(GCF-1, GCF-2, GCF-3, GCF-4, GCF-5+8, GCF-6+9, GCF-10, GCF-11, MCF-1, VCF-1, VCF-2, SCF-1, SCF-2 & VDCF-1)

DATE: 06.10.2019 **MAXIMUM MARKS: 100** **TIMING: 3 Hours**

PAPER : PRINCIPLES & PRACTICE OF ACCOUNTING

Question no. 1 is compulsory.

Candidates are required to answer any four questions from the remaining five questions.

Answer 1:

(A)

{1/2 M} (1) **True**

{1 1/2 M} Reason: Expense incurred for acquisition of an asset is treated as capital expenditure. Here obtaining a license for factory is must and hence fees paid will be considered as a capital expenditure.

{1/2 M} (2) **True**

{1 1/2 M} Reason: It is a normal business expense. So is a revenue expenditure.

{1/2 M} (3) **True**

{1 1/2 M} Reason: Bank has decreased the balance so to reconcile it will be deducted from cash book also.

{1/2 M} (4) **False**

{1 1/2 M} Reason: Such kind of loss incurs due to nature of the goods it cannot be treated as abnormal loss. Such loss will increase the cost price of remaining good units.

{1/2 M} (5) **False**

{1 1/2 M} Reason: Expenses incurred for improvement in efficiency will provide long term benefit to the business so these are treated as capital expenditure.

{1/2 M} (6) **False**

{1 1/2 M} Reason: Life membership fees is received from the member for the lifetime. It is a non-recurring nature hence it is a capital receipt.

Answer : (B)

(1). Provision and Contingent Liability.

	Provision	**Contingent liability**	
1	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events	{1/2 M}
2	A provision meets the recognition criteria	A contingent liability fails to meet the same	{1/2 M}
3	Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated	{1/2 M}
4	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability	{1/2 M}

(2). Liability and contingent liability.

Liabilities: The include the Non-Current Liabilities and current liabilities.

- Non – Current Liabilities: They are those debts which are not payable in one year and are carried to a very long period e.g. capital.
- Current Liabilities: they those debts which are payable within one year. e.g. Bank Overdraft, sundry creditors.

{1 M}

Contingent Liabilities: The debts which become payable on the happening of some specific event are called contingent liabilities. They are not an actual liability and are also not shown in the Balance sheet. they are simply disclosed by way of a note to the balance sheet. For e.g. Bills discounted before maturity, Guarantee undertaken, pending cases in the court. {1 M}

Answer : (C)

(1.) Accommodation bill

Bills of exchange are generally drawn to facilitate business transaction. therefore such bill are meant to finance actual purchase and sale of goods. in addition to this, mechanism of bill can also be utilized for raising of funds. such type of bill transaction is known as accommodation bill.
an accommodation bill is drawn for the purpose of assisting financial accommodation for one or more parties without any consideration.
In case of an accommodation bill, there is no relationship between Debtor or Creditor, that is why such bills are also termed as 'Kite bills' and in that case there is also no such debtor or creditor relationship. {2 M}

(2.) Over-riding Commission

it is an extra commission allowed over the normal commission. this commission is generally offered when an agent is required to work hard either to introduce a new product in the market or to handle the work of supervising the performance by other agents in a particular area or for executing sales on consignment on a price higher then the price fixed by the consignor. {2 M}

Answer 2:

(A)

Transaction	Particulars	Debit (Rs.)	Credit (Rs.)	
(i)	Suspense A/c Dr. To P&L Adjustment A/c (Being rectification of under – valuation of Sales Book)	180	180	{1/2 M}
(ii)	P&L Adjustment A/c Dr. To Customer A/c (Being rectification of personal car expenses wrongly debited to Trade Expenses)	2,400	2,400	{1/2 M}
(iii)	Drawings A/c Dr. To P&L Adjustment A/c (Being rectification of Personal car expenses wrongly debited to Trade Expenses)	250	250	{1 M}
(iv)	P&L Adjustment A/c Dr. To Suspense A/c (Being rectification of Sales Return Undervalued by Rs. 2740)	2,750	2,750	{1 M}

