

(All CA Foundation Batches)

DATE: 24.10.2020

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.****Question 1:**

- (a)** Briefly explain the difference between the following;
- Money Measurement Concept & Matching Concept.
 - Periodic and Perpetual Inventory System.

(2 Marks each)

- (b)** Write short notes on:

- Define Accounting Policies in brief. Identify few areas where in different accounting policies are frequently encountered.
- Define Inventory. Explain the importance of proper valuation of inventory in the preparation of statements of the business entity.

(2 Marks each)

- (c)** When Transit Co. Ltd. received its Bank Statement showing a favourable balance of Rs. 7,392 for the period ended on 30 June 2003, this did not agree with the balance in the Cash Book.

An examination of the Cash Book and Bank Statement disclosed the following :

- A deposit of Rs. 492 paid on 29th June, 2003 had not been credited by the bank until 1st July, 2003.
- Bank charges amounting to Rs. 17 had not been entered in the Cash Book.
- A debit of Rs. 42 appeared on the Bank Statement for an unpaid cheque, which had been returned marked 'Out of date'. The cheque had been re-dated by the customer and paid into the bank again on 3rd July, 2003.
- A standing order for payment of annual subscription amounting to Rs. 10 had not been entered in the Cash Book.
- On 25th June, the managing director had given the cashier a cheque for Rs. 100 to pay into his personal account at the bank. The cashier had paid it into the Company's account by mistake.
- On 27th June, two customers of Transit Co. Ltd., had paid direct to the company's bank account Rs. 499 and Rs. 157 respectively in payment for goods supplied. The advices were not received by the company until 1st July and were entered in the Cash Book under that date.
- On 30th March, 2003 the company had entered into a hire-purchase agreement to pay by banker's order a sum of Rs. 26 on the 10th day of each month, commencing April. No entries had been made in the Cash book.
- Rs. 364 paid into the bank had been entered twice in the Cash Book.
- Cheques issued amounting to Rs. 4,672 had not been presented to the bank for payment until after 30th June, 2003.
- A customer of the company, who received a cash discount of 2^{1/2}% on his account of Rs. 200 paid the company a cheque on 10th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

You are required to prepare a Bank Reconciliation statement on that date.

(12 Marks)

Question 2:

- (a) The Machinery Account of a Factory showed a balance of Rs. 38,00,000 on 1st January, 2015. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method. On 1st June 2015, a new machinery was acquired at a cost of Rs. 5,60,000 and installation charges incurred in erecting the machine works out to Rs. 17,840 on the same date. On 1st June, 2015 a machine which had cost Rs. 8,74,800 on 1st January 2013 was sold for Rs. 1,50,000. Another machine which had cost Rs. 8,74,000 on 1st January, 2014 was scrapped on the same date and it realised nothing. Write a plant and machinery account for the year 2015, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee.

(10 Marks)

- (b) After getting an agreed Trial Balance, the accountant of M/s Senco Brothers drafted the Trading and Profit and Loss Account, and the Balance Sheet.

The following errors were then detected by the auditors :

- (a) Rs. 2,500 received from the insurance company in full settlement of the claim for loss of stock-in-transit, was deposited by the proprietor into his private bank account and was not recorded in the business books.
- (b) Goods purchased for Rs. 2,000 were included in stock, but the invoice was not entered in the books for the period under review.
- (c) There were compensating errors in the books, namely-
 - (i) a payment of Rs. 300 as commission to a sales agent had not been posted from the Cash Book;
 - (ii) dividends received were undercast by Rs. 100;
 - (iii) purchases amounting to Rs. 190 were not posted to the account of the supplier from Purchases Journal; and
 - (iv) debit side of a customer's account in the Sales Ledger was overcast by Rs. 10.
- (d) Goods sold for Rs. 500 were returned by a customer, but no record of the return was made in the books although the returned goods were included in the stock at their cost price of Rs. 380.

Show the rectifying Journal Entries and Suspense A/c and Profit & Loss Adjustment A/c.

(10 Marks)**Question 3:**

- (a) Nav Lakshmi Ltd. issued a prospectus inviting applications for 50,000 shares of Rs. 10 each. These shares were issued at par on the following terms :
On application Rs. 3, on allotment Rs. 4, on first call Rs. 2 and on final call the balance.
Applications were received for 60,000 shares. Allotments were made on the following basis:
 - (i) To applicants for 10,000 shares – in full;
 - (ii) To applicants for 20,000 shares – 15,000 shares;
 - (iii) To applicants for 30,000 shares – 25,000 shares.All excess amount paid on application is to be adjusted against amount due on allotment.
The shares were fully called and paid up except the amount of allotment, first and final call not paid by those who applied for 2,000 shares of the group applying for 20,000 shares.
All the shares on which calls were not paid were forfeited by the Board of Directors.

