

**PAPER : PRINCIPLES & PRACTICE OF ACCOUNTING****Question no. 1 is compulsory.****Candidates are required to answer any four questions from the remaining five questions.****Question 1:****(A) State with reasons whether the following statements is true or false with suitable reason- (2 Marks Each)**

- (1) Expense incurred in connection with obtaining a license for starting the factory for Rs. 10,000. is a capital expenditure.
- (2) Rs. 1,000 paid for removal of inventory to a new site is a revenue expenditure.
- (3) Interest charged by the bank will be deducted, when the debit as per the cash book is made the starting point for making the bank reconciliation statement.
- (4) Loss of Stock is said to be abnormal loss when such loss is due to inherent characteristics of the commodities.
- (5) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.
- (6) Fee received for Life Membership is a revenue receipt as it is of recurring nature.

**(B) Differentiate between: (2 Marks Each)**

- (1) Provision and Contingent Liability.
- (2) Liability and Contingent Liability.

**(C) Write short notes on (2 Marks Each)**

- (1) Accommodation bill
- (2) Over-riding Commission

**Question 2:****(A) The Trial balance of ABC Ltd,, as on Dec 31, 2018 did not agree. The difference was put to a Suspense Account. During the next trading period, the following were discovered:**

- (i) The total of the Sales-book of one page Rs. 6,531 was carried forward to the next pages Rs. 6,351.
- (ii) Goods returned by a customer for Rs. 1,200, but entered in Purchases Return Book.
- (iii) Personal Car Expenses amounting to Rs. 250 were debited to Trade Expenses.
- (iv) Sales Return Book was under cast by Rs. 2,750.
- (v) Rs. 50 discount allowed by a supplier, was wrongly posted to debit side of Discount Account.
- (vi) An item of purchases of Rs. 151 was entered in Purchases Book as Rs. 15 and posted to Supplier's account as Rs. 51.

You are required to give journal entries to rectify the errors though Profit & Loss Adjustment A/c.

**(5 Marks)**

- (B) Prepare a bank reconciliation statement from the following Particulars on 31 March, 2002 :

		Rs.
(i)	Debit balance as per bank column of cash book	3,72,000
(ii)	Cheque issued to creditors, but not yet presented to the bank for payment	72,000
(iii)	Dividend received by the bank, but not entered in the cash book	5,000
(iv)	Interest allowed by the bank	1,250
(v)	Cheques deposited into bank for collection, but not collected by bank upto this date	15,400
(vi)	Bank charges	200
(vii)	A cheque deposited into bank was dishonored, but no intimation received.	320
(viii)	Bank paid House tax on our behalf, but no information received from bank in this connection.	350

(10 Marks)

- (C) From the following information ascertain the value of stock as 31<sup>st</sup> March 2004.

	Rs.
Stock as on 1.04.2003	14,250
Purchases	76,250
Manufacturing Expenses	15,000
Selling Expenses	6,050
Administrative Expenses	3,000
Financial Charges	2,150
Sales	1,24,500

At the time of valuing stock as on 31<sup>st</sup> March 2003, a sum of Rs 1,750 was written off on a particular item, which was originally purchased for Rs. 5,000 and was sold during the year at Rs. 4,500. Barring the transaction relating to this item, the gross profit earned during they year was 20 percent on sales.

(5 Marks)

### Question 3:

- (A) Anil draws a bill for Rs. 9,000 on Sanjay on 5<sup>th</sup> April, 2003 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for Rs. 8,820 and remits one – Third amount to Sanjay.  
On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for Rs. 12,600 for three moths, which Sanjay discounts it for Rs. 12,330 and remits Rs. 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15<sup>th</sup> October, 2003.  
Pass necessary Journal entries for the above transactions in the books of Anil.

(5 Marks)

- (B) On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing Rs. 1,00,000 were consigned to Chennai at the invoice price of Rs. 1,50,000. The direct expenses of the consignor amounted to Rs. 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of Rs. 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses for bringing the goods to godown were Rs. 3,000. Mr. Jack

accepted a bill drawn by Mr. Jill for Rs. 1,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill.

**(10 Marks)**

**(C)** Calculate average due date from the following information:

Date of Bill	Term	Amount Rs.
16 August, 2003	3 months	3,000
20 October, 2003	60 days	2,500
14 December, 2003	2 months	2,000
24 January, 2004	60 days	1,000
06 March, 2004	2 months	1,500

**(5 Marks)**

**Question 4:**

A, B and C were in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet as on 31.03.2008 is as under :

Liabilities	Rs.	Assets	Rs.
Capital – A	60,000	Machinery	80,000
Capital – B	50,000	Furniture	15,000
Capital – C	40,000	Motor Car	30,000
Sundry Creditors	72,000	Stock	50,000
Bank Loan	30,000	Sundry Debtors	60,000
Other Liabilities	20,000	Cash Bank	37,000
	2,72,000		2,72,000

A retired on 1.4.2008 and the partnership deed provided inter alia that in the event of admission, retirement or death of a partner, the assets and liabilities are to be revalued and that goodwill of the firm is to be computed on the basis of 2 years' purchase of the correct profit of the last 4 years.