(v)	Suspense A/c Dr. To P&L Adjustment A/c (Being rectification of discount allowed wrongly debited to discount A/c)	100	100	{1 M}
(vi)	P&L Adjustment A/c Dr. To Suspense A/c To Creditors A/c (Being rectification of under – valuation of Purchase book and wrong posting to suppliers A/c as Rs. 51)	136	 36 100	{1 M}

Answer : (B)

Bank Reconciliation Statement
(as on 31st March, 2002)

Particulars	+ Items (Rs.)	- Items (Rs.)	
Balance as per Cash Book	3,72,000 {1 M}		
Add: Cheques issued but no presented for payment	72,000 {1 M}		
Dividend received, but not entered in cash book	5,000 {1 M}		
interested allowed by bank	1,250 {1 M}		
Less: Cheque deposited, but not allowed		15,400	{1 M}
Bank charges		200	{1 M}
A cheque dishonored, but not collected in cash book		320	{1 M}
House tax directly paid by bank		350	{1 M}
Balance as per Pass Book (Balancing Figure)		4,33,980	{1 M}
	4,50,250	4,50,250	

{1 M}

Answer : (C)

Valuation of Stock as on 31st March, 2004

Particulars		**Rs.**	**Rs.**	
Opening Stock		14,250		
Add: Written off last year	{1/2 M}	1,750	16,000	{1/2 M}
Add: Purchases			76,250	
Add: Manufacturing Expenses			15,000	
Cost of production			1,07,250	{1 M}
Less: Cost of Goods sold:				
Sales	1,24,500			
Less: Abnormal Sales	4,500 {1/2 M}			
	1,20,000			
Less: Gross Profit @ 20% on sales	24,000 {1/2 M}			
	96,000			
Add: Cost of Abnormal Sales	5,000 {1/2 M}			
	1,01,000		1,01,000	{1/2 M}
Value of Closing Stock			6,250	{1 M}

OR

Particulars	Rs.	Rs.	
Opening Stock	14,250		
Less : Value of Abnormal Stock (5,000-1750) {1/2 M}	3,250	11,000	{1/2 M}
Add: Purchases		76,250	
Add: Manufacturing Expenses		15,000	
Cost of production		1,02,250	{1 M}
Less: Cost of Goods sold:			
Sales 1,24,500 Less: Abnormal Sales 4,500 {1/2 M} 1,20,000 Less: Gross Profit @ 20% on sales 24,000 {1/2 M}		96,000	{1 M}
Value of Closing Stock		6,250	{1 M}

Answer 3:
(A)

In the books of Anil
Journal Entries

Date	Particulars	Debit (Rs.)	Credit (Rs.)	
2003 5, April	Bills Receivable A/c Dr. To Sanjay's A/c (Being acceptance received for material accommodation)	9,000	9,000	{1/2 M}
5, April	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being discounting of bills)	8,820 180	9,000	{1/2 M}
5 April	Sanjay's A/c Dr. To Bank A/c To Discount A/c (Being 1/3 proceeds of the bill transfer to the Sanjay's A/c)	3,000	2,940 60	{1 M}
8 July	Sanjay's A/c Dr. To bills Payable A/c (Being acceptance of bill given)	12,600	12,600	{1/2 M}
8 July	Bank A/c Dr. Discount A/c $\left[\frac{6,000+2,200}{12,330}\times 270\right]$ Dr. To Sanjay's A/c (Being amount received from Sanjay against 2nd bills)	2,220 180	2,400	{1 M}
11 Oct	Bills Payable A/c Dr. To Sanjay's A/c (Being dishonor of bill due insolvency)	12,600	12,600	{1/2 M}
15 Oct	Sanjay's A/c Dr. To Bank A/c To Deficiency A/c (@ 50% of (Rs. 6,000 + 2,400) paid to Sanjay)	8,400	4,200 4,200	{1 M}

