

Suggested Answers

Q1 A. Fill in the blanks with the given appropriate options and rewrite the complete sentence. (Attempt any 10) (One mark each)(10)

- Accounting Standard 2(AS2) deals with Valuation of Inventory.
- Total amount payable by the purchaser in a Hire Purchase transaction is HirePurchase Price.
- In a Manufacturing Organisation Manufacturing Account is prepared to find out Cost of Production.
- In Departmental Accounts, Rent is allocated on the basis of Area Occupied of each department.
- Income Received in advance is shown in Balance Sheet.
- Amount Received on Issue of Shares is a Capital Receipt.
- As per Accounting Standard-1, Accounting policies used to prepare the final accounts should be disclosed at one place, forming a part of Final accounts.
- For a books manufacturing company paper is a Raw Material.
- The person who receives goods on Hire Purchase System is called Hire purchaser.
- In Departmental Accounts, Comprehensive Insurance is recorded in General Profit & Loss Account.
- In a Manufacturing Organisation, purchase of machinery spares will appear in the Balance sheet.
- Interest received under Hire Purchase System by the hire vendor is his Income.

1.B) State whether the following statements are TRUE or FALSE and rewrite the same. (10 Marks)
 (Attempt any 10)(One mark each)

	Answer
1. AS-1 deals with Disclosure of Accounting Policies.	True
2. For valuation of stock under FIFO method, the Cost of the latest items is compared with their Net Realizable value.	True
3. As per AS-9, Revenue from Interest is recognized only when it is actually received.	False
4. Profit and Loss Account shows the financial position of a concern.	False
5. Expenditure that results in acquisition of a permanent asset is a Capital Expenditure.	True
6. Loss by fire in a Department is charged to General P & L A/c in Departmental Accounting.	True
7. Under Hire Purchase System, Depreciation on Asset is charged by the Vendor until the last installment is paid.	False
8. Down Payment includes interest.	False
9. Freight inward is allocated on the basis of purchases of the department.	True
10. Inventory is a Current Asset.	True
11. If the buyer fails to pay the installment, the seller has a right to repossess the asset sold under Hire Purchase System.	True
12. Under FIFO Method, the stock includes goods held for resale	True

2.

In the books of SHIVA					
Manufacturing Trading and Profit and Loss Account					
For the year ended 31st March 2016					
	Rs.	Rs.		Rs.	Rs.
To Opening Stock - Raw Material	26000				
Add: Purchase of Raw Material	280000		By Closing stock - WIP		4000
	306000		By Trading Account		368000
Less: Closing stock Raw Material	32000	274000	(Cost of Production Transferred)		
To Opening stock - WIP		2000			
To Carriage Inward on RM		5000			
To Direct Wages		56000			
To Factory Rent		27000			
To Depreciation on Machinery		8000			
		372000			372000
To Opening Stock - Finished Goods		30000	By Sales		500000
To Manufacturing Account			By Goods Destroyed by Fire		12000
(Cost of Production Transferred)		368000	By Closing Stock Finished Goods		35000
To Profit and Loss Account (Gross Profit Transferred)		149000			
		547000			547000
To Salaries		9000	By Trading Account		149000
To Discount Allowed		7000	(Gross Profit trfd.)		
To New Reserve for Doubtful Debts		5000			
To Loss Due to Fire - Goods Lost	12000				
Less: Insurance Claim Receivable	8000	4000			
To Net Profit Transferred to Capital		124000			
		149000			149000
Balance sheet of Mr.Shiva as on 31st March, 2016					
Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Account	100000		Machinery	80000	
Add: Net Profit	124000		Lesss Dep @ 10 %	8000	72000
	224000		Insurance Claim Receivable		8000
Less: Drawings	30000	194000	Sundry Debtors	100000	

Creditors	71000	Less: RDD @5%	5000	95000
		Closing stock Raw Material		32000
		Closing stock Work in Progress		4000
		Closing Stock Finished Goods		35000
		Cash at Bank		19000
	265000			265000
Marking scheme:				
		Manufacturing Account	5 marks	
		Trading Account	2 marks	
		Profit & loss account	3 marks	
		Balance Sheet	5 marks	

OR

2.

