Prof. Sharad Shah's
SHAH
EDUCATIONAL ACADEMY
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FYBAF	***Financial Accounting - I***	***Marks: 75***
Sem. – I	***Pre Final Exam – 1 (2019)***	***Time: 2 ½ Hrs.***

Note: (1) Solve all questions after exercising internal option.
(2) Working notes are allotted separate marks.
(3) Use of simple calculator is allowed.

Q.1. (a) State whether the following statements are True or False and rewrite the sentence **(Any 8)** **(8)**

1. Under Hire Purchase, installment is treated as hire price.
2. Rate of Gross Profit indicates profitability of each department.
3. Weighted Average Method is suitable when the lots of inventory are not identifiable.
4. Capital receipt is recurring in nature.
5. Current assets are long-term assets.
6. Different firm follow different accounting policies.
7. Abnormal wastage of material should not be included in the cost inventories.
8. Interest is recignised on receipt basis.
9. Drawing Account always credit balance.
10. Provision for unrealised profit is charged to Departmental Profit and Loss A/c.

Q.1.(b) Match the following and rewrite **(Any 7)** **(7)**

Column "A"	**Column "B"**
1. Substance over Form	a. Current Assets
2. Revenue from Sales	b. Initial Payment
3. Retail Method	c. Current Liability
4. Wages paid to workers for Installation of Machinery	d. Value of Asset
5. Purchase of Raw Material	e. No. of Workers
6. Cost of Canteen	f. AS – 1
7. Insurance of Asset	g. Revenue Expenditure
8. Down Payment	h. Capital Expenditure
9. Outstanding Salary	i. AS – 9
10. Cash at Bank	j. AS – 2

Q.2. From the following information provided to you by Kumar Traders, you are required to prepare Department Trading and Profit & Loss A/c and General Profit & Loss A/c from the following information provided to you for the year ended 31st March, 2018. **(15)**

P.T.O.

Particulars	Dept. P (₹)	Dept. Q (₹)	Dept. R (₹)	Common
Sales	20,000	40,000	60,000	----
Purchases	15,000	10,000	5,000	----
Salaries	5,000	8,000	9,000	----
Opening Stock	18,000	17,000	15,000	----
Closing Stock	20,000	21,000	20,500	----
Audit Fees	----	----	----	4,000
Delivery Van Expenses	----	----	----	5,000
Commission Paid	----	----	----	3,500
Discount Received	----	----	----	3,800
Interest Paid	----	----	----	4,700
Travelling Paid	----	----	----	4,700
Freight Inward	----	----	----	1,500
Octroi Duty	----	----	----	1,800
Printing & Stationery	----	----	----	2,400
Postage & Telegram	----	----	----	2,200
Telephone Charges	----	----	----	1,600
Power	----	----	----	5,400
Repairs to Machinery	----	----	----	9,000
Depreciation	----	----	----	6,000
Packing Expenses	-----	----	----	3,000
Rent Paid	----	----	----	8,400

Adjustments:

1. Area occupied by three departments P, Q and R is in the ratio of 3 : 3 : 2.
2. Value of Machine used in Department P, Q and R is ₹ 40,000; ₹ 30,000 and ₹ 20,000 respectively.
3. Horse Power of machinery used in Department P, Q and R is 300 HP, 200 HP and 100 HP respectively.
4. Printing and Stationery to be allocated in the ration 4 : 3 : 2.

OR

Q.2. Kothari Transports Purchased two trucks from Mahindra Ltd. on the hire purchase system on 1st January 2015. The cash price of each truck was ₹ 1,25,000. The payment was made as follows: **(15)**

01-01-2015	₹ 30,000	Each truck
31-12-2015	₹ 35,000	Each truck
31-12-2016	₹ 40,000	Each truck
31-12-2017	₹ 45,000	Each truck

Depreciate @ 20% p.a. on original cost is charged.

You are required to calculate interest per year and show the necessary accounts in the books of Kothari Transports.

