(GCF-14, GCF-15, GCF-16, GCF-17 & GCF-17-A, VCF-3, VDCF-3)

DATE: 16.05.2023 **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) **False:**

Any expense incurred for bringing the assets in its useful condition is treated part of the cost of the assets, so the expenses incurred on installation of machinery is a capital expenditure.

(2) **True:**

Debentures issued by the company are long-term loan on which interest has to be paid whether there is a profit or loss. So interest paid on debenture is charged against profit.

(3) **False:**

The sales books is specially kept to record credit sales of the goods dealt in by the firm. Cash sales are recorded in the cash book but not in the sales book.

(4) **True:**

In case of retirement of the bill drawee makes the payment of the bill before maturity date, so the drawer allows some discount (Rebate) which is income for drawee and loss for the drawer.

(5) **False:**

In case of consignment the ownership of the goods is not transferred to consignee when the goods are received by the consignee because consignee acts as agent of the consigner only.

(6) **True:**

In case of due date of a bill falls after the date of closing the account, no interest is allowed for that. However interest from the date of closing to such due date is return in red-ink in the appropriate side of the account current. This is called red-ink interest.

1 Mark for Decision & 1 Mark for Reason

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) Differences – Bill of Exchange and Promissory Note

Bill of Exchange	Promissory note
A Bill contains an unconditional order to pay	A promissory note contains only a promise to pay certain sum of money
There are generally 3 parties (Drawer, Drawee and Payee) in bill of exchange	There are 2 parties (Maker and Payee) in promissory note
A bill is paid by Acceptor	A promissory note is paid by maker
A bill is drawn by creditor	A promissory note is made by debtor
The drawer and payee may be same person in case of bill of exchange	In promissory note maker and payee can not be same person

{1/2 M Each for any Four Point}

Answer:

(c) Calculation of gross margin of profit:

	Rs.	
Sales	8,00,000	
Add: Closing inventory (at selling price)	2,00,000	
Selling price of goods available for sale:	10,00,000	**{1M}**
Less: Cost of goods available for sale	8,00,000	
Gross margin	2,00,000	**{1M}**

Rate of gross margin $= \frac{2,00,000}{10,00,000} \times 100 = 20\%$ = **{1M}**

Cost of closing inventory = 2,00,000 less 20% of Rs. 2,00,000= Rs. 1,60,000 **{1M}**

Answer 2:

(a) ADJUSTED CASH BOOK

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	4,18,200	By wrong casting	5,000 }{1 M}
To error for wrong posting	{1 M}{ 15,260	By cheques not entered	65,500 }{1 M}
To dividends collected by bank	{1 M}{ 12,500	By subscription	500 }{1 M}
To cheques recorded twice	{1 M}{ 1,75,000	By balance c/d	6,24,960 }{1 M}
To deposit not recorded	{1 M}{ 75,000		
	6,95,960		6,95,960

Bank Reconciliation Statement

Particulars	Rs.
Balance as per the Cash Book (corrected)	6,24,960
Add: Cheques issued but not yet presented	1,849 }{1 M}
Balance as per the Pass Book	6,26,809 }{1 M}

Answer:

(b) **Profit and Loss Adjustment Account**

	Dr. (Rs.)		Cr. (Rs.)	
To Advertisement (samples)	{1 M}{ 80,000	By Net profit	12,00,000	
To Sales	{1 M}{ 2,00,000	By Electric fittings	30,000	}{1 M}
		By Samples	80,000	}{1 M}
		By Stock (purchases of March not included in stock)	5,00,000	}{1 M}
To Adjusted net profit {1/2 M}{	20,80,000	By Sales (goods sold in March wrongly taken as April sales)	4,00,000	}{1 M}
		By Stock (goods sent on approval basis not included in stock)	1,50,000	}{1 M}
	23,60,000		23,60,000	

