells

(ii) Loose tools

(iii) Leasehold buildings

(iv) Trademarks

(v) Freehold land

(b) What is the 'Revenue Recognition Principle'? When should revenue be recognized? Are these exception to the general rule? 6

(c) Explain the accounting concept of income with the help of an example. 4

Or

The following is the Trial Balance of Mr. *X* as on 31st March 2020. Prepare Trading and Profit & Loss Account for the year ended 31st March, 2020 and Balance Sheet as on that date after making the adjustments given below : 4+6+5=15

Particulars	*Dr.* (in ₹)	*Cr.* (in ₹)
Sundry Debtors/Creditors	5,00,000	2,00,000
Purchases/Sales	15,50,000	19,87,500
Drawings/Capital	20,000	14,43,000
Cash at Bank	50,000	
Cash and Cash Equivalents	20,500	
Stock (as on 01.04.2019)	2,50,000	
Wages	1,00,000	
Freight Outwards	1,10,000	
Freight Inwards	50,000	
General Expenses	70,000	
Cash Discounts	20,000	
Bad Debts	10,000	
Motor Vehicle	2,40,000	
Printing and Stationery Expenses	70,000	
Furniture and Fittings	1,10,000	
Advertisement	85,000	
Insurance	45,000	
Salesmen's Commission	87,500	
Postage and Telephone	57,500	
Salaries	1,60,000	
Rates and Taxes	25,000	
	36,30,500	36,30,500

The following adjustments are to be made :

(i) Stock as on 31st March, 2020 was ₹ 7,25,000.

(ii) Create a provision for Bad and Doubtful Debts to the extent of 5% on Sundry Debtors.

(iii) Depreciate Motor Vehicle @ 20% and Furniture and Fittings @ 10%.

(iv) Mr. *X* had withdrawn goods worth ₹ 25,000 during the year.

(v) Sales include goods worth ₹ 75,000 sent to Mr. *Y* on approval, which is yet pending. The cost of such goods was ₹ 50,000.

(vi) The salesmen are entitled to a commission of 5% of total sales.

(vii) Debtors include ₹ 25,000 as bad.

(viii) Purchases include purchase of furniture worth ₹ 50,000.

2. *(a)* Briefly describe the items that are peculier to non-trading concerns. Also state how you will deal with them while preparing Final Accounts of a club. 8

(b) Mr. *X* commenced business on 1. 1. 2020 with a capital of ₹ 1,00,000. On the same day, he purchased furniture and fittings for cash ₹ 30,000. From the following details, prepare a Trading and Profit & Loss Account for the year ending 31. 12. 2020 and Balance Sheet as on that date. It is given that he does not maintain records following Double-Entry System : 7

	₹
Sales (including cash sales ₹ 70,000)	1,70,000
Purchases (including cash purchases ₹ 40,000)	1,50,000
Drawings	12,000
Staff Salary	20,000
Bad Debts written off	5,000
Business Expenses	7,000

Goods were used for private purpose ₹ 5000. ₹ 2,000 paid to his son but not recorded in books. At the end of the year, the outstanding Debtors and Creditors were ₹ 52,000 and ₹ 36,000 respectively. Unsold goods available were ₹ 65,000.

Or

(a) What is 'statement of affairs'? How can the profit or loss of a trader be ascertained with the help of it? 5

(b) From the following information, calculate the amount to be debited or credited to the Income and Expenditure Account :

	Sports Material (₹)	*Printing & Stationery* (₹)	*Pinned Provisions* (₹)
Opening Stock on 1. 1. 2020	20,000	30,000	20,000
Purchases during the year	80,000	50,000	1,00,000
Closing Stock on 31. 12. 2020	30,000	20,000	30,000
Sale during the year	500	—	1,50,000

Also prepare Income and Expenditure Account. 5

(c) Distinguish between 'Profit and Loss Account' and 'Income and Expenditure Account'. 5

3. *(a)* Define Joint Venture. Distinguish it from Partnership as well as Consignment. 6

(b) How can a partner retire from a partnership firm? Is a retiring partner liable for liabilities incurred by the partnership firm after his/her retirement? Explain. 6

(c) State the salient features of the Limited Liability Partnership (LLP) Act, 2008. 3

Or

(a) *X*, *Y* and *Z* are partners sharing profits and losses in the ratio of $\frac{1}{2}:\frac{1}{4}:\frac{1}{4}$ respectively. On 31st March, 2020, their Balance Sheet was as follows :

Liabilities	*Amount* (₹)	*Assets*	*Amount* (₹)
X's Capital	1,00,000	Goodwill	30,000
Y's Capital	60,000	Freehold Property	90,000
Z's Capital	40,000	Furniture	10,000
Creditors	40,000	Joint Life Policy	20,000
Bills Payables	20,000	Stock	55,000
		Debtors	45,000
		Cash at Bank	10,000
	2,60,000		2,60,000

Mr. *X* died on 1st April, 2020. The firm had taken a joint life policy for ₹ 1,50,000 and the payment was received by the firm. According to the partnership deed, on retirement or death of a partner, the goodwill is to be valued at 1½ times of the average profits for last 4 years which were ₹ 60,000, ₹ 75,000, ₹ 90,000, and ₹ 95,000 respectively. For paying the amount to due to Mr. *X*'s legal representative, *Y* and *Z* brought as much cash as would bring their capitals in profit-sharing ratio and the firm would have Cash Balance of ₹ 30,000.