In the Books of Neelkanth
Manufacturing Trading and Profit and Loss Account
For the year ended 31st March 2016

	Rs.	Rs.		Rs.	Rs.
To Opening Stock - Raw Material	22000		By Closing stock - Work in Progress		6000
Add: Purchase of Raw Material	195000				
add Carriage inward	10000				
	227000		By Trading Account		311000
Less: Closing stock Raw Material	20000	207000	(Cost of Production Transferred)		
To Opening stock - Work in Progress		25000			
To Direct Wages		60000			
To Factory Power and Fuel	18000				
Add: Outstanding	2000	20000			
To Depreciation on Machinery		5000			
		317000			317000
To Opening Stock - Finished Goods		30000	By Sales		370000
To Manufacturing Account			By Closing Stock Finished Goods		39000

	(Cost of Production Transferred)	311000		
To	Profit and Loss Account (Gross Profit Transferred)	68000		
		409000		409000
To	Office Salaries	20000	By Trading Account (Gross Profit Transferred)	68000
To	Selling and Distribution Expenses	29000		
To	New Reserve for Doubtful Debts	2500		
	Less Old Reserves	2000		
		500		
To	Depreiation on Furniture	1600		
To	Net Profit Transferred to Capital	16900		
		68000		68000

BALANCE SHEET

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Account	129000		Machinery	100000	
Add: Net Profit	16900	145900	Lesss Dep @ 5%	5000	95000
			Furniture	32000	
Creditors		90000	Lesss Dep @ 5%	1600	30400
Bills payable		10000			
Outstanding Factory Power and Fuel		2000	Sundry Debtors	50000	
			Less: RDD @5%	2500	47500
			Closing stock Raw Material		20000
			Closing stock Work in Progress		6000
			Closing Stock Finished Goods		39000
			Cash at Bank		10000
		247900			247900

Marking scheme:

Manufacuring Account	4 marks
Trading Account	3 marks
Profit & loss account	2 marks
Balance Sheet	6 marks

3. Departmental Trading and Profit and Loss Account of Swadeshi Stores for the year ended 31st December, 2016

	Particulars	Basis of Allocation	A	B	C	Particulars	Basis of Allocation	A	B	C	
						By Sales [Net]	Given	6,00,000	12,00,000	18,00,000	1
1	To Stock	Given	50,000	70,000	10,000						
1	To Purchases[Net]	Given	1,80,000	2,90,000	7,70,000	By Closing stock	Given	80,000	50,000	40,000	1
1	To Wages	Given	40,000	60,000	80,000	By Departmental					
	To Departmental	Given				B & C		30,000			1
1	A	Given	-	10,000	20,000	A & C			15,000		
	B	Given	5,000	-	10,000	A & B				16,000	
	C	Given	7,000	9,000	-						
1	To Gross Profit		4,28,000	8,26,000	9,66,000						
			7,10,000	12,65,000	18,56,000			7,10,000	12,65,000	18,56,000	
1	To Telephone charges	Equal	1,000	1,000	1,000	By Gross Profit		4,28,000	8,26,000	9,66,000	
1	To Insurance charges	Equal	2,000	2,000	2,000						
1	To Office Expenses	Equal	3,000	3,000	3,000						
1	To Rent	1:1:2	6,000	6,000	12,000						
1	To Discount allowed	Sales	3,000	6,000	9,000						
1	To Bad Debts	Sales	2,500	5,000	7,500						
1	To Net Profit		4,10,500	8,03,000	9,31,500						
			4,28,000	8,26,000	9,66,000			4,28,000	8,26,000	9,66,000	

OR

3 .

A. M/s Shankar traders STOCK LEDGER (FIFO Method) for the year ended 31 st March,2016										7
Date	Receipts			Issues			Balance			
	Units	Rate	Rs.	Unit	Rate	Rs.	Units	Rate	Rs.	
1-4-2015	Opening Stock						500	35.00	17,500	01
5-6-2015	1000	38.00	38,000	--	--	--	500	35.00	17,500	01
							1000	38.00	38,000	
31-8-2015	--	--	--	300	35.00	10,500	200	35.00	7,000	01
							1000	38.00	38,000	
19-9-2015	--	--	--	200	35.00	7,000	400	38.00	15,200	01
				600	38.00	22,800				
1-10-2015	1200	34.00	40,800	--	--	--	400	38.00	15,200	01
							1200	34.00	40,800	
20-02 -2016	--	--	--	400	38.00	15,200	600	34.00	20,400	01
				600	34.00	20,400				
31-03-2016	600	30.00	18,000	--	--	--	600	34.00	20,400	01
							600	30.00	18,000	
Total			96,800			75,900	1200		38,400	

at 31-03-2016 1200 units for Rs 38,400

Therefore , the value of Closing stock as on 31st March 2016 was 1200 units for Rs. 38,400