Q.3. From the following Trial Balance of Mr. Arnav as on 31st March, 2018 you are required to prepare Manufacturing Account Trading and Profit and Loss Account for the year ended 31st march 2018 and a Balance Sheet as on that date: **(15)**

Trial Balance as on 31st March, 2018

Particulars	Debit ₹	Credit ₹
Purchased of Raw Material	3,15,000	
Sales		5,00,000
Opening Stock – Raw Material	32,000	
Opening Stock – Work-in-Progress	6,000	
Opening Stock – Finished Goods	20,000	
Carriage Inwards	3,000	
Direct Labour	24,000	
Rent of Factory	20,000	
Electricity	27,000	
Factory, Power & Fuel	21,000	
Office Salaries	24,000	
Selling & Distribution Expenses	13,000	
Sundry Debtors	49,000	
Discount Allowed	5,000	
Bad Debts	2,000	
Provision for Bad Debts		2,000
Creditors		45,000
Bills Payable		46,000
Discount Received		10,000
Capital		1,05,000
Drawing	15,000	
Machinery	95,000	
Delivery Van	32,000	
Cash at Bank	5,000	
Total	**7,08,000**	**7,08,000**

Additional Information:

1. Closing Stock : Raw Material ₹ 16,000; Work-in-Progress ₹ 10,000; Finished Goods ₹ 28,000
2. Outstanding Factory rent is ₹ 1,000.
3. Electricity is to be apportioned in the ratio of 2 : 1 to factory and office.
4. Depreciated machinery @ 5% p.a. and delivery van @ 20% p.a.
5. Debtors include ₹ 15,000 due from Patik, an amount ₹ 8,000 is also due to him and is included in creditors.
6. Provide reserve for doubtful debts @ 10% debtors.

OR

P.T.O.

Q.3. (a) Darasingh prepared his accounts on 31st March, every year. due to some unavoidable reasons. Stock taking could be done only on 15th April, 2018, when the stock was found to be ₹ 60,500. The following information is provided for the period between 31st March, 2018 and 15th April, 2018.

1. Sales ₹ 45,590.
2. Purchased ₹ 16,710
3. Sales returns were ₹ 1,200.
4. On 15th March, goods having sales value of ₹ 6,800 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 405 of the goods on 10th April approving the rest.
5. Mr. Darasingh had received goods costing ₹ 8,000 in March for sale on consignment basis, 20% of the goods had been sold by 31st March and another 40% by 15th April. These sales have not been included in sales of ₹ 45,590 given above.

You are required to calculate the value of stock on 31st March, 2018 by preparing a Stock Reconciliation Statement assuming that goods are sold at the Profit of 20% on sales. **(8)**

Q.3.(b) Nitya Ltd. produces chemical A, From the following date, calculate the value of closing stock: **(7)**

Direct Materials	:	₹ 5 per unit
Direct Labour	:	₹ 2 per unit
Chargeable Expenses	:	₹ 3 per unit
Normal Capacity	:	12,000 units p.a.
Actual Production	:	10,000 units p.a.
Fixed Production Overheads	:	₹ 60,000 p.a.

The company has 2,000 units of closing stock at the end of the year.

Q.4. Calculate the cost of goods sold and closing stock under weighted average cost of inventory using: **(15)**

1. Periodic System; (2) Perpetual System

1st March 2018	Stock in Hand	500 units	@ ₹ 9 each
Purchases	03rd March	500 units	@ ₹ 11 each
	10th March	1,000 units	@ ₹ 12 each
	18th march	600 units	@ ₹ 10 each
	24th March	500 units	@ ₹ 12 each
	30th March	400 units	@ ₹ 13 each
Issues	02nd March	400 units	
	09th March	500 units	
	16th March	900 units	
	23rd March	500 units	
	31st March	600 units	

OR

P.T.O.

Q.4. State with reasons whether the following expenditures or receipts are capital or revenue.

1. Paid ₹ 2,00,000 as a Custom Duty on machinery purchased from USA. **(15)**
2. Paid subscription charges ₹ 6,000 for Trade Journal.
3. Premium of ₹ 3,00,000 payable on redemption of debentures.
4. Loss on sale of plant and machinery of ₹ 20,000
5. Recovery of Bad Debts from Sarita of ₹ 5,000
6. Amount of ₹ 50,000 received on sales of old furniture.
7. Sold of Equity Shares (held as investment) for ₹ 20,00,000 and suffered a loss of ₹ 20,000.

