PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. 1 is compulsory.

Answer any four questions from the remaining five questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons, whether the following statements are true or false: **(6x2 = 12 marks)**

(i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

(ii) Re-issue of forfeited shares is allotment of shares but not a sale.

(iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

(iv) There are two ways of preparing an account current.

(v) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

(vi) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.

(b) State the advantages of setting Accounting Standards **(4 marks)**

(c) A firm purchased, on 1st January, 1996, certain machinery for Rs.19,40,000 and spent Rs 60,000 on its erection. On 1st July in the same year additional machinery costing Rs 10,00,000 was acquired. On 1st July, 1998 the machinery purchased on 1st January, 1996 having become

obsolete was auctioned for Rs 8,00,000 and on the same date fresh machine was purchased at a cost of Rs 15,00,000.
Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the asset. In 1999 however, the firm changed this method of providing depreciation and adopted the method of writing off 20% on the written down value.
Give the Machinery Account as it would stand at the end of each year from 1996 to 2000. **[5 Marks]**

2. **(a)** The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by ` 1,000.
(ii) A sale of ` 5,000 to X was wrongly debited to the Account of Y
(iii) General expenses ` 180 was posted in the General Ledger as ` 810.
(iv) A Bill Receivable for ` 1,550 was passed through Bills Payable Book. The Bill was given by P.
(v) Legal Expenses ` 1,190 paid to Mrs. Neetu was debited to her personal account.
(vi) Cash received from Ram was debited to Shyam ` 1,500.
(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ` 1,235 was written as ` 1,325.

Find out the amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

(b) On 30th September, 2020, the bank account of Sameer, according to the bank column of the Cash Book, was overdrawn to the extent of Rs. 16,248. On the same date the bank statement showed a credit balance of Rs. 83,032 in favour of Sameer. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 52,56,000 deposited on 29th September, 2020 was credited by the bank only on 3rd October, 2020

2. A payment by cheque for Rs. 64,000 has been entered twice in the Cash Book.
3. On 29th September, 2020, the bank credited an amount of Rs. 4,69,600 received from a customer of Sameer, but the advice was not received by Sameer until 1st October, 2020.
4. Bank charges amounting to Rs. 2,320 had not been entered in the Cash Book.
5. On 6th September, 2020, the bank credited Rs. 80,000 to Sameer in error.
6. A bill of exchange for Rs. 5,60,000 was discounted by Sameer with his bank. This bill was dishonoured on 28th September, 2020 but no entry had been made in the books of Sameer.
7. Cheques issued upto 30th September, 2020 but not presented for payment upto that date totalled Rs. 53,04,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Sameer, to arrive at the correct balance on 30th September, 2020 and

(b) to prepare a bank reconciliation statement as on that date.

(10 +10 = 20 Marks)

3. (a)
M of Mathura consigned 5,000 kg. of oil costing Rs.20 per kg. to S of Surat. M paid 25,000 as Freight and Insurance. 125 kg. of oil was destroyed in transit. The insurance claim was settled at Rs.2,250 and was paid directly to the consignor. S took delivery of consignment and accepted a bill drawn upon him by M for Rs.50,000. S reported as follows:
(i) 3,750 kg. of oil was sold at Rs.30 per kg.
(ii) His expenses were-
Godown rent Rs.10,000; Wages Rs.1,000; Printing and Stationery Rs.5,000.
(iii) 125 kg. of oil was lost due to leakage, which is quite normal. S is entitled to a commission of 5% on the sales effected. S paid the amount due in

respect of the consignment. Show the Consignment Account, the Account of S and Abnormal Loss Account in the books of M. **[9 Marks]**

(b) On 1st July, 1999 G drew a bill for Rs.80,000 for 3 months on H for mutual accommodation, accepted the bill of Exchange.

G had purchased goods worth Rs.18,000 from J on the same date. G endorsed H's acceptance to J in full settlement.

On 1st September, 1999 J purchased goods worth Rs.90,000 from H. J endorsed the bill of exchange receive from G to H and paid Rs.9,000 in full settlement of the amount due to H.

On 1St October, 1999 H purchased goods worth Rs.1,00,000 from G. He paid the amount due to G by cheque.

Give the necessary Journal Entries in the books of H. **[6 Marks]**

(c) Answer the following:

From the following particulars prepare a current account, as sent by Mr. Ram to Mr. Siva as on 31st October 2014 by means of product method charging interest @ 5% p.a.

