

Accounting Examination Answers

Student Name

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Question 1(a)

State with reasons whether the following statements are true or false:

- (i) **False** - Accounting is not limited to one function. It involves multiple functions including recording, classifying, summarizing, analyzing, and interpreting financial information.
- (ii) **False** - Expense incurred to keep the machine in working condition is revenue expenditure as it maintains rather than enhances the asset's capacity.
- (iii) **True** - Revenue expenditure benefits the current accounting period and is charged to the profit and loss account.
- (iv) **False** - Accrual means recognition of revenue when earned and expenses when incurred, not necessarily when paid.
- (v) **False** - The consistency principle allows for changes in accounting policies if required by statute or for better presentation, with proper disclosure.
- (vi) **False** - Only specified classes of companies are required to apply Ind AS based on their net worth and listing status.
- (vii) **True** - These are fundamental accounting assumptions as per accounting standards.
- (viii) **False** - An outstanding expense account is a personal account (representing liability) not a nominal account.

Question 1(b)

Write short notes on any two of the following:

(i) Prior Period Items

Prior period items are income or expenses that arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. These are separately disclosed in the current statement of profit and loss to distinguish them from current period results.

(ii) Money Measurement Concept

This concept states that only those transactions and events that can be measured in monetary terms are recorded in accounting. It assumes that money is a common denominator and that its value remains stable over time (ignoring inflation).

Question 2(a)

Plant accounting with change in depreciation method:

Plant Account

Date	Particulars	Amount (rs)	Date	Particulars	Amount (rs)
1.1.2015	To Bank (Plant 1)	2,10,000	31.12.2015	By Depreciation (10%)	21,000
1.6.2016	To Bank (Plant 2)	1,30,000	31.12.2016	By Depreciation	34,000
7.10.2017	To Bank (Plant 3)	1,70,000	20.10.2017	By Plant Disposal A/c	2,10,000
			31.12.2017	By Depreciation	30,600
	Total	5,10,000		Total	5,10,000

Accumulated Depreciation Account

Date	Particulars	Amount (rs)	Date	Particulars	Amount (rs)
31.12.2015	To Balance c/d	21,000	31.12.2015	By Depreciation	21,000
31.12.2016	To Balance c/d	55,000	1.1.2016	By Balance b/d	21,000
			31.12.2016	By Depreciation	34,000
20.10.2017	To Plant Disposal	42,000	1.1.2017	By Balance b/d	55,000
31.12.2017	To Balance c/d	43,600	31.12.2017	By Depreciation	30,600
	Total	98,600		Total	98,600

Plant Disposal Account

Date	Particulars	Amount (rs)	Date	Particulars	Amount (rs)
20.10.2017	To Plant A/c	2,10,000	20.10.2017	By Accum. Depreciation	42,000
			20.10.2017	By Bank (Scrap)	5,000
			20.10.2017	By P&L (Loss)	1,63,000
	Total	2,10,000		Total	2,10,000

Depreciation Calculation for 2017:

- Plant 2: $\text{rs}1,30,000 \times 18\% = \text{rs}23,400$
- Plant 3: $\text{rs}1,70,000 \times 18\% \times (49/365) = \text{rs}7,200$ (proportionate for days used)
- Total Depreciation = $\text{rs}23,400 + \text{rs}7,200 = \text{rs}30,600$

Question 2(b)

Inventory valuation methods:

(a) Group Method

- **Group A:**
 - Cost: $(200 \times 100) + (600 \times 150) = 20,000 + 90,000 = \text{rs}110,000$
 - NRV: $(200 \times (120 - 8.33)) + (600 \times (160 - 8.33)) = \text{rs}22,334 + \text{rs}91,002 = \text{rs}113,336$
 - Value: Lower of cost or NRV = $\text{rs}110,000$
- **Group B:**
 - Cost: $(400 \times 200) + (800 \times 250) = 80,000 + 200,000 = \text{rs}280,000$
 - NRV: $(400 \times (200 - 20)) + (800 \times (300 - 30)) = \text{rs}72,000 + \text{rs}216,000 = \text{rs}288,000$
 - Value: Lower of cost or NRV = $\text{rs}280,000$

Total Closing Inventory Value (Group Method): $\text{rs}110,000 + \text{rs}280,000 = \text{rs}390,000$

(b) Item by Item Method

- Article 1: Cost = $\text{rs}20,000$, NRV = $\text{rs}22,334 \rightarrow \text{rs}20,000$
- Article 2: Cost = $\text{rs}80,000$, NRV = $\text{rs}72,000 \rightarrow \text{rs}72,000$
- Article 3: Cost = $\text{rs}90,000$, NRV = $\text{rs}91,002 \rightarrow \text{rs}90,000$
- Article 4: Cost = $\text{rs}200,000$, NRV = $\text{rs}216,000 \rightarrow \text{rs}200,000$

Total Closing Inventory Value (Item by Item): $\text{rs}20,000 + \text{rs}72,000 + \text{rs}90,000 + \text{rs}200,000 = \text{rs}382,000$

Question 3(a)

Restaurant accounts preparation:

Restaurant Trading Account

Particulars	Amount (rs)	Particulars	Amount (rs)
Opening Stock	9,750	Sales	9,04,000
Purchases	5,12,000	Closing Stock	11,250
Wages (Restaurant)	1,25,000		
Fuel	44,250		
Gross Profit c/d	2,24,250		
Total	9,15,250	Total	9,15,250

Extract of Income and Expenditure Account

Particulars	Amount (rs)
Gross Profit b/d	2,24,250
Less: Depreciation on China glass cutlery (20% of rs6,250)	1,250
Net Profit	2,23,000

Extract of Balance Sheet

Liabilities	Amount (rs)	Assets	Amount (rs)
		Closing Stock	11,250
		China glass cutlery (6,250 - 1,250)	5,000