B. M/s Shankar traders
STOCK LEDGER (Weighted Average Method) for the year ended 31st March,2016

Date	Receipts			Issues			Balance			7
	Units	Rate	Rs.	Units	Rate	Rs.	Units	Rate	Rs.	
1-4-2015	Opening Stock						500	35.00	17,500	01
5-6-2015	1000	38.00	38,000	--	--	--	1500	37.00	55,500	01
31-8-2015	--	--	--	300	37.00	11,100	1200	37.00	44,400	01
19-9-2015	--	--	--	800	37.00	29,600	400	37.00	14,800	01
1-10-2015	1200	34.00	40,800	--	--	--	1600	34.75	55,600	01
20-02 -2016	--	--	--	1000	34.75	34,750	600	34.75	20,850	01
31-03-2016	600	30.00	18,000	-	--	--	1200	32.37	38,850	01

Therefore , the value of Closing stock as on 31st March 2016 was 1200 units at Rs. 38,850

C) Cost of Goods Sold (FIFO Basis) = opening stock + Purchases – Closing Stock

$$17,500 + 96,800 - 38,400 = 75900 \quad (1)$$

4. A

Jagjivan Textiles Ltd.										10
STOCK LEDGER (FIFO Method) for the month of March 2016.										
Date	Receipts			Issues			Balance			
	Units	Rate	Rs.	Unit	Rate	Rs.	Units	Rate	Rs.	
1-3-2016	Opening Stock						500	80.00	40,000	01
15-3-2016	420	82.00	34,440	--	--	--	500 420	80.00 82.00	40000 34,440	01
19-3-2016	--	--	--	500 200	80.00 82.00	40,000 16,400	220	82.00	18,040	01
21-3-2016	--	--	--	180	82.00	14,760	40	82.00	3,280	01
25-3-2016	380	89.00	33,820	--	--	--	40 380	82.00 89.00	3,280 33,820	01
27-3-2016	--	--	--	40 280	82.00 89.00	3,280 24,920	100	89.00	8,900	01
28-3-2016	150	90.00	13,500	--	--	--	100 150	89.00 90.00	8,900 13,500	01
30-3-2016	100	92.00	9,200	--	--	--	100 150 100	89.00 90.00 92.00	8900 13,500 9,200	02
Total			90,960			99,360	350		31,600	01
Therefore , the value of Closing stock as on 31 st March 2016 was 350 mtrs. at Rs.31,600										

B. Cost of Goods Sold = Opening stock + Purchases – Closing Stock (1)

$$40,000 + 90,960 - 31,600 = 99,360 \quad (2)$$

Profit= Selling Price – Cost of Goods sold (1)

$$1,20,000 - 99,360 = 20,640 \quad (1)$$

OR

4 . State whether the following expenses or incomes are capital and/ or revenue. Give reasons for your answers.

1. Sold Government Securities held as Investment for Rs. 10,00,000 and earned a profit of Rs, 20,000	Capital Receipt: Amount received on sale of investment is treated as capital receipt as it is sale of asset. Revenue Receipt- Profit on sale of Investment may be credited to Profit and loss account as Revenue Receipt.	03
2. Paid Rs. 1, 20,000 as custom duty on machinery purchased from Germany.	Capital Expenditure: It is direct cost for acquiring an asset which is to be capitalized as per AS-10	02
3. Paid Rs. 20,000 for Factory Rent.	Revenue expenditure: It is an expense incurred in the ordinary course of business.	02
4. Paid subscription charges of Rs. 6000 a trade journal.	Revenue Expenditure: Annual subscription is a running expenditure spent in normal course of business.	02
5. Paid Rs. 1, 00,000 for obtaining business license.	Capital Expenditure: As it is to start a business activity. It gives rise to intangible asset which is long term source of income.	02
6. Loss of Rs. 10,000 was incurred on goods destroyed by fire.	Revenue Loss : It is debited to profit and loss account as it is loss of goods suffered in normal course of business	02
7. Cost of Rs. 30,000 incurred for replacement of defective parts of machinery.	Revenue Expenditure: As replacement of Part of Machinery is a cost incurred to maintain it in working condition.	02

