



**INTRODUCTION TO FINANCIAL ACCOUNTING**

(MARKS 100)

**Module B**

(3 hours)

- Q.1 (a) Explain the following 'Asset Valuation Methods':
- (i) Historical cost (03)
  - (ii) Replacement cost (03)
  - (iii) Net realizable value (03)
- (b) Explain the following accounting concepts:
- (i) Going concern (03)
  - (ii) Prudence (03)
  - (iii) True and fair view (03)
- Q.2 Differentiate between:
- (i) Trade discounts and cash discounts (03)
  - (ii) Commission and discount (03)

Q.3 A sole trader provides depreciation on vehicles on the straight-line method at the rate of 10% per annum. A full year's depreciation is provided at the end of each year on all vehicles purchased during the year. No depreciation is provided in the year in which the vehicle is sold. The balance standing in the Vehicles account at December 31, 2002 after writing off depreciation for that year, was Rs.3,512,700 and subsidiary records showed that the cost of vehicles then on hand was made up as follows:

	<u>Rupees</u>
Vehicles bought in the year 1992 (or earlier)	1,044,000
Vehicles bought in the year 1993	558,000
Vehicles bought in the year 1994	306,000
Vehicles bought in the year 1995 (or later)	<u>4,536,000</u>
	<u>6,444,000</u>

During the year 2003, a new vehicle was bought at a cost of Rs.531,000, and a vehicle which had costed Rs.99,000 in the year 1991 was sold as scrap for Rs.6,300.

During the year 2004 there were additions costing Rs.324,000, and a vehicle which had costed Rs.126,000 in the year 2000 was sold for Rs.28,000.

**Required:**

Vehicles Account and Accumulated Depreciation account for the years 2003 and 2004. (10)

(2)

Q.4 The Cash Book and Bank Statement of Neha International appeared as follows:

**Cash Book (Bank column only)**

Date	Particulars	Amount in Rupees		
		Dr.	Cr.	Balance
01.06.05	Balance b/d	78,000		78,000
04.06.05	Sami Imports		12,000	66,000
05.06.05	Asim Packaging	15,000		81,000
08.06.05	Deen Exports	18,000		99,000
10.06.05	Roohi Exports		30,000	69,000
15.06.05	Samar International	19,500		88,500
16.06.05	Hina Imports		7,500	81,000
27.06.05	Channa Exports	16,500		97,500

**Bank Statement - Details**

Date	Particulars	Amount in Rupees		
		Dr.	Cr.	Balance
01.06.05	Balance b/d		82,500	82,500
02.06.05	Kamal		3,000	85,500
03.06.05	Suman		15,000	100,500
05.06.05	Asim Packaging		15,000	115,500
08.06.05	Sami Imports	12,000		103,500
08.06.05	Deen Exports		18,000	121,500
09.06.05	Beeta	9,000		112,500
17.06.05	Profit on COI		75,000	187,500
18.06.05	Samar International		19,500	207,000
27.06.05	Bank charges	3,000		204,000

The bank reconciliation for the month of May 2005 is as follows:

**Bank Reconciliation Statement  
As at May 31, 2005**

	<b>Rs.</b>
Balance as per cash book	78,000
Add: Cheques issued but not presented	
J.B. & Co.                      Rs.      7,500	
Flash & Co.                         6,000	
Beeta <u>9,000</u>	<u>22,500</u>
	100,500
Less: Cheques deposited but not cleared	
Suman                                    15,000	
Kamal <u>3,000</u>	<u>18,000</u>
Favourable balance as per bank statement	<u>82,500</u>

**Required:**

Bank reconciliation statement as at June 30, 2005.

**(10)**

Q.5 State with reasons in each of the following cases whether they are to be considered as Capital or Revenue expenditure:

- (a) Wages paid for the installation of machine amounting to Rs.6,000 and cost of carriage for the same amounting to Rs.1,500.
- (b) The cost of removal of fixed assets from old factory to the new one amounting to Rs.1,800.
- (c) Purchase of new tyres for Rs. 5,500 for an old car.
- (d) A sum of Rs.8,600 spent on a machine. Rs.1,600 for replacement of worn out parts and Rs.7,000 for addition of new devices which enable the output to be doubled.
- (e) The expenses incurred for white washing the factory building amounting to Rs.40,000.

(10)

Q.6 Asim sends goods on consignment to Sami at cost plus 25%. The terms are that Sami will receive 10% commission on the invoice price and 20% of any price realized above invoice price. Sami is to meet his expenses including bad debts himself. Goods are to be sent as 'freight paid' by Asim.