Q.5.(a) Explain the following and give 2 examples of each: **(8)**

1. Floating Assets
2. Fictitious Assets
3. Contingent Liabilities
4. Factory Overheads

(b) Distinguish between FIFO and Weighted Average Method. **(7)**

OR

Q.5. Write a Short Notes (any 3) **(15)**

1. Different Accounting Policies as per AS – 1
2. Main requirements of AS – 9
3. Calculation of Interest in Hire Purchase
4. General Profit & Loss Account in Departmental Accounting
5. Capital Expenditure

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Solution 1 (a) :

1. Under Hire Purchase, installment is treated as hire price. - ***True***
2. Rate of Gross Profit indicates profitability of each department. - ***True***
3. Weighted Average Method is suitable when the lots of inventory are not identifiable. - ***True***
4. Capital receipt is recurring, in nature. - ***False***
5. Current assets are long-term assets. - ***False***
6. Different firms follow different accounting policies. - ***True***
7. Abnormal wastage of material should not be included in the cost inventories. - ***True***
8. Interest is recognised on receipt basis. - ***False***
9. Drawing Account always credit balance. - ***False***
10. Provision for unrealised profit is charged to Departmental Profit and Loss A/c. - ***False***

Solution 1 (b) :

	Column 'A'		Column 'B'
1.	Substance over Form	(a)	AS-1
2.	Revenue from Sales	(b)	AS-9
3.	Retail Method	(c)	AS-2
4.	Wages paid to workers for Installation of Machinery	(d)	Capital Expenditure
5.	Purchase of Raw Material	(e)	Revenue Expenditure
6.	Cost of Canteen	(f)	No. of Workers
7.	Insurance of Asset	(g)	Value of Asset
8.	Down Payment	(h)	Initial Payment
9.	Outstanding Salary	(i)	Current Liability
10.	Cash at Bank	(j)	Current Assets

Solution 2 :

Dr. **Trading Account for the year ended 31-3-2018** **Cr.**

Particulars	*P* ₹	*Q* ₹	*R* ₹	*Particulars*	*P* ₹	*Q* ₹	*R* ₹
To Opening Stock	18,000	17,000	15,000	By Sales	20,000	40,000	60,000
To Purchases	15,000	10,000	5,000	By Closing Stock	20,000	21,000	20,500
To Freight	750	500	250				
To Octroi Duty	900	600	300				
To Power	2,700	1,800	900				
To Gross Profit c/d	2,650	31,100	59,050				
	40,000	61,000	80,500		40,000	61,000	80,500

Dr.	Departmental Profit and Loss Account for the year ended 31st March 2018						Cr.
Particulars	**P**	**Q**	**R**	**Particulars**	**P**	**Q**	**R**
	₹	₹	₹		₹	₹	₹
To Salaries	5,000	8,000	9,000	By Gross Profit b/d	2,650	31,100	59,050
To Delivery Van	833	1,667	2,500	By Discount			
To Commission	583	1,167	1,750	Received	1,900	1,267	633
To Travelling	783	1,567	2,350	By Net Loss c/d	14,667	-	-
To Printing and Stationery	1,067	800	533				
To Postage and Telegram	367	733	1,100				
To Telephone	267	533	800				
To Repairs to Machinery	4,000	3,000	2,000				
To Depreciation on Machinery	2,667	2,000	1,333				
To Packing Expenses	500	1,000	1,500				
To Rent paid	3,150	3,150	2,100				
To Net Profit c/d	-	8,750	34,717				
	19,217	32,367	59,683		19,217	32,367	59,683

Dr.	General Profit and Loss A/c		Cr.
Particulars	₹	**Particulars**	₹
To Net Loss b/d - Department P	14,667	By Net Profit b/d	
To Audit Fees	4,000	Department Q	8,750
To Interest Paid	4,700	- Department R	34,717
To Net Profit transferred to Balance Sheet	20,100		
	43,467		43,467