Calculation of value of inventory on 31st March, 2016

	(Rs.)	
Stock on 31st March, 2016 (given)	7,50,000	
Add: Purchases of March, 2016 not included in the stock	5,00,000	}{1 M}
Goods lying with customers on approval basis	1,50,000	}{1 M}
	14,00,000	}{1/2 M}

Answer 3:

(a) **In the books of Mr. A**

Consignment to Mumbai Account

2016			Rs.	2016		Rs.	
March 1	To Goods sent on consignment A/c		2,00,000 {1/2 M}	Dec. 31	By B's A/cs	3,00,000	}{1 M}
	To Cash A/c (freight and insurance)		24,000 {1/2 M}				
	To B's A/c :						
	Clearance expenses	6,000					
	Selling expenses	4,000					
	Commission@ 5% on Rs. 3,00,000	15,000 {1 M}					
	Del-credere commission @ 3% on Rs. 3,00,000	9,000 {1 M}	34,000				
Dec. 31	To Provision for expenses		520	}{1 M}			
	(bank charges)						
	To Profit and loss A/c		41,480	}{1 M}			
	(profit on consignment)						
			3,00,000			3,00,000	

B's Account

2016		Rs.	2016			Rs.	
Dec. 31	To Consignment A/c	3,00,000	Dec. 31	By Consignment A/c			
				Clearance expenses	6,000		
				Selling expense	4,000		
				Commission	15,000		
				Del-credere	9,000	34,000	}{1 M}

				commission		
				By Balance c/d		2,66,000
		3,00,000				3,00,000
2017			2017			
Jan. 1	To Balance b/d	2,66,000	Jan. 5	By Bank A/c		2,66,000 }{1 M}

Bank Account

2017		Rs.	2017		Rs.
Jan. 5	To B's account	2,66,000	Jan. 5	By Bank charges	520
			Jan. 5	By Balance c/d	2,65,480 }{1 M}
		2,66,000			2,66,000

Provision for Expenses Account

2017		Rs.	2017		Rs.
Jan. 5	To Bank charges	520	Jan. 1	By Balance b/d	520 }{1 M}
		520			520

Answer:

(b) Let us take 12.07.2014 as Base date.

Bills receivable

Due date	No. of days from 12.07.2016	Amount	Product
04/09/2016	54 }{1/2 M}	6,000	3,24,000 }{1/2 M}
08/09/2016	58 }{1/2 M}	5,000	2,90,000 }{1/2 M}
12/07/2016	0 }{1/2 M}	12,000	0
14/08/2016	33 }{1/2 M}	2,000	66,000 }{1/2 M}
23/09/2016	73 }{1/2 M}	3,000	2,19,000 }{1/2 M}
		28,000	8,99,000 }{1/2 M}

Bills payable

Due date	No. of days from 12.07.2016	Amount	Product
01/08/2016	20 }{1/2 M}	4,000	80,000 }{1/2 M}
07/09/2016	57 }{1/2 M}	6,000	3,42,000 }{1/2 M}
12/07/2016	0 }{1/2 M}	12,000	0
		22,000	4,22,000 }{1/2 M}

Excess of products of bills receivable over bills payable = 8,99,000 - 4,22,000= 4,77,000 }{1/2 M}

Excess of bills receivable over bills payable = 28,000 – 22,000 = 6,000 }{1/2 M}

Number of days from the base date to the date of settlement is 4,77,000/6,000 = 79.5 (approx.)

Hence date of settlement of the balance amount is 80 days after 12th July i.e. 30th September. {1 M}

On 30th September, 2016 Vijay has to pay Ajay Rs. 6,000 to settle the account.