Q5A. Solution:

(15)

In the books of Presto Plast Co. (Hire Purchaser)
Machine Account (04)

Marks	Date	Particulars	Rs	Date	Particulars	Rs	Marks
01	1.4.2013	To Kabra Ltd. a/c	10,00,000	31.3.2014	By Depreciation	1,00,000	01
				31.3.2014	By Bal c/d	9,00,000	
			<u>10,50,000</u>			<u>10,00,000</u>	
	1.4.2014	To Bal b/d	9,00,000	31.3.2015	By Depreciation	90,000	01
				31.3.2015	By Bal c/d	8,10,000	
			<u>9,00,000</u>			<u>9,00,000</u>	
	1.4.2015	To Bal b/d	8,10,000	31.3.2016	By Depreciation	81,000	01
				31.3.2016	By Bal c/d	7,29,000	
			<u>8,10,000</u>			<u>8,10,000</u>	

Kabra Ltd Account (07)

Marks	Date	Particulars	Rs	Date	Particulars	Rs	Marks
1	01.04.2013	To Bank	2,50,000	1.04.2013	By Machine a/c	10,00,000	1/2
1	31.03.2014	To Bank	3,10,000	31.03.2014	By Interest	60,000	1/2
1/2	31.03.2014	To Bal c/d	5,00,000				
			<u>10,60,000</u>			<u>10,60,000</u>	
1	31.03.2015	To Bank	2,90,000	1.04.2014	By Bal b/d	5,00,000	
1/2	31.03.2015	To Bal c/d	2,50,000	31.03.2015	By Interest	40,000	1/2
			<u>5,40,000</u>			<u>5,40,000</u>	
1	31.03.2016	To Bank	2,70,000	1.04.2015	By Bal b/d	2,50,000	
				31.3.2016	By Interest	20,000	1/2
			<u>2,70,000</u>			<u>2,70,000</u>	

Working Notes:**1. Calculation of Interest: (1 Mark each)**

(04)

Particulars	DP	31.3.2013	31.3.2014	31.3.2015
1. Opening Cash Price	10,00,000	7,50,000	5,00,000	2,50,000
2. DP/ Instalment(given)	2,50,000	3,10,000	2,90,000	2,70,000
3. Interest (12% on Opening CP)	--	60,000	40,000	20,000
4. Cash Price paid (Instalment - Interest)	2,50,000	2,50,000	2,50,000	2,50,000
5. Closing Cash Price (Op CP- CP paid)	7,50,000	5,00,000	2,50,000	0

2. Calculation of Depreciation:

	31.3.2013	31.3.2014	31.3.2015
Machine account	10,00,000	9,00,000	8,10,000
Less: Depreciation (10% on WDV)	1,00,000	90,000	81,000
W.D.V	9,00,000	8,10,000	7,29,000

OR

5. Departmental Trading and Profit and Loss Account of Sadguru Electronics for the year ended 31st March, 2016.

	Particulars	Basis of Allocation	Radio	T V	Particulars	Basis of Allocation	Radio	T V	
1	To Stock	Given	65,000	50,000	By Sales	Given	3,20,000	2,80,000	1/2
1	To Purchases	Given	2,70,000	1,80,000	By Closing Stock	Given	1,10,000	55,000	1/2
1	To Carriage Inwards	Given	3,600	2,400					
1	To Gross Profit		91,400	1,02,600					
			4,30,000	3,35,000			4,30,000	3,35,000	

1	To Salaries	Given	24,000	21,000	By Gross Profit		91,400	1,02,600	
1	To Rent Rates	[4:1]	22,400	5,600	By Discount	[3:2]	2,700	1,800	1
1	To Carriage Outwards	[8:7]	12,800	11,200					
1	To General Exp	[1:1]	7,500	7,500					
1	To Advertisement	[8:7]	19,200	16,800					
1	To Discount	[8:7]	2,400	2,100					
1	To Insurance	[1:1]	1,750	1,750					
1	To S & D	[8:7]	800	700					
1	To Net Profit		3,250	37,750					
			94,100	1,04,400			94,100	1,04,400	

Q6. Note: In case of Theory questions only summarised answers are given. Elaboration is expected depending upon marks allotted to the question.