OR

Solution 2 :

LEDGER ACCOUNTS IN THE BOOKS OF THE PURCHASER

Dr.		Truck Account			Cr.
Date	**Particulars**	₹	**Date**	**Particulars**	₹
1-1-15	To Mahendra Ltd. A/c	2,50,000	31-12-15	By Depreciation	50,000
				By Balance c/d	2,00,000
		2,50,000			2,50,000
1-1-16	To Balance b/d	2,00,000	31-12-16	By Depreciation	50,000
				By Balance c/d	1,50,000
		2,00,000			2,00,000
1-1-17	To Balance b/d	1,50,000	31-12-17	By Depreciation	50,000
				By Balance c/d	1,00,000
		1,50,000			1,50,000

Dr. **Mahendra Ltd. Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1-1-15	To Bank	60,000	1-1-15	By Truck A/c	2,50,000
31-12-15	To Bank	70,000	31-12-15	By Interest	24,000
	To Balance c/d	1,44,000			
		2,74,000			2,74,000
31-12-16	To Bank	80,000	1-1-16	By Balance b/d	1,44,000
	To Balance c/d	81,000	31-12-16	By Interest	17,000
		1,61,000			1,61,000
31-12-16	To Bank	90,000	1-1-16	By Balance b/d	81,000
			31-12-16	By Interest	9,000
		90,000			90,000

Dr. **Interest Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31-12-15	To Mahendra Ltd. A/c	24,000	31-12-15	By Profit / Loss A/c	24,000
31-12-16	To Mahendra Ltd. A/c	17,000	31-12-16	By Profit / Loss A/c	17,000
31-12-17	To Mahendra Ltd. A/c	9,000	31-12-17	By Profit / Loss A/c	9,000

Dr. **Depreciation Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31-12-15	To Truck A/c	50,000	31-12-15	By Profit / Loss A/c	50,000
31-12-16	To Truck A/c	50,000	31-12-16	By Profit / Loss A/c	50,000
31-12-17	To Truck A/c	50,000	31-12-17	By Profit / Loss A/c	50,000

Working Note :

Calculation of Interest

Hire Purchase Price (H.P.) = Down Payment + Total Amount of Instalments
= (30,000 x 2) + [(35,000 + 40,000 + 45,000) x 2]
= 60,000 + 2,40,000
= ₹ 3,00,000

Cash price (C.P.) = 1,25,000 x 2 = ₹ 2,50,000

∴ Interest = H.P. – C.P. = ₹ 3,00,000 – ₹ 2,50,000 = ₹ 50,000

Particulars	D.P. 1-1-15	I 31-12-15	II 31-12-16	III 31-12-17
(1) Opening H.P.	3,00,000	2,40,000	1,70,000	90,000
(2) D.P. / Instalment Paid	60,000	70,000	80,000	90,000
(3) Interest (WN)	-	24,000	17,000	9,000
(4) Cash Price (2 – 3)	60,000	46,000	63,000	81,000
(5) Closing H.P. (1 – 2)	2,40,000	1,70,000	90,000	Nil

Working Note :

Interest

I : 31-12-2015 = $50{,}000 \times \frac{24}{50} = 24{,}000$

II : 31-12-2016 = $50{,}000 \times \frac{17}{50} = 17{,}000$

III : 31-12-2017 = $50{,}000 \times \frac{9}{50} = 9{,}000$

Solution 3 :

In the Books of Arnav

Manufacturing A/c for the year ended 31st March, 2018

Particulars	₹	₹	Particulars	₹
To Opening Stock :			By Closing Stock :	
Raw Material	32,000		Work-in-Progress	10,000
Add : Purchase of Raw Material	3,15,000		By Trading Account (Cost of Production transferred)	4,18,750
	3,47,000			
Less : Carriage Inwards	16,000	3,34,000		
To Direct Labour		24,000		
To Factory Rent	20,000			
Add : Outstanding	1,000	21,000		
To Factory Electricity (27,000 x 2/3)		18,000		
To Factory Power and Fuel		21,000		
To Depreciation on Machinery (95,000 x 5%)		4,750		
		4,28,750		4,28,750

