

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) (i) False }1M

Reason: Expenses incurred on installation of plant is a capital expenditure. }1M

(ii) True }1M

Reason: Debentures can be issued by company in form of secondary security, which is called collateral security. }1M

(iii) False }1M

Reason: Promissory note cannot be paid to the bearer. }1M

(iv) False }1M

Reason: Rectification of error is done at the time of identification of error. }1M

(v) True }1M

Reason: It is distributed among sacrificing partners in their sacrificing ratio. }1M

(vi) False }1M

Reason: Profit on consignment belongs to consignor only as he bears the risk of loss of consignment. Consignee gets commission only. }1M

Answer:

(b) (1) Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. When bills are used for such a purpose, they are known as accommodation bills. **2M**

(2) Del-credere commission is an additional commission paid by the consignor to the consignee for undertaking responsibility of collection of debts. Generally, the consignee gets ordinary commission for sales made by him as a percentage of gross sales, over and above, he may get delcredere commission for the additional responsibility of debt collection. Sometimes it is agreed that del-credere commission shall be allowed on credit sales only. However, in the absence of any such agreement the consignor allows del-credere commission on total sales and not merely on credit sales. If the consignee is entitled to del-credere commission, he has to bear the bad debts; if any, arising, out of credit sale of consignment goods. **2M**

Answer:
(c) Calculation of gross margin of profit:

	Rs.
Sales	4,00,000
Add: Closing inventory (at selling price)	1,00,000
Selling price of goods available for sale:	<u>5,00,000</u> {1M}
Less: Cost of goods available for sale	4,00,000
Gross margin	<u>1,00,000</u> {1M}

$$\text{Rate of gross margin} = \frac{1,00,000}{5,00,000} \times 100 = 20\% = \text{\{1M\}}$$

Cost of closing inventory = 1,00,000 less 20% of Rs. 1,00,000 = Rs.80,000 {1M}

Answer: 2**(a)**

Halder in Current Account with Mr. S. Dasgupta
(Interest to 31st December, 2016 @ 5% p.a.)

Date 2016	Particulars	Due Date	Amount Rs.	Days	Product	Date 2016	Particulars	Due Date	Amount Rs.	Days	Product
June 30	To Balance b/d		520	185	96,200	Aug. 1	By Cash A/c	Aug. 1	500	152	76,000
July 17	To Sales A/c	July 17	40	167	6,680	Sep. 1	By Cash A/c	Sep. 1	400	121	48,400
Aug. 19	To Sales A/c	Aug. 19	720	134	96,480	Sep. 1	By Bills Receivable A/c (Note: 1)	Dec. 4	300	27	8,100
Aug. 30	To Sales A/c	Aug. 30	50	123	6,150	Oct. 22	By Purchases A/c	Oct. 22	20	70	1,400
Nov. 12	To Sales A/c	Nov. 12	14	49	686	Dec. 14	By Cash A/c	Dec. 14	50	17	850
31 Dec.	To Interest A/c		9.79			Dec. 31	By Balance of product				
	$71,446 \times 5\%$		{1 M}			Dec. 31	By Balance c/d		83.79		--
	365								{1 M}		
			1,353.79		2,06,196				1,353.79		2,06,196

Note: It is assumed that the bill was honoured on due date. The due date of the bill should be treated as date of payment and days to be calculated from the due date of account.

Answer:**(b)**

A	B	C	D = B ± C
	Principal Amount	Interest from Average Due Date to Actual date of Payment	Total amount to be paid
(i) Payment on average due date			
	Rs. 67,500	$Rs. 67,500 \times \frac{12}{100} \times \frac{0}{365} = 0$ {1 M}	Rs. 67,500
(ii) Payment on 25th Aug. 2016			
	Rs. 67,500	$Rs. 67,500 \times \frac{12}{100} \times \frac{15}{365} = 333$ {1 M} Interest to be charged for period of 15 days from 10.8.2016 to 25th Aug. 2016	{1M} Rs. 67,833
(iii) Payment on 30th July, 2016			
	Rs. 67,500	$Rs. 67,500 \times \frac{12}{100} \times \frac{(11)}{365} = (244)$ {1 M} Rebate has been allowed for unexpired credit period of 11 days from 30.7.2016 to 10.8.2016	{1M} Rs. 67,256