Ans 6 : [a] Main features or requirement of AS-2 (10 Marks)

- AS 2 applies to the valuation of all inventories except work-in-progress; shares, debentures etc. held as stock-in-trade and producers inventories of livestock, agricultural and forest products, and minerals oils, and gases

2. Inventories should be valued at the lower of cost and net realizable value. Cost of inventories include (i) all costs of purchase (ii) costs of conversion and (iii) other costs incurred in bringing the inventories to their present location and condition.
3. The cost of inventories of items that are not ordinarily interchangeable or produced for specific projects should be assigned by specific identification of their individual costs.
4. The cost of other inventories should be assigned by using the First-in-first out (FIFO) or weighted average cost formula.
5. The retail method may be used for convenience if the results give the approximate actual cost.

Ans 6 : [b] Allocation of expenses on different basis in Departmental Accounts (10)

Expenditure	Basis of Allocation
Freight inward, octroi	Purchases of each department
Rent, taxes repairs	Floor area of each department
Lighting and power	No. of points in each department
Depreciation	Value of Asset in each department
Insurance	Value of Asset in each department
Staff welfare	No. of workers in each dept.
Selling and distribution	Sales of each dept.
Administrative/office	Expenses of each dept. e.g salary

OR

Ans 6 Short notes on any four of the following : (5 Marks each)

[1] Cost of Production

Cost of Production of goods is found out by balancing the manufacturing account. Manufacturing account is showing a debit balance which is called as cost of production. Manufacturing account debit side is always bigger than the credit side. Gross cost of production + Opening WIP – Closing WIP – scrap sale = Net Cost of Production. It is transferred to debit side of trading account.

[2] Inter Departmental Transfer :

At times, items purchased or produced by one department may be transferred to another department. Such transfer may be (i) at cost or (ii) at cost plus a mark-up or (iii) at selling price

[3] Factors influencing choice of accounting policy

1. Prudence- It means transactions are not anticipated but recorded only when realized.

2. Substance over form- It means essence of transactions and events based on their execution and not on their legal form.
e.g.: Sales are recorded on execution of transaction rather than transfer of legal possession.
3. Materiality- Final accounts should disclose all material items.

[4] Distinguish between Capital Expenditure and Revenue Expenditure :

Capital Expenditure(CE)

1. CE pertains to investing activity
2. CE helps to set up and develop a business.
3. CE helps to acquire new asset
4. Examples are fixed assets like Machines, investment in shares.
5. Money on CE may come back on Sale of asset or investment.
6. CE is shown as Assets in BS

Revenue Expenditure(RE)

1. RE pertains to business activity
2. RE helps to run a business
3. RE helps to maintain an asset
4. Examples are RE for purchase of Goods, fees paid etc.
5. Money on RE is irretrievable gone. It cannot be recovered.
6. RE pertaining to current year is Shown as expenses in P & L A/c

[5] Importance of stock valuation

[1] To show proper Value of Assets : A balance sheet is prepared at the end of every year, so that the owner of business knows the assets and liabilities of the business. The goods lying in stock at the end of the year are assets of business and hence must be shown in the balance sheet

[2] To show proper profits: Profits for a year are equal to Income during the year less cost during the year. This is known as the concept of periodical matching of cost and revenue. Gross profits are equal to Income from goods sold less cost of goods sold. The income is from goods sold. Hence the cost includes only the cost of goods 'sold' and not the cost of goods unsold or in stock. The income from goods in stock will be received when these goods are sold in future. Hence the cost of closing stock is carried forward to be deducted from such future sales. For this purpose, the value of closing stock is credited to Manufacturing or Trading Account.

[6] Revenue as per AS-9

According to AS-9 sale of goods is recognized when the seller has transferred the property in the goods to the buyer for a price. Revenue from services is recognized/ recorded either by proportionate completion method or completed service contract method.

X XX

In case of any queries kindly contact:

- | | |
|--------------------------------------------------------|------------|
| 1. CA Santosh Ghag, Chairman. Jai Hind College. | 9969965858 |
| 2. CA Kanak Jayawant- Paper Setter. NKT College. | 9833284253 |
| 3. Prof. Shamim Sayed- Paper Setter. NSS College. | 9821888102 |
| 4. Prof. Satish Pharate- Paper Setter. Adarsh College. | 9820726707 |