It is discovered that the accounts required adjustments owing to certain mistakes in earlier years. On 1.10.2005 repairs to machinery for Rs 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2006 a piece of furniture, whose book value was Rs 2,000 was disposed of for Rs 800 but the proceeds were wrongly credited to Sales Account. The partners had been charging depreciation on all fixed assets at 10% p.a. on the reducing balance system on a time basis. Profits for the last four years without adjusting the above mentioned mistakes were as follows:

2004-05 Rs 20,000; 2005-06 Rs 24,000; 2006-07 Rs 32,000; 2007-08 Rs 36,000.

Revaluation on the date of retirement was:

Machinery-Rs 90,000; Furniture-Rs 10,000; Motor car-Rs 22,000. B and C, decided to share future profits, after A's retirement, in the ratio of 3:2. It was further agreed that the retiring partner shall be credited with his due proportion of goodwill, without raising a Goodwill Account in the books.

A is to be paid 50% of the amount due to him on retirement immediately and the balance is to be transferred to his Loan Account carrying interest at 6% p.a. B and C are to bring necessary cash (in their new ratio) subject to the condition that a cash balance of Rs 20,000 is to be maintained as working capital.

Account of the partners and the Balance Sheet of the firm after all the above mentioned transactions have been carried out. Ignore fractions. (All working should form part of your answer.)

**(20 Marks)**

**Question 5:**

The following is the Trial Balance of Hari as at 31<sup>st</sup> December, 1934:

	Dr. (Rs.)	Cr. (Rs.)
Hari's Capital Account		76,690
Stock 1 <sup>st</sup> January, 1994	46,800	
Sales		3,89,600
Returns inwards	8,600	
Purchases	3,21,700	
Returns Outwards		5,800
Carriage inwards	19,600	
Rent & Taxes	4,700	
Salaries & Wages	9,300	
Sundry Debtors	24,000	
Sundry Creditors		14,800
Bank Loan @ 14% p.a.		20,000
Bank Interest	1,100	
Printing and stationery Expense	14,400	
Bank balance	8,000	
Discount Earned		4,440
Furniture % Fittings	5,000	
Discount Allowed	1,800	
General Expense	11,450	
Insurance	1,300	
Postage & Telegram Expanses	2,330	
Cash balance	380	
Travelling Expenses	870	
Drawings	30,000	
	5,11,330	5,11,330

The following adjustment are to be made:

- Included amongst the debtors is Rs. 3,000 Due From ram and included among the Creditors Rs. 1,000 due to him.
- Provision for Bad and Doubtful debts be created at 5% and for discount @ 2% on Sundry Debtors.
- Depreciation on Furniture & fittings @ 10% shall be written off.
- Personal Purchases of Hari amounting to Rs. 600 had been recorded in the Purchases Day book.
- Interest on Bank Loan shall be provided for the whole year.
- A quarter of the amount of Printing and Stationery Expenses is to be carried forward to the next year.
- Credit Purchase invoice amounting to Rs. 400 had been omitted from the books.
- Stock on 31.12.1994 was Rs. 78,600.

Prepare (i) Trading & Profit and Loss account for the year ended 31.12.1994 and (ii) Balance sheet as on 31<sup>st</sup> December, 1994.

**(20 Marks)**

**Question 6:**

**(A) Give necessary journal entries for the forfeiture and reissue of shares:**

- X Ltd. forfeited 300 shares of Rs. 10 each fully called up, held by Ramesh for non-payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These were reissued to Suresh for Rs. 8 per share.

- (ii) X Ltd. forfeited 200 shares of Rs. 10 each (Rs. 7 called up) on which Naresh had paid application and allotment money of Rs. 5 per share. Out of these, 150 shares were reissued to Mahesh as fully paid up for Rs. 6 per share.
- (iii) X Ltd. forfeited 100 shares of Rs. 10 each (Rs. 6 called up) issued to Dimple on which she had paid Rs. 2 per share. Out of these, 80 shares were reissued to Simple at Rs. 8 per share and called up for Rs. 6 per share.
- (10 Marks)**
- (B)** Pure Ltd. issues 1,00,000 12% Debentures of Rs. 10 each at Rs. 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.  
Calculate the amount of discount to be written off in each of the 5 years.
- (5 Marks)**
- (C)** Define the term 'Accounting Policy' and identify the few area wherein different accounting policies are encountered.
- (5 Marks)**

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