Answer:**(c) Statement of valuation of Inventory on 31st March, 2017**

	Rs.	Rs.
Value of Inventory as on 15th April, 2017		10,00,000
Add: Cost of goods sold during the period between 31st March, 2017 to 15th April, 2017		
Sales (Rs. 8,20,000 - Rs. 20,000)	1M} 8,00,000	
Less: Gross Profit (20% of Rs. 8,00,000)	1M} 1,60,000	1M} 6,40,000
		16,40,000
Less: Purchases during the period from 31st March, 2017 to 15th April, 2017		
		1M} 1,00,680
		1M} 15,39,320

Answer: 3**(a)****Journal**

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)	
2016 March 31	Bad-debts A/c Dr. To Sundry Debtors A/c (Further Bad-debts)		3,000	3,000	1M
March 31	Provision for Doubtful Debts A/c Dr. To Bad Debts A/c (Bad debts adjusted against the provision)		8,000	8,000	1M
March 31	Profit and Loss A/c(1) Dr. To Provision for Doubtful Debts A/c (Net amount charged from P&L A/c)		18,200	18,200	1M

Note:(1)

Net Amount chargeable from P & L A/c :-

Bad-Debts (5,000+3,000)

Add: New Provision : 10% on (3,05,000-3,000)

Less: Old Provision

Rs.	
8,000	
30,200	
38,200	1M
20,000	
18,200	

BAD-DEBTS ACCOUNT

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.	
W2016 March31	To Balance b/d	5,000	2016 March31	By Provision for Doubtful Debts A/c	8,000	1M
March31	To Sundry Debtors A/c	3,000			8,000	
		8,000				

Provision for Doubtful DEBTS ACCOUNT

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.	
2016 March31	To bad debts A/c	8,000	2015 April 1	By Balance b/d (Old Provision)	20,000	
March31	To Balance c/d (New Provision)	1M} 30,200	2016 March 31	By Profit & Loss A/c (Balancing Figure)	18,200	1M
		38,200			38,200	

**Profit & Loss Account
for the year ended March 31, 2016**

Particulars	Amount Rs.	Particulars	Amount Rs.
To Provision for Doubtful Debts A/c:			
Bad-debts	5,000		
Add: Further Bad-debts	3,000		
	8,000		
Add: New Provision	30,200		
	38,200		
Less: Old Provision	20,000	18,200	1M

Balance Sheet
as at March 31, 2016

Liabilities	Amount Rs.	Particulars		Amount Rs.
		Sundry Debtors	3,05,000	
		Less: Further Bad-Debts	3,000	
			3,02,000	1M
		Less: New Provision (10% on 3,02,000)	30,200	2,71,800
				1M

Answer:**(b)**

TRADING AND PROFIT & LOSS ACCOUNT
For the year ending 31st March, 2017

Particulars	Rs.	Particulars	Rs.
To Purchases	1,16,000	By Sales	1,60,000
To Wages	8,000	Less: Return Inward	4,000
To Carriage Inward	2,000		1,56,000
To Gross Profit c/d	1/2M } 56,000	By Closing Stock	26,000
	1,82,000		1,82,000
To Salaries	10,000	By Gorss Profit b/d	56,000
Add: Outstanding Salaries	500	By Accrued Interest on Investment	750
To Printing	800		1/2M
To Advertisement	1,200		
To Trade Charges	600		
To Rent	1,400		
To Discount	500		
To Interest on Capital (1) (Rs.1,800 + Rs.300)	2,100		1/2M
To Depreciation on Plant & Fixtures	800		1/2M
To Bad Debts	500		
Add: New Provision	1,225		1/2M
To New Profit Transferred to Capital A/c	37,125		1/2M
	56,750		56,750

BALANCE SHEET
as at 31st March, 2017

Liabilities	Rs.	Assets	Rs.
Bills Payable	9,000	Cash in hand	3,000
Creditors	12,000	Cash at Bank	16,000
Salary Outstanding	1/2M { 500	Bills Receivable	5,000
Capital	40,000	Debtors	25,000
Add: Interest on Capital	2,100	Less: Bad Debts	500
Add: Net Profit	37,125		24,500
	79,225	Less: Provision for Doubtful Debts	1/2M
Less: Drawings	1/2M { 4,500	(5% on Rs.24,500)	1,225
			23,275
		Closing Stock	26,000
			1/2M

