

ADVANCED FINANCIAL ACCOUNTING 2025

II Semester B. Com

SECTION – A

Answer any Five sub-questions. Each carries 2 marks.

1. a) What is Under Insurance? Under insurance occurs when the amount for which a property or stock is insured is less than its actual value at the time of loss. In such cases, the insurance company applies an "Average Clause," and the claim is settled proportionately to the value insured.

1. b) What is Memorandum Trading Account? A Memorandum Trading Account is a temporary account prepared to estimate the value of stock on a specific date, usually the date of a fire. It is called "Memorandum" because it is prepared from incomplete records or for a specific purpose rather than as a part of the formal double-entry system.

1. c) Mention any two advantages of Hire Purchase System.

1. **Ease of Payment:** It allows the buyer to acquire expensive assets by paying in small installments.
2. **Immediate Use:** The buyer gets immediate possession and use of the asset despite not having paid the full price.

1. d) How do you allocate the following expenses in Departmental Accounting?

- **i) Advertisement Expenses:** Allocated based on the **Sales/Turnover** of each department.
- **ii) Rent of Building:** Allocated based on the **Floor Area** occupied by each department.

1. e) Calculate Gross Profit, When Sales is Rs. 10,00,000 and Gross Profit Ratio is 33% on cost.

Step	Description	Calculation / Value
1	Total Sales	Rs. 10,00,000
2	Gross Profit (GP) Ratio	33% on Cost
3	Relationship Formula	Sales = Cost + Profit
4	Ratio Conversion	If Cost is 100 and Profit is 33.33, then Sales is 133.33.
5	GP as % of Sales	$33.33 / 133.33 \times 100 = 25\%$
6	Final Gross Profit	10,00,000 X 25%
7	Result	Rs. 2,50,000

1. f) What is Single Entry System of Accounting? The Single Entry System is an incomplete and unscientific system of bookkeeping where only one aspect of a transaction is recorded (usually Cash and Personal accounts), rather than both debit and credit aspects.

1. g) What are Dependent Branches? Dependent branches are branches that do not maintain their own independent sets of books. All accounting records for these branches are maintained by the Head Office.

SECTION-B

Answer any Four questions. Each carries 5 marks.

2. What are the benefits of Green Accounting?

Green Accounting (or Environmental Accounting) helps organizations:

- Identify and manage environmental costs.
- Improve environmental performance and sustainability.
- Provide transparency to stakeholders regarding the ecological impact of business activities.

3. Briefly explain the objectives of conversion of Single-Entry System of accounting

- **To Check Arithmetical Accuracy:** By converting to a double-entry system, a Trial Balance can be prepared to ensure that every debit has a corresponding credit, thereby checking the mathematical accuracy of the books.
- **To Determine True Profit or Loss:** The conversion allows for the preparation of a formal Trading and Profit and Loss Account, providing a more accurate and detailed view of the financial performance than a mere statement of affairs.
- **To Ascertain the True Financial Position:** It enables the preparation of a proper Balance Sheet to show the actual assets and liabilities of the business at a specific point in time.
- **To Comply with Legal Requirements:** Most legal and tax authorities (such as the Income Tax department) do not recognize the Single Entry System and require financial statements prepared under the Double Entry System.
- **To Facilitate Comparison:** Conversion allows the business to compare its current year's performance with previous years or with other firms in the industry using standardized financial data.
- **To Prevent Frauds and Errors:** The dual aspect of double entry makes it more difficult to manipulate accounts or commit fraud, as every transaction is recorded in two places

4- From the following information related to Mr. Manoj for the year ended 31 March 2025, find out the Gross Profit Ratio. a) Opening Stock as on 01-04-2024 Rs. 2,00,000 b) Closing Stock as on 31-03-2025 Rs. 2,25,000 c) Purchases during the year Rs. 2,25,000 i) Cash Purchases Rs. 2,00,000 ii) Credit Purchases Rs. 4,10,000 Carriage Inwards Rs. 25,000 e) Sales during the year: i) Cash Sales Rs. 4,00,000 ii) Credit Sales Rs. 6,20,000 f) Direct Wages Rs. 1,00,000 g) Return Inwards Rs. 20,000 h) Return Outwards Rs. 10,000