Answer : (B) **In the books of Mr. Jill**

Consignment Account

Date		Particulars	Rs.	Date		Particulars	Rs.
2018				2018			
Jan. 1	To	Goods sent on Consignment A/c		Jan. 1	By	Goods sent on Consignment A/c (Loading)	
		(Invoice price)	1,50,000			Rs. (1,50,000 – 1,00,000)	50,000
	To	Bank A/c – Consignor's Expenses	10,000	Mar.31	By	Jack – Sales	1,20,000 }{1 M}
Mar.31	To	Jack – Expenses	3,000		By	Stock on Consignment A/c	32,600 }{1 M}
	To	Jack (Commission)	6,000 }{1 M}				
Mar.31	To	Stock Reserve A/c	10,000 }{1 M}				
	To	Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600 }{1 M}				
			2,02,600				2,02,600

Working Notes:

(1) Calculation of Commission.

Ordinary Commission = 1,20,000 x 5% = 6,000 **}{1 M}**

Since goods sold at Rs. 1,20,000 which is just equal to the invoice price of goods sold (1,50,000 x 4/5) so no excess commission will be allowed.

(2) Calculation of Unsold Stock at invoice price.

Total Consignment = 1,50,000 x 1/5 =	30,000	**{1 M}**
Add : Consigner Expenses = 10,000 x 1/5 =	2,000	
Add : Consignee Expenses = 3,000 x 1/5 =	600	
Total =	32,600	

(3) Calculation of Stock Reserve = 50,000 x 1/5 = 10,000. **}{1 M}**

Jack's Account

	Particulars	Rs.		Particulars	Rs.	Rs.
To	ConsignmentA/c –		By	Consignment A/c:		
	Sales	1,20,000		Expenses	3,000	
				Commission	6,000	9,000
			By	Bills Receivable A/c		1,00,000 }{1 M}
			By	Bank A/c (Balancing figure)		11,000 }{1 M}
		1,20,000				1,20,000

Answer : (C)

Bill Date (A)	**Amount (Rs.) (B)**	**Term (C)**	**Due date (D) (including grace period)**	**No. of days (Taking (E) 19. Nov. 03 as base)**	**Product (F) = (B) x (E) (Rs.)**
16 Aug, 2003	3,000	3 Months	19 Nov. 03 **{1/2 M}**	0	0
20 Oct, 2003	2,500	60 Days	22 Dec, 03 **{1/2 M}**	**{1/2 M}** 33	82,500
14 Dec, 2003	2,000	2 Months	17 Feb 04 **{1/2 M}**	**{1/2 M}** 90	1,80,000
24 Jan, 2004	1,000	60 Days	27 March 04 **{1/2 M}**	**{1/2 M}** 129	1,29,000
06 March, 2004	1,500	2 Months	09 May 04 **{1/2 M}**	**{1/2 M}** 172	2,58,000
	10,000				6,49,500

Average due date = Base date + Days equal to $\frac{\text{Sum of Product}}{\text{Sum of amount}}$

$= 19 Nov, 03 + \frac{6,49,500}{10,000}$

= 19 Nov, 03 + 65 days (Approx) **{1/2 M}**
= 23 Jan, 2004

Answer 4:

In the books of the Firm

Dr. Partners Capital Accounts Cr.

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	1,500	1,000 {1 M}	500	By Balance b/d	60,000	50,000	40,000
To A Capital – goodwill (Note 3)	-	14,101 {1 M}	12,339	By B Capital A/c-goodwill	14,101	- {1 M}	-
To Cash A/c {1 M}	42,470	-	-	By C Capital A/c-goodwill	12,339	-	-
To A Loan A/c	42,470	-	-	By Cash A/c (Note 4)	-	15,282 {1 M}	10,188
To Balance c/d	-	50,181 {1 M}	37,349				
	86,440	65,282	50,188		86,440	65,282	50,188