		Investments	15,000		
		Add: Accrued Interest	<u>750</u>	15,750	} ½ M
		Plant & Fixtures	8,000		
		Less: Depreciation	<u>800</u>	7,200	} ½ M
	96,225			96,225	

Note (1) Interest on Capital is calculated as follows:

On Rs. 30,000 @ 6% p.a. for one year

On Rs. 10,000 @ 6% p.a. for six months

Rs.	
1,800	
300	
<u>2,100</u>	} ½ M

Answer: 4

(a) JOURNAL OF RAM

Date	Particulars	L. F.	Dr. Amount	Cr. Amount	
2012			Rs.	Rs.	
Jan. 1	Bills Receivable A/c (No. I) Dr.		4,000		} 2 M
	Bills Receivable A/c (No. II) Dr.		5,000		
	Bills Receivable A/c (No. III) Dr. To Mohan (Three acceptance received)		6,000	15,000	
Jan. 10	Sohan Dr. To Bills Receivable A/c To Discount Received A/c (First bill endorsed to Sohan in full settlement of his account of Rs. 4,120)		4,120	4,000 120	} 1 M
Jan. 20	Bank A/c Dr. Discount Charges A/c Dr. To Bills Receivable A/c (Second Bill discounted from the bank)		4,850 150	5,000	} 1 M
March 4	Mohan Dr. To Bank A/c (Second bill dishonoured and noting charges paid by the bank)		5,040	5,040	} 1 M
March 4	Mohan Dr. To Interest A/c (Interest receivable)		200	200	} 1 M
March 4	Bills Receivable A/c (No. IV) Dr. To Mohan (New Bill received including Rs. 40 as noting charges and Rs. 200 as interest)		5,240	5,240	} 1 M
March 4	Bank A/c Dr. Rebate on Bill A/c Dr. To Bills Receivable A/c (Payment of the third Bill received before maturity and rebate allowed, i.e., $6,000 \times \frac{15}{100} \times \frac{1}{12} = \text{RS. } 75$)		5,925 75	6,000	} 1 M
May 4	Bills for Collection A/c Dr. To Bills Receivable A/c (Fourth Bill sent to Bank for collection)		5,240	5,240	} 1 M
May 7	Bank A/c Dr. To Bill for Collection A/c (Bills collected by Bank on maturity)		5,240	5,240	} 1 M

Answer:**(b)****Journal Entries**

Particulars		Dr.(Rs.)	Cr.(Rs.)	
A's Capital Account	Dr.	20,000		} ½M
B's Capital Account	Dr.	16,000		
C's Capital Account	Dr.	12,000		
To Profit and Loss Adjustment Account (Profit written back for making adjustments)			48,000	
Profit and Loss Adjustment Account	Dr.	4,000		} ½M
To B's Capital Account (Bonus Credited to B's Capital Account)			4,000	
Profit and Loss Adjustment Account	Dr.	44,000		} ½M
To A's Capital Account			12,000	
To B's Capital Account			16,000	
To C's Capital Account (Distribution of profits in the new ratio)			16,000	
Fixture Account	Dr.	2,780		} ½M
To Provision for Doubtful debts Account @ 2%			1,870	
To A's Capital Account			248	
To B's Capital Account			331	
To C's Capital Account (Revaluation of assets on A's retirement)			331	
A's Capital Account	Dr.	10,909		} 1M
B's Capital Account	Dr.	14,545		
C's Capital Account	Dr.	14,546		
To Goodwill (Old goodwill shown in the balance sheet has been written off)			40,000	
A's Capital Account	Dr.	1,32,760		} ½M
To A's Loan Account (Transfer of A's Capital Account to his Loan Account)			1,32,760	
B's Capital Account	Dr.	2,244		} ½M
C's Capital Account	Dr.	1,496		
To Provision for Doubtful Debts Account (Raising provision for bad debts)			3,740	
B's Capital Account	Dr.	13,425		} 1M
C's Capital Account	Dr.	2,066		
To A's Capital Account (Adjusting entry of goodwill passed through partners' capital accounts in gaining/sacrificing ratio)			15,491	

