

2006

**FINANCIAL ACCOUNTING****Paper - 106***Full Marks : 70*

Time : Three hours

*The figures in the margin indicate full marks for the questions.*Answer *any five* questions.

1. Bharat Gupta promotes Bharat Traders, his proprietary firm, to start the business of trading in product X on 1-4-2006. He hires an office at Delhi @ 2500/- p.m. The following are the details of the transactions entered into by the firm during the month of April. Record all the transactions in the Journal and classify them through Ledger Accounts and also summarise them in a Trial Balance. 14

Date:		Rs.
April 1	Received cash from Bharat Gupta as Capital	1,50,000
April 1	Opened a Current A/c with State Bank of India	1,35,000
April 1	Issued cheque for office rent for April	2,500
April 1	Purchased one Scooter from Regent Auto on credit	31,500
April 1	Paid cheque towards down payment of Scooter. Balance loan, against security of Scooter payable in 12 monthly instalment starting from May 1 with interest @ 12% P.A. on reducing balance	7,500
April 2	Purchased office furniture for cash	8,500
April 2	Purchased 45 units of product X. Issued cheque	45,000
April 8	Sold 10 units of product X. Received cheque and deposited in SBI	12,500
April 10	Cheque issued for Advertisement in the local daily 'Delhi Times'	2,200
April 12	Purchased 75 units of X from ABC & Co on 15 days credit	75,750
April 16	Sold 25 units of X to RIL & CO on credit of one week	31,875

*Contd.*

April 23	Received cheque from RIL & Co.	31,875
April 27	Issued cheque to ABC & CO.	75,750
April 30	Salary paid to Office Assistant in cash	3,500
April 30	Issued cheque to Bharat Gupta for his personal use	4,000
April 30	Purchased 30 units of X from ABC & Co. on 15 days credit	30,450

2. The following is the Trial Balance of Comfort Industries Ltd. as on 31-3-2006 14

Accounts	Debit Rs.	Credit Rs.
Stock (1-4-2005)	6,75,000	
Sales		30,60,000
Wages	2,70,000	
Share Capital (Authorised Capital 2,00,000 shares of 10 each)		9,00,000
Discount		27,000
Purchases	2,20,5000	
Carriage Inward	8,550	
Purchase Returns		90,000
Salaries	67,500	
Sundry Expenses	63,450	
Rent	36,000	
Debtors & Creditors	2,47,500	1,57,500
Plant & Machinery	2,61,000	
Furniture & Fittings	1,53,000	
Cash at Bank	5,04,000	
General Reserve		2,02,500
Profit & Loss A/c, 31st March 2005		54,000
<b>TOTAL</b>	<b>44,91,000</b>	<b>44,91,000</b>

*Further Information :*

- i. Outstanding rent amounted to Rs. 7,200 while outstanding salary Rs. 8,000 of the year.
- ii. Make a provision for doubtful debts amounting to Rs. 4,000.
- iii. Stock as on 31-3-2006 was valued at Rs. 70,000.
- iv. Depreciate Plant & Machinery @ 10%.
- v. Make a provision for Income Tax @ 30%.
- vi. The Board of Directors propose a dividend of 10%.

*Required :*

- I. Prepare the following financial statements of the company:
    - (a) Profit & Loss A/c for year ended 31-3-2006
    - (b) Balance Sheet as at 31-3-2006.
  - II. Briefly comment upon the performance of the company.
3. (a) From the following particulars, prepare a Bank Reconciliation Statement on 31-12-2005 of a Sole Proprietor :
- |   |        |
|---|--------|
| (i) Bank Overdraft as per Cash Book   | 80,000 |
| (ii) Cheque deposited as per Bank Statement but not entered in the Cash Book    | 3,000  |
| (iii) Cheques issued but dishonoured on technical grounds by Bank               | 3,000  |
| (iv) Credit side of the Bank column cast short.                                 | 1,000  |
| (v) Premium on proprietors LIP paid by Bank on standing advice                  | 5,000  |
| (vi) Bank charges recorded twice in Cash Book                                   | 100    |
| (vii) Bills collected by Bank directly  | 20,000 |
| (viii) Cheque for Rs. 50,000 deposited but collection as per the Bank Statement | 49,980 |