Step 1: Calculation of Net Sales

Particulars	Calculation	Amount (Rs.)
Total Sales (Cash + Credit)	4,00,000 + 6,20,000	10,20,000
Less: Return Inwards	—	(20,000)
Net Sales (A)		10,00,000

Step 2: Calculation of Cost of Goods Sold (COGS)

Particulars	Calculation	Amount (Rs.)
Opening Stock	—	2,00,000
Add: Net Purchases	\$(2,00,000 + 4,10,000) - 10,000\$	6,00,000
Add: Carriage Inwards	—	25,000
Add: Direct Wages	—	1,00,000
Total Cost Available		9,25,000
Less: Closing Stock	—	(2,25,000)
Cost of Goods Sold (B)		7,00,000

Step 3: Final Gross Profit Ratio

Particulars	Formula	Calculation	Result
Gross Profit	Net Sales - COGS	10,00,000 - 7,00,000	3,00,000
Gross Profit Ratio	Gross Profit/Net Sales X 100	3,00,000/10,00,000} X100	30%

5. Calculate total interest payable by Santosh Transport Company.

- **Cash Price of Car:** Rs. 9,60,000.
- **Down Payment:** Rs. 3,60,000.
- **Total Interest Payable:** Rs. 60,000 (Year 1) + Rs. 40,000 (Year 2) + Rs. 20,000 (Year 3) = Rs. 1,20,000.
- **Total Hire Purchase Price:** Rs. 10,80,000 (Cash Price + Total Interest).

Final Answer: The total interest payable by Santosh Transport Company is Rs. 1,20,000.

SECTION-C

Answer any Two questions. Each carries 12 marks.

7. Determine the amount of claim for loss of stock (Date of fire 30-09-2024).

1. Adjustment of Stock Value:

Stock Period	Given Value (Rs.)	Adjustment Calculation	Value at Cost (Rs.)
Opening Stock (01-04-2023)	1,80,000	1,80,000 / 0.90	2,00,000
Closing Stock (31-03-2024)	2,25,000	2,25,000 / 0.90	2,50,000

2. Trading Account (2023-24)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock (Adjusted)	2,00,000	By Sales	16,00,000
To Purchases	10,00,000	By Closing Stock (Adjusted)	2,50,000
To Wages	1,55,000		
To Carriage Inwards	95,000		
To Gross Profit (Bal. Fig.)	4,00,000		
Total	18,50,000	Total	18,50,000

3. GP Rate:

Gross Profit Rate Calculation:

$$\text{GP Rate} = \left(\frac{\text{Gross Profit}}{\text{Sales}} \right) \times 100 = \left(\frac{4,00,000}{16,00,000} \right) \times 100 = \mathbf{25\%}$$

Memorandum Trading Account

(From 01-04-2024 to 30-09-2024)

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock (31-03-2024 adjusted)	2,50,000	By Sales	10,00,000
To Purchases	6,00,000	By Stock on Date of Fire	1,80,000
To Wages	50,000	(Balancing Figure)	
To Carriage Inwards	30,000		
**To Gross Profit			

4. **Actual Loss:**

Particulars	Amount (Rs.)
Estimated Value of Stock on Date of Fire (30-09-2024)	1,80,000
Less: Salvage Value of Stock	(20,000)
Actual Loss of Stock	1,60,000
Value of Insurance Policy	1,35,000

Claim Amount (Average Clause): Calculation of Insurance Claim

Since the policy amount of **Rs. 1,35,000** is less than the actual value of stock on the date of the fire, which was Rs. 1,80,000, the **Average Clause** is applied.

SECTION-D

Answer any One question. Carries 6 marks.

10. List any Six common expenditures in departmental accounts.

1. Rent and Rates
2. Lighting and Heating
3. Wages and Salaries
4. Advertisement Expenses
5. Carriage Inwards
6. Insurance Premium