2014	Particulars	Rs.
1 July	Balance due from Siva	750
15th August	Sold goods to Siva	1,250
20th August	Goods returned by Siva	200
22nd Sep.	Siva paid by cheque	800
15th Oct.	Received cash from Siva	500

[5 Marks]

4. **(a)** From the following balances and information, prepare Trading and Profit and Loss Account of Mr. X for the year ended 31st March, 1998 and a Balance Sheet as on that date:

	Dr. Rs	Cr. Rs.
X's Capital Account	-	10,000
Plant and Machinery	3,600	-
Depreciation on Plant and Machinery	400	-

Repairs to Plant	520	-
Wages	5,400	-
Salaries	2,100	-
Income-tax of Mr. X	100	-
Cash in Hand and at Bank	400	-
Land and Building	14,900	-
Depreciation on Building	500	-
Purchases	25,000	-
Purchases Return	-	300
Sales	-	49,800
Bank Overdraft	-	760
Accrued Income	300	-
Salaries Outstanding	-	400
Bills Receivable	3,000	-
Provision for Bad Debts	-	1,000
Bills Payable	-	1,600
Bad Debts	200	-
Discount on Purchases	-	708
Debtors	7,000	-
Creditors	-	6,252
Opening Stock	7,400	-
	70,820	70,820

Information

(i) Stock on 31st March, 1998 was 6,000.

(ii) Write off further 600 for Bad Debt and maintain a provision for Bad Debts at 5% on Debtors.

(iii) Goods costing 1,000 were sent to customer for 1,200 on 30th March, 1998 on sale or return basis. This was recorded as actual sales.

(iv) Rs.240 paid as rent of the office were debited to Landlord account and were included in the list of debtors.

(v)General Manager is to be given commission at 10% of net profit after charging the commission of the works manager and his own.

(vi) Works manager is to be given commission at 12% of net profit before charging the commission of General Manager and his own. **[15 Marks]**

(b) Calculate average due date from the following information's:

Date of Bill	Term	Amount Rs.
16 August, 03	3 months	3,000

20 October, 03 14 December, 03 24 January, 04 06 March, 04	60 days 2 months 60 days 2 months	2,500 2,000 1,000 1,500

[5 Marks]

5. (a)

The following information's were obtained from the books of Delhi Club as on 31.3.1998, at the end of the first year of the Club. You are required to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.3.1998 and a Balance Sheet as at 31.3.1998 on mercantile basis:

(i) Donations received for Building and Library Room Rs. 2,00,000.

(ii) Other revenue income and actual receipts:

	Revenue income Rs	Actual Receipts Rs.
Entrance Fees	17,000	17,000
Subscription	20,000	19,000
Locker Rents	600	600
Sundry Income	1,600	1,060
Refreshment Account	-	16,000

(iii) Other revenue expenditure and actual payments:

	Revenue Expenditure Rs	Actual Payment Rs.
Land (cost Rs 10,000)	-	10,000
Furniture (cost Rs 1,46,000)	-	1,30,000
Salaries	5,000	4,800
Maintenance	2,000	1,000
Rent	8,000	8000
Refreshment Account	-	8,000

Donations to the extent of Rs 25,000 were utilised for the purchase of Library Books, balance was still unutilised. In order to keep it safe, 9% Govt. Bonds of Rs.1,60,000 were purchased on 31.3.1998. Remaining amount was put in the Bank on 31.3.1998 under the term deposit.

Depreciation at 10% p.a. was to be provided for the whole year on Furniture and Library Books. **[10 Marks]**

(b) Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at ` 75,000 which included ` 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to –
Mr. Adhitya ` 3,900 and Mr. Bakkiram ` 2,600.
Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.
Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was ` 50,000. **(5 marks)**

(c) J and K are partners in a firm. Their capital are J ` 3,00,000 and K ` 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ` 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:
(i) By Capitalization Method; and
(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit **(5 marks)**

6. **(a)** The Balance Sheet of X & Y a partnership firm ,as at 31st March 2004 is as follow

Liabilities	**Rs**	**Assets**	**Rs**
Capital		Goodwill	14,000
X 26,400		Land & Building	14,400
Y 33,600	60,000	Furniture	2,200
General Reserve	6,000	Stock	26,000
Sundry Creditors	9,000	Sundry Debtors	6,400
		Cash at Bank	12,000
	75,000		**75,000**

X & Y share profits and losses as 1:2. They agree to admit Z (who is also in business on his own) as a third partner from 1.4.2004.

The Assets are revalued as under:

Goodwill-Rs 18,000, Land and Building Rs. 30,000, Furniture Rs 6,000. Z brings the following assets into the partnership-Goodwill Rs. 6,000, Furniture Rs. 2,800, Stock Rs 13,600.

Profit in the new firm are to be shared equally by three partners and the Capital Accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.

Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amounts of cash, if any, which each partner may have to provide.
[12 Marks]

(b) Piyush Limited is a company with an authorized share capital of ` 2,00,00,000 in equity shares of ` 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,30,000 shares of ` 10 each at a price of ` 12 each, the arrangements for payment being:
(i) ` 2 per share payable on application, to be received by 1st July, 2018;
(ii) Allotment to be made on 10th July, 2018 and a further ` 5 per share (including the premium) to be payable;
(iii) The final call for the balance to be made, and the money received by 30th April, 2019.
Applications were received for 4,20,000 shares and were dealt with as follows:
(1) Applicants for 20,000 shares received allotment in full;
(2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
(3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
(4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited. **[8 Marks]**