

Jagan Institute of Management Studies
End-Term Examination, September, 2016
Trimester I – PGDM 2016-18

Financial Accounting
ET_PG_FA_2109

Time: 3 Hrs.

M. Marks: 70

INSTRUCTIONS: Attempt any FIVE questions including Q1 & Q7 which are compulsory.

- Q 1** Attempt any **FIVE** of the following:
- a) Explain the following accounting principles with examples:
 - Matching concept.
 - Going concern concept.
 - b) Explain accounting as an information system. Who are the different users of this accounting information?
 - c) Distinguish between cash and accrual basis of accounting.
 - d) As per consistency principle, accounting policies once chosen cannot be changed. Do you agree?
 - e) Explain the terms ‘Fictitious Assets’ and ‘Contingent Liabilities’ with examples.
 - f) Explain the terms Capital expenditure, Revenue Expenditure and Deferred revenue expenditure.
 - g) “The real intent of the transaction is important and not the ‘form’ in which transaction is recorded”. Explain the statement in relation to preparation of financial statements.
 - h) Write a note on AS-1 relating to disclosure of accounting policies. **20**
- Q 2**
- a) What are the provisions regarding ‘cost of acquisition’ and ‘capitalisation of borrowing costs’ in computing the depreciable base of an asset?
 - b) Why do companies revalue their assets? How the revalued amount and the depreciation on it is accounted for in the books.
 - c) What are the provisions of AS-6 relating to change in the method of depreciation and how is the change accounted and reported for?
 - d) A manufacturing company purchased a machinery on April 1, 2001 for Rs. 6,00,000. The useful life of the machinery was estimated at 10 years. The SLM method of depreciation was used. In the year 2006, the company engaged a firm of professional valuers to determine the current value of the machinery. On April 1, 2006 the valuers reported that similar machinery with an estimated life of 10 years would cost

Rs.10, 00,000. The accounting year ends on 31st March every year.

- i) Prepare a journal entry to record the revaluation.
- ii) Compute the amount of depreciation on the revalued asset for the year 2009 and pass the journal entry.

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Q 3 a) From the following particulars prepare a bank reconciliation statement in the books of Sunny and compute the balance as per cash book as on 30th June, 2015.

- i) Credit balance as per pass book on 30th June, 2015 Rs.18,000.
- ii) Out of total cheques amounting to Rs.37,500 drawn by Shiny, cheques aggregating Rs.15,000 were encashed in June2015, cheques aggregating Rs. 3,000 were encashed in July,2015 and the rest have not been presented at all.
- iii) Out of total cheques amounting to Rs. 25,000 deposited, cheques aggregating Rs.13,500 were credited in June 2015, cheques aggregating Rs.3,000 were credited in July, 2015 and the rest have not been collected at all.
- iv) Bank has charged Rs.57 as its commission for collecting outstation cheque and has allowed interest Rs.630 on his bank balance.
- v) Amount wrongly credited by bank Rs.3,200.
- vi) A cheque of Rs. 5,200 was entered in the cashbook in June2015, but was sent to the bank in July2015.
- vii) A cheque of Rs.12,300 paid in to the bank was returned dishonored but no intimation was received from the bank till June2015.

b) State with reasons whether the following statements are true or false.

- i) All fictitious assets are intangible but all intangible assets are not fictitious.
- ii) All reserves created out of profits appear on the assets side of the balance sheet.
- iii) Rent outstanding account is a nominal account.
- iv) Purchase Journal is a journal to record all the purchases.

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Q 4 Give necessary journal entries to rectify the following errors and prepare the suspense account.