State whether the following are Capital, Revenue or deferred Revenue Expenditures with your reasons in short

- (i) Carriage of Rs. 17,500, spent on Machinery purchased and installed.
- (ii) Heavy advertisement costs of Rs. 1,00,000/- spent on the launching of a company's new product in market.
- (iii) Construction of basement costing Rs. 5,95,000 at the factory premises.
- (iv) Incurred Rs. 26,000 expenditure on varied advertisements campaigns undertaken yearly, on a regular basis, during the peak festival seasons.
- (v) Payment for computer time to operate a new stores control system for the company's better functioning.
- (vi) Regular hiring of computer time for the preparation of the company's Accounts.

a) What are the Books of Original Entry? Explain their utilities in brief. 7

b) Enter the following transactions in the Day Books for Mr. C. Kaul for the month of January, 2006 : 7

(i) Goods bought from Lata of Rs. 12,000/- less 10% T.D.

(ii) Sold 1/3rd of the Goods purchased from Lata to Peter @ 5% on account of Trade Discount.

(iii) Sold an old Machine to Harish, book value Rs. 20,000 at Rs. 18,000, the payment was promised in two equal instalments in February and March, 2006.

5. (a) What is Depreciation? What are the factors in the measurement of depreciation from an accounting view point ? Explain them briefly. 7

(b) A manufacturing concern whose books are closed on 31st March, purchased a machine for Rs. 1,50,000 on 1-4-1994. Additional Machinery was acquired for Rs. 40,000 on 30-9-1994. The concern sold the Machinery purchased on 30-9-1994 for Rs. 34,000 on 31-12-1995. Give the Machinery A/c for the year ended on 31st March 1996 considering a 10% p.a. depreciation rate on W.D.V. Method. 7

- i. Mr. P Sharma is in business as a Stationery Merchant. From the following Trial Balance extracted from his Books of Account for the year ended on 31-12-2005. You are required to prepare a Trading and Profit and Loss A/c for the year ended 31-12-2005 and a Balance Sheet as on that date.

Accounts	Debit Rs.	Credit Rs.
Cash in hand	20,000	
Cash at Bank	25,000	
Plant & Machinery	50,000	
Furniture and Fixtures	10,000	
Drawings	10,000	
Capital		90,000
Opening Stock	20,000	
Trade Mark Right (10 yrs. from 1-1-05)	40,000	
Purchases	1,50,000	
Bad debts	3,000	
Loan from Bansal @ 6% P.A. (Loan taken on 1-7-2005)		15,000
Salaries & Wages	26,000	
Debtors	35,000	
Interest on loan from Bansal	200	
Creditors		54,200
Sales		2,30,000
<b>TOTAL</b>	<b>3,89,200</b>	<b>3,89,200</b>

*Additional Information :*

- (a) Stock on 31-12-2005 Rs. 38,000
- (b) Depreciate Plant & Machinery @ 15% and Furnitures & Fixture @ 10%
- (c) Of the Sundry Debtors Rs. 1,000 are bad and should be written off
- (d) Outstanding salaries payable for the year Rs. 2500.

Shri P operates two Bank Accounts both of which are maintained in three-column Cash Book itself. You are required to draw up a Proforma of the Cash Book and show how the following transactions relating to 31st October 2006 will appear therein and close the Cash Book for the day.

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Opening Balance:

Cash	10,000
State Bank of India (overdraft)	5,000
United Bank of India.	40,000

- Received a cheque for Rs. 1000 in respect of sales for which SBI charged Rs. 2/- as Realisation Charges and credited the balance.
  - Purchased goods for Rs. 13,000 and a cheque issued on UBI.
  - Paid office expenses Rs. 450
  - Out of cash sales of Rs. 13,000, a sum of Rs. 10,000 was deposited in SBI.
  - Deposited Rs. 5000 in SBI.
  - Withdraw Rs. 5,000/- from UBI.
  - A Demand Draft was purchased for Rs. 1,000 from a Bank after paying Rs. 20/- towards draft commission.
8. (a) Discuss briefly the method of constructing a 'Trial Balance'. Do you think an agreed Trial Balance is a conclusive proof for the correctness and completeness of the Books of Account ? Justify your answer with examples. 7
- (b) Distinguish between Cash and Mercantile system of Accounting. 7