Asim sent goods whose cost was Rs.128,000 and spent Rs.12,000 on freight etc. Sami accepted a bill for Rs.128,000 immediately on receiving the consignment. His expenses were Rs.1,600 rent and Rs.800 insurance. Sami sold 75% of the goods for Rs.156,000. Part of the sales was on credit and one customer failed to pay Rs.3,200.

**Required:**

Consignment account and Sami's account in the books of Asim.

(12)

Q.7 A and B were in partnership sharing profit and loss in the ratio 4:3. On July 1, 2005, they agreed to admit C as a partner. Goodwill for this purpose is agreed to be valued at 3 years purchase of the average profits of last 5 years.

	<u>Rupees</u>
Profits for these years were: 30.6.2001	141,400
30.6.2002	173,600
30.6.2003	140,000
30.6.2004	210,000
30.6.2005	252,000

On scrutiny of the accounts, the following matters were revealed:

- (i) On January 1, 2003 a machine was purchased for Rs. 160,000. 70% of the amount was paid immediately and capitalized. The balance paid on July 1, 2003 was charged to the profit and loss account.
- (ii) Depreciation is charged at 10% on reducing balance method. It is the policy to charge full year depreciation in the year of purchase.
- (iii) The closing value of stock for the year ended June 30, 2002 was overvalued by Rs.16,800.
- (iv) For the year ended June 30, 2004 postage and stationery amounting to Rs.1,580 was wrongly charged as advertisement expenses.

**Required:**

- (a) Compute the value of goodwill of the firm.
- (b) Entry to record goodwill - if goodwill is raised in the books.  
- if goodwill is not raised in the books.

(12)

Q.8 Hamid is the proprietor of a general store. He has not previously engaged an accountant.

From the examination of the records and from interviews with Mr. Hamid, you ascertain the following information for the year ended March 31, 2005:

1. The takings are kept in a drawer. At the end of each day the cash is counted and recorded on a slip of paper. Mrs. Hamid transcribes the figure into a notebook at irregular intervals. Few slips of paper were inadvertently destroyed before the figures had been written into the notebook. There is a single bank account in the joint names of Mr. and Mrs. Hamid which is used for business as well as personal transactions.
2. All payments to suppliers of goods are made by cheques. On totaling the cheque counterfoils, it was found that total payments to suppliers amounted to Rs.8,545,500.
3. The following balances can be accepted:

	<b>March 31</b>	
	<b>2004</b>	<b>2005</b>
	<b>Rs.</b>	<b>Rs.</b>
Cash and bank	180,900	275,400
Debtors	412,200	441,900
Creditors for purchases of stock	251,100	218,700
Stock in trade at cost	1,755,000	1,710,000

4. Debts totaling Rs.320,400 were abandoned during the year as bad; the takings include Rs.22,500 recovered in respect of an old debt abandoned in a previous year.
5. The shop is situated in the house where Hamid lives. The rent of the house is Rs.11,700 per month. The living accommodation may be regarded as one third of the whole.
6. The following expenses were incurred:
  - (i) Rs.31,500 running expenses of Hamid's personal car.
  - (ii) Rs.54,000 for repainting of the whole premises, the landlord having refused to have this done.
  - (iii) Rs.144,000 for repairing the storage accommodation.
  - (iv) Miscellaneous shop expenses amounting to Rs.77,200.
7. Hamid takes Rs.35,000 per month from the business and hands it over to his wife, who pays all the household expenses.
8. Hamid pays his own personal expenses with cash taken from the drawer. These are estimated at Rs.4,000 per month.
9. Hamid won a small prize bond for Rs.50,000 and bought a small gift for his wife for Rs. 8,000.
10. During the year Hamid bought a secondhand car (not used for business) from a friend; the price agreed was Rs.315,000, but as the friend owed Hamid Rs.60,300 for goods supplied from the business the matter was settled by a cheque for the difference.

(5)

11. An assurance policy on Hamid's life matured and realized Rs.576,900.
12. Hamid paid Rs.90,000 to a friend in an emergency and received a cheque thereagainst. The cheque was dishonoured and the friend is repaying by installments. He had paid Rs.36,000 by March 31, 2005.
13. Other private payments by cheque totalled Rs.86,400.
14. You are to provide Rs.30,000 for accountancy fees.

**Required:**

- (a) Cash and bank summary for the year ended March 31, 2005. (08)
- (b) Capital Account showing drawings during the year ended March 31, 2005. (06)
- (c) Profit and loss account for the year ended March 31, 2005. (04)
- (d) Balance sheet of the business as at March 31, 2005. (04)

**(THE END)**