Balance Sheet as at 1 April, 2008 **{1 M}**

Liabilities	Rs.	Assets	Rs.
Capital – B	50,181	Machinery	90,000
Capital – C	37,349	Furniture	10,000
Sundry Creditors	72,000	Motor Car	22,000
Bank Loan	30,000	Stock	50,000
A Loan	42,470	Sundry Debtors	60,000
Other Liabilities	20,000	Cash at Bank	20,000
	2,52,000		2,52,000

Working Notes :

(1) Revaluation Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Motor Car A/c	8,000		By Machinery A/c	10,000
	To Furniture A/c	5,000		By Partners Capital A/c	3,000 **{1 M}**
				(A-Rs. 1,500; B-Rs. 1,000; C-Rs. 500)	
		13,000			13,000

(2) Ascertainment of Adjusted Profits

	2004-05	2005-06	2006-07	2007-08
Profits without adjustment	20,000	24,000	32,000	36,000
Less : Repairs previously capitalized	{1 M}{	(-) 6,000	{1 M}	
Add : Depreciation wrongly charged on the above	{1 M}{	(+) 300	(+) 570	(+) 513 }{1 M}
Less : Sale of Furniture wrongly credited to Sales			(-) 800	}{1 M}
Less : Loss on sale of Furniture not recorded (Rs. 2,000-800)			(-) 1,200	}{1 M}
Add : Depreciation on Furniture wrongly provided		{1 M}{	(+) 200	(+)180 }{1 M}
Adjusted Profits {1 M}{	20,000	18,300	30,770	36,693

(3) Ascertainment of the Value of Goodwill and its Adjustment

Aggregate adjusted profits for 4 year : Rs. 1,05,763; Average Profits – 1,05,763 / 4 = Rs. 26,440. Goodwill at 2 year's purchase of average profit = Rs. 52,880 (Rs. 26,440 x 2). {1 M}

Adjustment in Regard to Goodwill

Partners		A	B	C
Right of goodwill prior to retirement (3:2:1)	Rs.	26,440	17,627	8,813
Right of goodwill after retirement (3:2)	Rs.	-	31,728	21,152
Gain (+) / Sacrifice (-)	Rs.	(-) 26,440	(+) 14,101	(+) 12,339

Therefore, A will get Rs. 26,440 for goodwill, payable by B – Rs. 14,101 and C – Rs. 12,339. {1 M}

(4) Required Cash to be brought in by B and C

Particulars	Rs.
Amount payable to A immediately (1/2 of Rs. 84,940)	42,470
Add : Required Bank Balance	20,000
	62,470
Less : Existing Bank Balance	37,000
Amount to be brought in by B and C in the ratio 3 : 2	25,470
Therefore, B will bring in 3/5 of Rs. 25,470 = Rs. 15,282 {1/2 M}. C will bring in 2/5 of Rs. 25,470 = Rs. 10,188.}{1/2 M}	

Dr. **Bank Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	37,000		By A Capital A/c	42,470
	To B Capital A/c	15,282		By Balance c/d	20,000
	To C Capital A/c	10,188			
		62,470			62,470

Answer 5:

Trading and Profit and Loss account of Mr. Hari
(For the year ended 31st December, 1994)

Particulars	(Rs.)	Amount	Particulars	(Rs.)	Amount
To Opening Stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		Less: Returns	8,600	3,81,000 **{1/2 M}**
Add: Omitted invoice	400	**{1/2 M}**	By Closing stock		78,600 **{1/2 M}**
	3,22,100				
Less: Returns	5,800	**{1/2 M}**			
	3,16,300				
Less: Drawings	600	3,15,700	**{1 M}**		
To Freight & Carriage		19,600	**{1/2 M}**		
To Gross Profit c/d		77,500	**{1 M}**		
		4,59,600			4,59,600
To Rent and Taxes		4,700	By Cross Profit b/d		77,500 **{1/2 M}**
To Salaries and Wages		9,300	By Discount		4,440 **{1/2 M}**
To Bank Interest	1,100				
Add: Due	1,700	2,800	**{1/2 M}**		
To Printing & Stationery	14,400				
Less: Prepaid	3,600	10,800	**{1/2 M}**		
To Discount allowed		1,800	**{1/2 M}**		
To General Expenses		11,450	**{1/2 M}**		
To Insurance		1,300	**{1/2 M}**		
To Postage & Telegram Expenses		2,330	**{1/2 M}**		
To Traveling Expenses		870	**{1/2 M}**		
Provision for Bad Debts (New)		1,150	**{1 M}**		
To Provision for Discount on Debtors		437	**{1 M}**		
To Depreciation on Furniture & Fittings		500	**{1/2 M}**		
To Net Profit transferred to Capital A/c		34,503	**{1 M}**		
		81,940			81,940