Answer 4:

(a)

In the books of Sachin
Trading and Profit & Loss Account
for the year ended 31-3-2016

	Rs.	Rs.		Rs.	Rs.
To Opening stock		2,34,000	By Sales	14,48,000	
To Purchases	12,15,500		Less: Returns	(58,000)	13,90,000 }{1/2 M}

Less: Transfer to furniture A/c	(10,000)		By Closing stock		3,93,000
	12,05,500				
Less: Returns	(29,000)	11,76,500	}{1/2 M}		
To Carriage inwards		93,000			
To Gross profit c/d		2,79,500	}{1/2 M}		
		17,83,000			17,83,000
To Salaries		46,500	By Gross proft b/d		2,79,500
To Rent		28,500	By Interest		17,250 }{1/2 M}
To Advertisement		56,000	By Discount received		14,950
To Printing & stationery		17,000			
To Interest		7,500	}{1/2 M}		
To Discount allowed		37,700			
To General expenses		19,600			
To Travelling expenses		11,650			
To Fire insurance premium		3,000			
To Postage & telegrams		4,350			
To Provision for doutful debts (W.N. 1)		4,750	}{1/2 M}		
To Depreciation on furniture		1,150	}{1/2 M}		
To Audit fees		3,500			
To Capital A/c (Net profit transferred)		70,500	}{1/2 M}		
		3,11,700			3,11,700

Balance Sheet as on 31-3-2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital account:			Furniture	9,000	
Balance on 1-4-15	5,40,500		Additions during the year	10,000	
Add: Net profit	70,500			19,000	
	6,11,000		Less: Depreciation	(1,150)	17,850 }{1/2 M}
Less: Drawings	(50,000)	5,61,000 {1/2 M}	Investments		25,000
Loan from Dena Bank Ltd.		1,00,000	Deposits		1,50,000
Interest accrued on bank loan (W.N. 2)		3,000 {1/2 M}	Interest accrued on investment & deposits (W.N. 3)		10,000 }{1/2 M}
Sundry creditors		64,000	Stock in trade		3,93,000
		{1/2 M}	Sundry debtors	95,000	
			Less: Provision	(4,750)	90,250 }{1/2 M}
			Cash with Traders Bank Ltd.		40,000
			Cash in hand		1,900
		7,28,000			7,28,000

Working Notes :

1.	Calculation of provision for doubtful debts:	Rs.
	Sundry debtors as per trial balance	1,20,000
	Less: Sales returns not recorded	(15,000)
		1,05,000
	Less: Cancellation against sundry creditors	(10,000)
	Adjusted balance of sundry debtors	95,000 }{1/2 M}
	Provision for doubtful debts @ 5%	4,750 }{1/2 M}
2.	Accrued interest on bank loan:	
	Annual interest @ 12%	6,000
	Less: Interest paid to Dena Bank	(3,000)
	Accrued interest	3,000 }{1 M}
3.	Interest accrued on investments and deposits:	
	Annual interest on investments @ 5%	1,250
	Annual interest on deposits @ 10%	15,000
		16,250
	Less: Interest received on investments and deposits	(6,250)
	Accrued interest	10,000 }{1 M}

Answer:

(b) **A's Capital Account**

2016		Rs.	2016		Rs.
Sep. 30	To Current A/c (6,000 - 900)	5,100	Jan. 1	By Balance b/d	20,000
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	2,000 {1 M}	Dec. 31	By Profit and Loss A/c :	
	To Balance Transferred to A's Executor's A/c	37,050 {1 M}		Interest on Capital	2,000 }{1 M}
				Share of Profit	1,670 }{1 M}
				B & C (Goodwill)	6,480 }{1 M}
				Insurance Policies A/c	14,000 }{1 M}
		44,150			44,150

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest on fixed capital Rs.	Interest Rs.	Profit after interest Rs.
2013	19,280	4,000	15,280
2014	13,440	4,000	9,440
2015	(-) 1,280	4,000	(-) 5,280
	31,440	12,000	19,440

	Rs.
Average	6,480
Goodwill at two years purchase of average net profits	12,960
Share of A in the goodwill	6,480 }{1 M}

(ii)

Profit on Separate Life Policy	
A's policy	20,000
B and C's policy @ 20%	8,000
	28,000
Share of A (1/2)	14,000 }{1 M}