Trading and Profit and Loss A/c for the year ended 31st March, 2018

Particulars		₹	Particulars	₹
To Opening Stock : Finished Goods		20,000	By Sales	5,00,000
To Manufacturing Account (Cost of Production transferred)		4,18,750	By Closing Stock of Finished Goods	28,000
To Gross Profit c/d		89,250		
		5,28,000		5,28,000
To Office Electricity (27,000 x 1/3)		9,000	By Gross Profit b/d	89,250
To Office Salaries		24,000	By Discount Received	10,000
To Discount Allowed		5,000		
To Selling and Distribution Expenses		13,000		
To Bad Debts	2,000			
Add : New Reserve	4,100			
Less : Old Reserve	(2,000)	4,100		
To Depreciation on Delivery Van (32,000 x 20%)		6,400		
To Net Profit transferred to Capital A/c		37,750		
		99,250		99,250

Balance Sheet as on 31st March, 2018

Liabilities		₹	Assets		₹
Capital Account :			Machinery	95,000	
Opening Balance	1,05,000		Less : Depreciation @ 15%	4,750	90,250
Add : Net Profit	37,750		Delivery Van	32,000	
Less : Drawings	15,000	1,27,750	Less : Depreciation @ 20%	6,400	25,600
Creditors	45,000		**Current Assets :**		
Less : Receivable	8,000	37,000	Stock		
Bills Payable		46,000	- Raw Material	16,000	
Outstanding Factory Rent		1,000	- Work-in-Progress	10,000	
			- Finished Goods	28,000	54,000

		Debtors	49,000	
		Less : Payable	8,000	
			41,000	
		Less : 10% RDD	4,100	36,900
		Cash at Bank		5,000
	2,11,750			2,11,750

OR

Solution 3 (a) :

Stock Reconciliation Statement as on 31st March, 2018

Particulars		₹	₹
Physical Stock as on 15th April, 2018	... ...		60,500
Add : Cost of sales during the period from 31st March 2018 to 15th April, 2018 :			
Sales (WN 1)	... ...	36,472	
Cost of goods sent on approval basis	... ...	3,264	39,736
			1,00,236
Less : Purchases during the period from 31st March, 2018 to 10th April, 2018	... ...	16,710	
Sales Return (WN 2)	... ...	960	
Unsold stock out of goods received on consignment basis (WN 4)	... ...	3,200	20,870
Closing Stock on 31st March, 2014			79,366

Working Notes :

1. Calculation of Cost of Goods Sold

	₹
Sales	45,590
Less : Profit (1/5 on Sales)	9,118
	36,472

2. Calculation of Cost Price of Sales Return

Sales Return	1,200
Less : Profit (1/5 on Sales)	240
	960

3. Calculation of Goods Sent on Sale or Return Basis

Total Goods Sent	6,800
60% of Goods Approved on 10th April	4,080
40% of Unapproved Goods included In Stock taking on 15th April	2,720

Since no approval had been received 100% goods should be included in the stock of 31st March, 2018. But 40% goods with selling price of ₹ 2,720 is already included in stock taking. Therefore the remaining unapproved goods of 60% should be included at cost price.

Sale price ₹ 4,080 less Profit (1/5 on sales) ₹ 816 = ₹ 3,264

4. Goods received as consignment are not the property of Darasingh should be excluded from stock.

	₹
Goods received on Consignment	8,000
Less : 20% sold by 31st March	1,600
Less : 40% sold by 15th April	3,200
Goods remaining in Stock	3,200

Solution 3 (b) :

Calculation of Closing Stock

Cost of 2,000 units can be calculated as follows :

= No. of units in closing stock x Cost per unit

= 2,000 x 15

= 30,000

Working Notes :

1. Calculation of Fixed Overhead Rate per Unit

$$= \frac{\text{Fixed Overhead}}{\text{Normal Capacity Units}}$$

$$= \frac{60,000}{12,000}$$

= 5 p.u.