Balance Sheet of Hari
as at 31st December, 1994

Liabilities	(Rs.)	Amount	Assets	(Rs.)	Amount	
Capital	76,690		Furniture & Fittings	5,000		
Add: Net Profit	34,503		Less: Dep.	500	4,500	{1/2 M}
	1,11,193		Sundry Debtors	23,000		
Less: Drawings			Less: Provi for D/D	1,150		
Cash	30,000			21,850		
Goods	600	{1 M} 80,593	Less: Provision for Discount	437	21,413	{1 M}
Bank Loan		{1/2 M} 20,000	Stock		78,600	
bank Interest Due		{1/2 M} 1,700	Prepaid: Printing & Stationery		3,600	
Sundry Creditors (1)		{1 M} 14,200	Bank Balance		8,000	{1/2 M}
			Cash Balance		380	{1/2 M}
		1,16,493			1,16,493	

{1 M}

(1) Sundry Creditors balance as per Trial Balance	14,800	
Less: Set off in respect of Ram	1,000	
	13,800	{1 M}
Add: Purchases Invoice which were omitted	400	
	$\boxed{14,200}$	

Answer 6:
(A)(1)

Transaction	Particulars		Debit (Rs.)	Credit (Rs.)	
(i)	Share Capital A/c	Dr.	3000		
	To Share Allotment A/c			9,00	
	To Share Final Call A/c			1,200	{1 M}
	To Share Forfeiture			9,00	
	OR				
	Share Capital A/c	Dr.	3,000		
	To Calls in arrear A/c			2,100	
	To Share Forfeiture			900	
(ii)	Bank A/c	Dr.	2,400		
	Share Forfeiture A/c	Dr.	6,00		{1 M}
	To Share Capital A/c			3,000	
(iii)	Share Forfeiture A/c	Dr.	300	300	{1 M}
	To Capital Reserve A/c				

(2)

Transaction	Particulars		Debit (Rs.)	Credit (Rs.)	
(i)	Share Capital A/c	Dr.	1400		
	To Share First Call A/c			400	{1 M}
	To Share Forfeiture			1,000	
	OR				

	Share Capital A/c Dr. To Calls in arrear A/c To Share Forfeiture	1400	 400 1000	
(ii)	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c	900 600	 1,500	{1 M}
(iii)	Share Forfeiture A/c Dr. To Capital Reserve A/c	150	150	{1 M}

(3)

Transaction	Particulars	Debit (Rs.)	Credit (Rs.)	
(i)	Share Capital A/c Dr. To Calls in Arrear To Share Forfeiture	600	 400 200	{2 M}
(ii)	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital	480 160	 640	{1 M}
(iii)	Share Forfeiture A/c Dr. To Capital Reserve A/c	Nil	 Nil	{1 M}

Answer :(B)

Calculation of amount of loss on issue of debentures
Discount per debenture is (10-9.40)=0.60
Total Discount= 100000 x .60= 60,000 **{1 M}**

Discount to be written off

Year	Particular	Amount
1	60000 × 1/5	12000
2	60000 X 1/5	12000
3	60000 X 1/5	12000
4	60000 X 1/5	12000
5	60000 X 1/5	12000

{4 M}

Answer : (C)

Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. There is no single list of accounting policies which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgment by the management.

The areas wherein different accounting policies are frequently encountered can be given as follows:

(1) Valuation of inventories;
(2) Valuation of investments.
(3) Depreciation etc.

{5 M}

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