(iii)

Share in profit for 2016	
Profit for the year	7,340
Less: Interest on capitals	(4,000)
	3,340
A's share in profit (1/2)	1,670 }{1 M}

(iv) As unrecorded liability of Rs. 4,000 has been charged to Capital Accounts through Profit and Loss Adjustment Account, no further adjustment in current year's profit is required. {1 M}

Answer 5:

(a) Journal Entries in the books of Akshay

2018			Dr.	Cr.
			(Rs.)	**(Rs.)**
Jan. 1	Bills receivable (No. 1) A/c	Dr.	32,000	}{1 M}
	Bills receivable (No. 2) A/c	Dr.	50,000	}{1 M}
	To Vishal A/c			82,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	32,000	
	To Bills receivable (No.1) A/c			32,000 }{1 M}
	(Being the reversal entry for bill No. 1 on renewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	32,800	}{1 M}
	To Interest A/c			800 }{1 M}
	To Vishal 's A/c			32,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	49,500	}{1 M}
	Discount A/c	Dr.	500	}{1 M}
	To Bills receivable (No. 2) A/c			50,000
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	32,800	
	To Bills receivable (No. 3) A/c			32,800 }{1 M}
	(Being the amount due from Vishal on dishonor of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	16,400	}{1 M}
	Bad debts A/c	Dr.	16,400	}{1 M}
	To Vishal's A/c			32,800
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			

Answer:

(b) Machinery Account in the books of M/s. Green Channel Co.

		Rs.			Rs.
1.1.2017	To Bank A/c	3,20,000	31.12.2017	By Depreciation A/c	48,000 }{1 M}
	To Bank A/c	80,000		(Rs. 40,000 + Rs. 8,000)	
	(Erection		31.12.2017	By Balance c/d	5,12,000

	charges)					
1.7.2017	To Bank A/c	1,60,000		(Rs. 3,60,000 + Rs. 1,52,000)		
		5,60,000			**5,60,000**	
1.1.2018	To Balance b/d	5,12,000	31.12.2018	By Depreciation A/c (Rs. 40,000 + Rs. 16,000)	56,000	}{1 M}
			31.12.2018	By Balance c/d	4,56,000	
				(Rs. 3,20,000 + Rs. 1,36,000)		
		5,12,000			**5,12,000**	
1.1.2019	To Balance b/d	4,56,000	1.7.2019	By Bank A/c	2,00,000	
30.9.2019	To Bank A/c	60,000	1.7.2019	By Profit and Loss A/c (Loss on Sale – W.N. 1)	1,00,000	}{1 M}
			1.7.2019	By Depreciation A/c	20,000	}{1 M}
			31.12.2019	By Depreciation A/c (Rs. 16,000 + Rs. 1,500)	17,500	}{1 M}
				By Balance c/d	1,78,500	}{1 M}
				(Rs. 1,20,000 + Rs. 58,500)		
		5,16,000			**5,16,000**	
1.1.2020	To Balance b/d	1,78,500	31.12.2020	By Depreciation A/c (Rs. 18,000 + Rs. 8,775)	26,775	}{1 M}
				By Balance c/d	1,51,725	}{1 M}
				(Rs. 1,02,000 + Rs. 49,725)		
		1,78,500			**1,78,500**	

Working Note :

(1) Calculation of depreciation and loss on sale of machinery sold on 01/07/2019

Depreciation = 4,00,000 x 10/100 x 6/12 = 20,000 **}{1 M}**

WDV as on 01/07/2019 = 4,00,000 – 1,00,000 = 3,00,000

Selling price of machinery = 2,00,000

Loss on sale = 3,00,000 – 2,00,000 = 1,00,000 **}{1 M}**

Answer 6:

(a)