Partners' capital account

	A (Rs.)	B (Rs.)	C (Rs.)		A (Rs.)	B (Rs.)	C (Rs.)
To Profit and Loss Adjustment A/c	20,000	16,000	12,000	By Balance b/d	1,35,930	95,120	61,170
		½M		By Profit and Loss			
To Goodwill	10,909	14,545	14,546	Adjustment A/c	-	4,000	½M -
To A's Loan A/c	1,32,760	½M -	-				

To Provision for Doubtful Debts A/c	-	2,244	1,496	By Profit and Loss Adjustment A/c	12,000	16,000	16,000
To A	-	13,425	2,066	By Fixtures Less			
To Balance c/d	-	69,237	47,393	Provision for DD A/c	248	331	331
		1/2 M	1/2 M	By B	13,425	1 M	
				By C	2,066		
	1,63,669	1,15,451	77,501		1,63,669	1,15,451	77,501

Note: The balance of A's Capital Account has been transferred to A's Loan Account.

Working Note:

Calculation for adjustment of amount of goodwill

Partner	Old Share	New Share	Gain	Sacrifice
A	$\frac{3}{11}$	-	-	$\frac{3}{11}$
B	$\frac{4}{11}$	$\frac{3}{5}$	$\frac{13}{55}$	-
C	$\frac{4}{11}$	$\frac{2}{5}$	$\frac{2}{55}$	-

Answer: 5

(a)

Amended Cash Book (Bank Column)

Receipts	L. F.	Amount (Rs.)	Payments	L.F.	Amount (Rs.)
To Customer A/c		1M } 6,100	By Balance b/d		8,300
To Insurance Claim A/c		1M } 8,000	By Discount Charges		400
To Balance c/d		1M } 3,900	By Adjustment of undercasting		1,000
			By Insurance Premium A/c		2,000
			By X (Cheque issued omitted to be recorded)		3,500
			By Cheque issued (wrongly entered in the cash column)		2,800
		18,000			18,000

Bank reconciliation statement as on 31st March 2015

Particulars	Plus Items (Rs.)	Minus Items (Rs.)
Overdraft (Cr.) Balance as per Amended Cash Bank		3,900
Cheques deposited but not credited by bank upto 31st March		4,600
Cheques issues but not presented for payment upto 31st March	1M { 1,500	<u>8,500</u>
Overdraft (Dr.) Balance as per Pass Book	<u>1,500</u>	7,000

Answer:**(b)**

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)	
(a)	Suspense A/c Dr. To Salary A/c (Salary posted twice in the books)		155	155	1M
(b)	Bank A/c Dr. To Suspense A/c (Interest collected by the bank not entered in Cash Book)		75	75	1M
(c)	Advertisement or Free Sample A/c Dr. To Purchases A/c (Goods received wrongly credited to Ashok Account)		700	700	1M
(d)	Ashok Dr. To Suspense A/c (Rent received wrongly credited to Ashok Account)		350	350	1M
(e)	Furniture A/c Dr. To Purchase A/c To Karnal Furniture Mart (Furniture purchased wrongly entered in the purchase book with wrong amount)		65	56 9	1M
(f)(I)	Drawing A/c Dr. To Machine A/c (Old Machinery sold to Proprietor)		400	400	1M
(II)	Sales A/c Dr. To Kishore (Sale of machinery wrongly debited to Kishore's Account)		400	400	1M
(g)	Ajay Dr. To Purchase A/c (Cash purchases wrongly entered in Purchase Book)		189	189	1M
(h)	Closing Stock A/c Dr. To Trading A/c (Under valuation of stock corrected)		300	300	1M

Suspense Account

Particulars	L.F.	(Rs.)	Particulars	L.F.	(Rs.)	
To Difference in Trial Balance (Balancing Figure)		270	By Bank A/c		75	1M
To Salary A/c		155	By Ashok		350	
		425			425	

Answer: 6

(a)

Balance Sheet
as at 1st April, 2012

Liabilities	Rs.	Assets	Rs.
Reserve Fund	3,500	Balance at Bank:	
Capital Fund (Balancing figure)	31,900	Current Account	300
	<u>1M</u>	Deposit Account	2,400
		Outstanding Subscriptions	900
		Stock of Foodstuffs	1,800
		Govt. Securities	10,000
		Building	20,000
	35,400		35,400