- i) Discount column of the Receipt side of the cash book was wrongly added as Rs. 140 instead of Rs. 120.
- ii) Commission of Rs. 25 paid, was posted twice, once to discount account and once to commission account.
- iii) A sale of Rs. 139 to Ram though correctly entered in the Sales Book, was posted wrongly to his account as Rs. 193.
- iv) Rs.500 paid for the purchase of radio set for the proprietor

- debited to general expenses account.
- v) Rs.1300, the amount of sales of an old machinery has been posted to sales account.
 - vi) A sum of RS.160 paid by way of rent has been debited to landlord's personal account.
 - vii) Purchase of an office typewriter for Rs.1500 from AB Ltd. on credit was entered in the purchases day book.

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- Q 5 a)** Which method of inventory valuation – FIFO or LIFO, is used during the period of rising price and why?
- b)** Record the following transactions in the stores ledger according to FIFO method.

Date Transactions

- May 1 Balance 100 units @ Rs.10.
- May 2 Issued 50 units.
- May 6 Purchased 400 units @ Rs.12.
- May 7 Issued 150 units.
- May 8 Returns to stores 10 units, which were issued on May 2.
- May 9 Purchased 150 units @ Rs.11. Freight charges paid Rs.150.
- May 15 Issued 160 units.
- May 16 Purchased 50 units @ Rs.12.
- May 21 Returns to vendor 20 units, which were purchased on May16.
- May 22 Shortages 10 units.
- May 29 Issued 30 units.
- May 30 Transfer from job X to job Y 50 units.

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- Q 6 a)** A Ltd. purchased a second hand machine on 1.1.2012 for Rs.3,80,000 and spent Rs.20,000 on its installation. On 1.7.2013, it purchased another machine for Rs.2,50,000.

On 1.7.2014, it sold the first machine for Rs.3,00,000 and on the same date purchased a new machine for Rs.200,000 payable as Rs.50,000 down and three annual installments of Rs.50,000 each along with interest of Rs. 15,000, 10,000 and 5,000 respectively.

On 1.10.2015, the second machine was also sold for Rs.70,000.

Depreciation was provided on the machinery @ 10%p.a. on the original cost of the machine. Calendar year is the accounting year.

Show the machinery account, provision for depreciation account and machinery disposal account for the four years ending on 31.12.2015.

- b)** Distinguish between 'Straight line method' and 'Written down value method' of depreciation.

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- Q 7** The following is the trial balance of a firm for the year ended 31.3.2015:
- | | | | |
|------------------|-------|---------|---------|
| Building Repairs | 3,600 | Capital | 160,000 |
|------------------|-------|---------|---------|

Bad Debts	4,000	Creditors	33,000
Office Expenses	5,000	Res. for doubtful debts	2,000
Insurance Premium	5,500	12% Loan (1-7-2014)	30,000
Cash at bank	5,200	Sales	228,800
Cash	1,400		
Opening Stock	61,000		
Debtors	80,000		
Furniture	63,400		
Building	80,000		
Purchases	117,400		
Interest on Loan	2,700		
Salaries	18,600		
Advertising	2,800		
Carriage inward	3,200		
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	453,800		453,800

Prepare the final accounts after making the following adjustments:

- i) Closing Stock as on 31.3.2015 amounted to Rs.50,000.
- ii) Depreciate building by 10%. As one third of the building was used for residential purposes, treat one third of depreciation and repairs as drawings.
- iii) Depreciate furniture @ 10%.
- iv) Provision for bad and doubtful debts was to be maintained at 5%.
- v) Annual insurance premium was paid on 1.7.2014 and included Rs.3,000 life insurance premium.
- vi) The effect of advertising not yet expired; a quarter of the amount is to be carried forward to the next year.
- vii) Salaries owing on 31.03.2015 Rs.400.
- viii) Purchase invoice amounting to Rs.400 had been omitted from the books.
- ix) Loss of stock by fire on 20.6.2001 amounted to Rs.5,000 and 80% claim was admitted by the insurance company.
- x) Debtors included bad debts Rs.2500.
- xi) The proprietor used the goods of the value of Rs.1000 for his personal purposes, but not recorded in the books.

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