2. Cost per unit

	₹
Direct Material	5
Direct Labour	2
Chargeable Expenses	3
	10
Fixed Overhead	5
Cost Per Unit	15

Solution 4 :

1. Periodic System

Weighted Average Cost per Unit

$$= \frac{\text{Total cost of goods available for sale}}{\text{Total number of units available for sale}}$$

$$= \frac{4,500 + 5,500 + 12,000 + 6,000 + 6,000 + 5,200}{500 + 500 + 1,000 + 600 + 500 + 400}$$

$$= \frac{39,200}{3,500} = ₹\ \mathbf{11.20}$$

No. of units sold = 400 + 500 + 900 + 500 + 600 = 2,900 units

Cost of goods sold = Units sold x Weights price p.u. = 2,900 x 11.20 = ₹ 32,480

No. of units in stock = 3,500 – 2,900 = 600 units

Value of Stock = 600 x 11.20 = ₹ 6,720

2. Perpetual System

Stores Ledger Account (Weighted Average Cost)

Date	*Purchases*			*Issues*			*Balance*	
	Units	*Rate*	*Amount*	*Units*	*Wt. Avg. Rate*	*Amount*	*Units*	*Amount*
01-03-2018	-	-	-	-	-	-	500	4,500
02-03-2018	-	-	-	400	9.00	3,600	100	900
03-03-2018	500	11.00	5,500	-	-	-	600	6,400
09-03-2018	-	-	-	500	10.67	5,335	100	1,065
10-03-2018	1,000	12.00	12,000	-	-	-	1,100	13,065
16-03-2018	-	-	-	900	11.88	10,692	200	2,373
18-03-2018	600	10.00	6,000	-	-	-	800	8,373
23-03-2018	-	-	-	500	10.47	5,235	300	3,138

24-03-2018	500	12.00	6,000	-	-	-	800	9,138
30-03-2018	400	13.00	5,200	-	-	-	1,200	14,338
31-03-2018	-	-	-	600	11.95	7,170	660	7,168

Therefore, the value of closing stock as on 31st December, 2018.
600 units @ ₹ 11.95 amounted to ₹ 7,168

Working Note :

Weighted Average Rate = Total Amount / Total Units
9-3-2018 = 6,400 / 600 = ₹ 10.67
16-3-2018 = 13,065 / 1,100 = ₹ 11.88
23-3-2018 = 8,373 / 800 = ₹ 10.47
31-3-2018 = 14,338 / 1,200 = ₹ 11.95

OR

Solution 4 :

1. **Capital Expenditure** due to following reasons :
   - Expenditure is non-recurring in nature.
   - Paid ₹ 2,00,000 for custom duty on machinery is a capital assets.
   - It is added in the cost of machinery and shown in the Balance Sheet.
   - It is incurred for increasing the revenue earned from business.
2. **Revenue Expenditure** due to following reasons :
   - Expenditure is recurring in nature.
   - Benefit is derived during one accounting period only.
   - It is shown in the Profit and Loss A/c.
3. **Deferred Revenue Expenditure** due to following reasons :
   - Defer means to postpone.
   - It is mixed in nature.
   - It has feature of both Capital and Revenue Expenditure.
   - Benefit is derived for 3 to 5 years.
   - It is written off in 3 to 5 years.
4. **Capital Loss** due to following reasons :
   - Machinery is a capital asset.
   - Loss of ₹ 20,000 reduces the value of asset.
5. **Revenue Receipt** due to following reasons :
   - It is normal business income.
   - It is recurring in nature.
   - It is credited to Profit and Loss A/c.
6. **Capital Receipt** due to following reasons :
   - It is not recurring in nature.
   - It is arising through non-business activities.
   - Received ₹ 50,000 from sale of furniture is a capital receipt.
   - It is shown in Balance Sheet.
7. (a) **Capital Receipt** due to following reasons :
   - It is not recurring in nature.
   - It is arising from investment activities.
   - It is shown in Balance Sheet.

   (b) **Capital Loss** due to following reasons :
   - It is not recurring in nature.
   - It is arising through non-business activities.
   - Investment sold at loss is a capital loss.
   - It is deducted from investment in Balance Sheet.

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