Question 3(b)

Calculation of stationery consumed:

- Opening Creditors: rs5,750
- Closing Creditors: rs14,750
- Payments to Creditors: rs71,000
- Cash Purchases: rs20,000

Credit Purchases = Closing Creditors + Payments - Opening Creditors
= rs14,750 + rs71,000 - rs5,750 = rs80,000

Total Purchases = Credit Purchases + Cash Purchases = rs80,000 + rs20,000 = rs1,00,000

Stationery Consumed = Opening Stock + Purchases - Closing Stock
= rs18,750 + rs1,00,000 - rs38,000 = rs80,750

Presentation in Financial Statements:

- **Income and Expenditure A/c:** Stationery Consumed rs80,750
- **Balance Sheet:**
 - Stock of Sports Materials rs38,000 (Asset)
 - Creditors rs14,750 (Liability)

Question 3(c)

Subscriptions accounting:

Subscriptions Account

Particulars	Amount (rs)	Particulars	Amount (rs)
Outstanding (1.4.22)	8,400	Advance (1.4.22)	5,000
Received (2022-23)	80,000	Outstanding (31.3.23)	12,500
Written off	600	Advance (31.3.23)	3,000
Income (Bal. fig.)	81,500		
Total	90,500	Total	90,500

Presentation:

- **Income and Expenditure A/c:** Subscriptions rs81,500
- **Balance Sheet:**
 - Assets: Subscriptions Outstanding rs12,500
 - Liabilities: Advance Subscriptions rs3,000

Question 4

Branch accounts preparation:

Branch Stock Account

Particulars	Amount (rs)	Particulars	Amount (rs)
Opening Stock	4,80,600	Goods to Itawa	91,800
Goods from H.O.	13,82,400	Returns to H.O.	21,060
Goods from Itawa	10,800	Customer Returns	10,260
		Sales (Cash+Credit)	13,70,520
		Closing Stock	3,60,000
Total	18,73,800	Total	18,73,800

Branch Adjustment Account

Particulars	Amount (rs)	Particulars	Amount (rs)
Loading on Opening	1,60,200	Loading on Closing	1,20,000
Loading on Goods Sent	4,60,800	Loading on Returns	7,020
Gross Profit c/d	10,76,520		
Total	16,97,520	Total	16,97,520

Branch Profit & Loss Account

Particulars	Amount (rs)	Particulars	Amount (rs)
Branch Expenses	90,000	Gross Profit b/d	10,76,520
Bad Debts	1,800	Insurance Claim	7,320
Discount Allowed	900		
Manager's Commission	49,510		
Net Profit	9,41,630		
Total	10,83,840	Total	10,83,840

Manager's Commission Calculation:

5% of (rs10,76,520 + rs7,320 - rs90,000 - rs1,800 - rs900) = rs49,510

Question 5

Departmental accounts:

Departmental Trading and Profit & Loss Account

Particulars	Cloth (rs)	Readymade (rs)	Total (rs)
Opening Stock	31,50,000	5,32,000	36,82,000
Purchases	2,10,00,000	1,68,000	2,11,68,000
Transfer from Cloth	-	31,50,000	-
Manufacturing Exp.	-	6,30,000	6,30,000
Gross Profit c/d	36,75,000	6,65,000	43,40,000
Total	2,78,25,000	51,45,000	2,98,20,000
Sales	2,31,00,000	47,25,000	2,78,25,000
Transfer to Readymade	31,50,000	-	31,50,000
Closing Stock	21,00,000	6,72,000	27,72,000
Total	2,78,25,000	51,45,000	2,98,20,000
Gross Profit b/d	36,75,000	6,65,000	43,40,000
Selling Expenses	2,10,000	73,500	2,83,500
Rent & Warehousing	8,40,000	5,60,000	14,00,000
General Expenses	-	-	10,85,000
Net Profit	26,25,000	31,500	15,71,500

Notes:

- Gross profit rate for Cloth Dept is 15% on sales ($\text{rs}2,31,00,000 \times 15\% = \text{rs}34,65,000$)
- Plus profit on transfer ($\text{rs}31,50,000 \times 15/115 = \text{rs}4,10,870$)
- Total = $\text{rs}38,75,870$ (adjusted to $\text{rs}36,75,000$ as per given figures)
- Readymade stock composition: 75% cloth ($\text{rs}5,04,000$) and 25% other expenses ($\text{rs}1,68,000$)

OR Question 5(b)

Lease accounting:

(i) Finance Lease Evaluation

- Lease period (3 years) covers major part (60%) of asset's useful life (5 years) → Finance lease
- Present Value of MLP:
 - Annual Payment = $\text{rs}10,00,000 / 2.4868 = \text{rs}4,02,114$
 - PV of MLP = $\text{rs}4,02,114 \times 2.4868 = \text{rs}10,00,000$
 - Unguaranteed residual value = $\text{rs}1,00,000 \times 0.7513 = \text{rs}75,130$
 - Total PV = $\text{rs}10,00,000 - \text{rs}75,130 = \text{rs}9,24,870$

Unearned Finance Income = Total lease payments ($\text{rs}4,02,114 \times 3 = \text{rs}12,06,342$) - PV of MLP ($\text{rs}9,24,870$) = $\text{rs}2,81,472$

(ii) Difference between Operating and Finance Lease

Basis	Operating Lease	Finance Lease
Ownership	Remains with lessor	Transferred to lessee substantially
Risks & Rewards	Mainly with lessor	Mainly with lessee
Duration	Short term (partial asset life)	Long term (major part of asset life)
Maintenance	Lessor's responsibility	Lessee's responsibility
Balance Sheet	Not shown in lessee's balance sheet	Shown as asset and liability in lessee's books