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.	
	Bank A/c	Dr.	**(1/2 M)**	4,80,000		
	To Equity Share Application A/c				4,80,000	
	Equity Share Application A/c	Dr.		4,80,000		
	To Equity Share Capital A/c				3,20,000	
	To Equity Share Allotment A/c				64,000	**(1/2 M)**
	To Bank A/c				96,000	**(1/2 M)**
	Equity Share Allotment A/c	Dr.	**(1/2 M)**	4,00,000		
	To Equity Share Capital A/c				2,40,000	
	To Securities Premium Reserve A/c				1,60,000	
	Bank A/c (1)	Dr.	**(1/2 M)**	3,23,400		
	To Equity Share Allotment A/c				3,23,400	
	Equity Share First and Final call A/c	Dr.	**(1/2 M)**	2,40,000		
	To Equity Share Capital A/c				2,40,000	
	Bank A/c	Dr.	**(1/2 M)**	2,19,000		
	To Equity Share First and Final Call A/c				2,19,000	
	Equity Share Capital A/c	Dr.	**(1/2 M)**	70,000		
	Securities Premium Reserve A/c (2)	Dr.	**(1/2 M)**	6,000		
	To Equity Share Allotment A/c				12,600	**(1/2 M)**
	To Equity Share First and Final Call A/c				21,000	**(1/2 M)**
	To Share Forfeiture A/c				42,400	**(1/2 M)**

	OR				
	Equity Share Capital A/c (3,000 x 10) Dr.		30,000		
	Securities Premium A/c Dr.	**(1/2 M)**	6,000		
	To Equity Share Allotment A/c			12,600	
	To Equity Share First and Final Call A/c			9,000	
	To Share Forfeiture A/c			14,400	**(1 M)**
	Equity Share Capital A/c (4,000 x 10) Dr.		40,000		
	To Equity Share First & Final Call A/c			12,000	
	To Share Forfeiture A/c			28,000	**(1 M)**
	Bank A/c Dr.		56,000		
	Share Forfeiture A/c	**(1/2 M)**	14,000		
	To Equity Share Capital A/c			70,000	
	Share Forfeiture A/c Dr.	**(1/2 M)**	28,400		
	To Capital Reserve A/c			28,400	

(A) Excess amount received from Ramesh on application:
Ramesh has been allotted 3,000 shares. He must have applied for more shares.
If shares allotted were 80,000, shares
application for were = 96,000
$\therefore$ If shares allotted were 3,000
applied for were $\frac{96,000}{80,000} \times 3,000 = 3,600$ shares. **(1/2 M)**
Excess application money received from Ramesh =3,600 shares.-3,000 share
=600 shares x Rs. 4= Rs. 2,400 **(1/2 M)**

(B) Amount due from Ramesh on allotment:
3,000 shares x Rs. 5 = Rs. 15,000
Less : Excess received from Ramesh on application=2,400 **(1/2 M)**
Net amount due from Ramesh on allotment,
Which has not been received=Rs. 12,600 **(1/2 M)**

(C) Total amount due on allotment 80,000 shares x 5 = 4,00,000
Less: Excess amount received on applications = 64,000
Balance due = 3,36,000
Less: Amount not received from Ramesh on allotment = 12,600
Net amount received on allotment in cash= 3,23,400 **(1/2 M)**

(D) Premium is due with allotment and only Ramesh has not paid the amount of allotment therefore, Securities Premium Reserve account has been debited from the amount of premium due from
Ramesh= 3,000 shares x Rs. 2 =Rs. 6,000 **(1/2 M)**

Answer:

(b) The basic considerations in distinction between capital and revenue expenditures are:
(a) Nature of business.
(b) Recurring nature of expenditure.
(c) Purpose of expenses.
(d) Effect on revenue generating capacity of business.
(e) Materiality of the amount involved.
(1 M Each Point)

Answer:

(c) An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of an ledger account. **(2 M)**

There are three ways of preparing an Account Current:

(i) With help of interest table.
(ii) By means of products.
(iii) By means of products of balances.

(1 M Each Point)

__**__