Income & Expenditure Account
for the year ended 31st March, 2013

Expenditure		Rs.	Income		Rs.
To Refreshment Consumed			By Interest		600
Opening Stock	1,800		By Subscription	12,500	
Add: Purchases	8,000		Less: Outstanding Subscriptions	800	
	9,800	<u>1/2M</u>		11,700	
Less: Closing Stock	1,500	8,300	Add: Outstanding Subscriptions for 2012-13	<u>1/2M</u>	
To Newspapers		200		1,300	13,000
To Salaries		11,000	By Profit on entertainments		1,500
To General Expenses		1,200	By Refreshment receipts (or sale of foodstuffs)		12,000
To Audit Fees		800	By Entrance fees	2,000	
To Excess of Income over Expenditure (Surplus)		<u>6,600</u>	Less: 50% transferred to Reserve fund	<u>1/2M</u> { 1,000	1,000
		<u>1/2M</u>			
		28,100			28,100

Balance Sheet as at 31st March, 2013

Liabilities		Rs.	Assets	Rs.
Reserve Fund	3,500		Balance at Bank	
Add: Transfer from 50% of Entrance fees	<u>1/2M</u>		Current Account	100
	1,000		Deposit Account	5,000
10% of surplus of Rs. 6,600	<u>1/2M</u>	<u>1/2M</u>	Outstanding Subscriptions (Rs.100+Rs.1,300)	<u>1/2M</u> { 1,400
	660	5,160	Stock of Foodstuffs	1,500
Capital Fund (1-4-2012)	31,900		Crockery	3,000
Add: Surplus (Rs.6,600-660)	<u>1/2M</u>	<u>1/2M</u>	Books	2,000
	5,940	37840	Govt. Securities	10,000
			Buildings	20,000
		43,000		43,000

Note:- Outstanding subscription for the preceding year (2011-12) was Rs. 900. Out of this amount Rs. 800 has been received during the year 2012-13. As such, Rs. 100 is still in arrear, which will be shown on the assets side of the current year's Balance Sheet.

Answer:**(b)****Journal**

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c Dr. To Share Application A/c (Application money received on 1,52,000 shares @ Rs. 3 per share)		4,56,000	4,56,000	½M
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Application money adjusted)		4,56,000	3,00,000 1,50,000 6,000	1M
	Share Allotment A/c Dr. To Share Capital A/c (Allotment money due on 1,00,000 shares @ 2.50)		2,50,000	2,50,000	½M
	Bank A/c To Share Allotment A/c (Allotment money received on 99,800 share)		99,800	99,800	½M
	Share Capital A/c (200 × Rs. 5.50) Dr. To Share Allotment A/c To Share Forfeiture A/c (Forfeiture of 200 shares of non-payment of allotment money)		1,100	200 900	1M
	Share 1st Call A/c Dr. To Share Capital A/c (First call money due on 99,800 shares @ Rs. 2.50)		2,49,500	2,49,500	½M
	Bank A/c Dr. To Share 1st Call A/c (First call money received on 99,800 shares @ 2.50)		2,49,500	2,49,500	½M
	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Re-issue of 200 shares @ Rs. 9 per share: Rs. 8 paid up)		1,800	1,600 200	1M
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Transfer of profit on reissue)		900	900	1M

Working Notes:

- (i) Excess amount received from the holder of 200 shares on application:
The shareholder who has been allotted 200 Shares must have applied for more shares.

$$\text{If shares allotted were 200, shares applied for were} = \frac{1,50,000}{1,00,000} \times 200 = 300 \quad \left. \vphantom{\frac{1,50,000}{1,00,000} \times 200} \right\} \frac{1}{2}M$$

Shares

Excess application money received from him:

$$300 \text{ shares} - 200 \text{ shares} = 100 \text{ shares} \times \text{Rs. } 3 = \text{Rs. } 300 \quad \left. \vphantom{300 \text{ shares} - 200 \text{ shares}} \right\} \frac{1}{2}M$$

- (ii) Amount due on allotment on these shares = 200 shares × Rs. 500 } ½M
 2.50
 Less: Excess received on these shares on application = 300
 Amount not received on allotment 200 } ½M
- (iii) Amount received on allotment:
 Total amount due on allotment = 1,00,000 shares × Rs. 2.50 = 2,50,000
 Less: Excess received on application = 1,50,000 } ½M
 1,00,000
 Less: Amount not received on allotment 200 } ½M
 Net amount received on allotment in cash 99,800 } ½M