Pass the Journal entries to record the above transactions and prepare Partners' Capital Accounts. 7

(b) P and Q entered into a joint venture of underwriting the subscription at par of entire Share Capital of Copper Mines Ltd. consisting of 100000 shares of ₹ 10 each and to pay all expenses up to allotment. They agreed to share profits in 3 : 2 respectively. The consideration in return for the guarantee was 12000 other shares of ₹ 10 each fully paid to be issued to them.

P provided the funds for registration ₹ 12,000; advertising ₹ 11,000 and printing and stationery ₹ 9,500. Q contributed funds for Office rent ₹ 3,000; Legal charges ₹ 15,500 and Staff salary ₹ 9,000.

The prospectus was issued and the applications fell short of full issue by 15000 shares. P took these over on joint account and paid for the same in full. They received consideration in full towards underwriting commission. They sold their entire holding at ₹ 12 each. P received proceeds for 15000 shares and Q received for 12000 shares.

Draft the necessary accounts in the books of both the venturers showing final adjustment. 8

4. A, B, C and D were partners in a firm with capital of ₹ 4,00,000 originally contributed in their profit/loss ratio of 4 : 3 : 2 : 1. The firm was dissolved on 31st March, 2020, when firm's Balance Sheet was as below :

Liabilities			*Amount* (₹)	*Assets*	*Amount* (₹)
Capitals :	*A*	1,60,000		Cash in Hand	60,000
	B	1,10,000		Debtors	5,00,000
	C	85,000		Stock	1,90,000
	D	15,000	3,70,000		
General Reserve			1,00,000		
Loans :	*A*	50,000			
	C	80,000	1,30,000		
Creditors			1,50,000		
			7,50,000		7,50,000

It was decided on 15th April, 2020 that the net realization be distributed on first of each month in appropriate order. The realization and expenses at the end of each month were as below :

Month	*Debtors* (₹)	*Stock* (₹)	*Expenses* (₹)
April 2020	1,50,000	70,000	5,000
May 2020	85,000	50,000	10,000
June 2020	1,10,000	NIL	2,500
July 2020	55,000	40,000	1,500
August 2020	70,000	25,000	1,000

The inventory was completely disposed off. B agreed to take over remaining debts for ₹ 25,000.

Show how the cash is distributed following maximum loss method : 15

Or

A, *B* and *C* were carrying on business in partnership, sharing profits/losses in the proportion of 2 : 3 : 5. They sold the firm to *JP* Ltd. The following is the Balance Sheet of the firm as on 31st March, 2020 :

Liabilities		*Amount* (₹)	*Assets*	*Amount* (₹)
Capitals : *A*	94,500		Sundry Assets	10,00,000
B	56,700			
C	37,800	1,89,000		
Current Accounts :				
A	3,61,620			
B	1,54,980	5,16,600		
Sundry Creditors		2,94,400		
		10,00,000		10,00,000

The *JP* Ltd. has taken over firms business for a total consideration of ₹ 10,50,000 which was to be discharged as :

Cash Payment ₹ 4,41,000; allotment of 21000 15% Preference Shares of ₹ 10 each (valued at ₹ 9 each) and the balance by allotment of 21000 Equity Shares of ₹ 10 each.

Prepare Realization Account and Partners' Capital Accounts in the books of the firm in each of the following alternative situations : 6+9=15

(i) If no other information is available.

(ii) If Equity Shares are to be allotted in their profit-sharing ratio and Preference Shares are to be allotted in their ratio of fixed capitals.

(iii) If Equity Shares are to be allotted in their profit-sharing ratio and Preference Shares are to be allotted for surplus capital.

5. *(a)* Pass the entries in the books of Head Office (HO) concerning the following transactions : 5

(i) Goods worth ₹ 15,000 transferred from Kolkata branch to Jaipur branch under instruction from HO.

(ii) Depreciation on branch fixed assets :

Jaipur branch ₹ 20,000; Kolkata branch ₹ 30,000. Since such accounts are maintained at HO level.

(iii) A remittance of ₹ 30,000 by Jaipur branch to HO on 25th March, 2020 which was received by the HO on 10th April, 2020.

(iv) Goods worth ₹ 50,000 sent by HO to Jaipur branch on 20th March, 2020 which was received by Jaipur branch on 15th April, 2020.

(v) A sum of ₹ 50,000 charged to Kolkata branch for administrative services rendered by the HO.

(b) Mr. X purchased on instalment basis, a plant from Mr. B on 1st January, 2018 for a sum of ₹ 8 lakh, where ₹ 2 lakh is to be paid on signing of contract and the rest in three equal annual instalments of ₹ 2 lakh each. The cash price of plant is ₹ 7,45,000 and the interest is charged by Mr. B at 5% p.a. Mr. X charges depreciation at 10% p.a. on WDV basis.

Pass the necessary Journal entries in the books of both Mr. X and Mr. B for all the 3 years. Also show how the different items appear in the Balance Sheet of Mr. X as on 31st December, 2019. 10

Or

(a) What is an 'Account Sale'? How does it differ from an invoice? 3

(b) Shillong Brothers sent broomsticks on consignment to A & Co. of Jaipur at an invoice price of ₹ 2,96,750 and paid a freight of ₹ 7,620, cartage ₹ 2,320 and insurance ₹ 7,000. Half of the broomsticks were sold by Jaipur agent for ₹ 1,75,000, subject to A & Co.'s commission of ₹ 8,750, storage of ₹ 2,000 and other selling expenses of ₹ 3,500. One-fourth of the consignment was lost by fire and a claim of ₹ 50,000 was received. Draw up the necessary

accounts in the books of both the consignee and the consignor stating profit or loss made by Shillong Brothers on it. Also give the necessary Journal entries. It is given that Shillong Brothers have received a two months' bill of exchange from A & Co. of Jaipur in satisfaction of dues. 12

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