1,000 forfeited shares were re-issued as fully paid on receipt of Rs. 8 per share.
Show the journal entries in the books of Nav Lakshmi Ltd. Call is arrears account is not opened.

(10 Marks)

- (b) For the mutual accommodation of 'X' and 'Y' on 1st April, 2016, 'X' drew a four months' bill on 'Y' for Rs. 8,000. 'Y' returned the bill after acceptance of the same date. 'X' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to 'Y'. On due date 'X' is unable to send the amount due and therefore 'Y' draws a bill for Rs. 14,000, which is duly accepted by 'X'. 'Y' discounts the bill for Rs. 13,200 and sends Rs. 2,600 to 'X'. Before the bill is due for payment 'X' becomes insolvent. Later 25 paise in a rupee received from his estate.
Record Journal entries in the books of 'X'.

(10 Marks)**Question 4:**

- (a) The following is the Receipts and Payments Account of The Calcutta Football Club for the year ended 31.12.2007 :

Receipts	Rs.	Payments	Rs.
Cash in hand	2000	Remuneration to club coach	5,000
Balance as per Bank Pass Book :		Groundmen's pay	2,500
Saving Account	19,300	Purchase of equipments	15,500
Current Account	6,000	Bar room expenses	2,000
		Ground rent	2,500
Bank interest	500	Club night expenses	3,800
Entrance fees	1,800	Printing and stationery	3,000
Donations and subscriptions	25,000	Repairs to equipment	5,000
Bar room receipts	4,000	Honorarium to Secretary for the year 2006	4,000
Contribution to club night	1,000	Balance at Bank as per Pass Book :	
Sale of equipment	800	Savings Account	20,400
Net proceeds of club night	7,800	Current Account	2,000
		Cash in hand	2,500
	68,200		68,200

You are given the following additional information (all figures in rupees):

		1.1.2007	31.12.2007
(a)	Subscriptions due from members	1,500	1,000
(b)	Sums due for printing and stationery	1,000	800
(c)	Unpresented cheques on Current Account being payments for repairs	3,000	2,500
(d)	Interest on Savings Bank Account, not entered in Pass Book	--	200
(e)	Estimated value of equipments	8,000	17,500
(f)	For the year ended 31.12.2007, the honorarium to Secretary are to be increased by a total of Rs. 2,000 and the Groundman is to receive a bonus of Rs. 2,000.		

You are required to prepare :

- (a) An Income and Expenditure Account for the year ended 31.12.2007; and
(b) A Balance Sheet as on that date.

(10 Marks)

- (b) The Account Sales of 1,200 transistor sets received from and sold on account of and the risk of Sri U. Chopra, Kolkata.

Particulars			Rs.	Rs.
1,200 Transistor sets @ Rs. 1,200				14,40,000
Less :	Expenses :	Rs.		
	Unloading expenses	2,990		
	Selling Expenses	4,000		
	Carriage Outwards	6,100		
	Godown Rent	6,000		
	Advertisements	2,000	21,090	
Less :	Commission :			
	5% Ordinary Commission	72,000		
	1% Del Credere Commission	14,400	86,400	1,07,490
				13,32,510
Less : Advance sent on 10.1.2017				2,50,000
				10,82,510

Bank draft enclosed : Stock in hand (31.03.2017) – 100 sets

Dated, Madras, the 26th April, 2017

On Further information you come to know that :

- Bad Debts amounted to Rs. 2,400 against 2 sets;
- Selling Price is 20% above invoice price and 50% above cost price.
- Chopra incurred forwarding expenses @ Rs. 10 per set; and
- During transit 10 sets became fully damaged and Chopra recovered from insurance the full amount of the loss.

You are required to prepare the Consignment Account, Goods Sent on Consignment Account and abnormal loss Account in the books of Chopra.

(10 Marks)

Question 5:

- (a) A firm prepares accounts annually up to 30th November and stock taking takes place in the following weekend. In the year 2016, stock taking commenced on 4th December when the value of stock on that date was found Rs. 25,000. From the following information, you are required to ascertain the value of stock on 30th November 2016:

- The average rate of gross profit is 20% on sales.
- Goods outwards are entered in the Sales Day Book as on the day of dispatch.
- Goods inward are entered in the Purchases Day Book as on the date of the invoice.
- Sales during the period 1st to 4th December, as shown by the Sales Day Book and the Cash Book Rs. 1,500.
- Purchase during the same period as shown by the Purchases Day Book amounted to Rs. 1,200, but of these goods to the value of Rs. 200 were not received until 4th December.
- Goods invoiced during November and not received until December totalled Rs. 1,600. Of these, goods to the value of Rs. 1,000 were received during the period 1st to 4th December and Rs. 600 after 4th December.
- In November, goods were sent to a customer on sale or return basis. The sale price was Rs. 1,000. The goods were still returnable by the customer on 15th December.

(5 Marks)

- (b) From the following Trial Balance of Sri Samaddar, prepare a Trading and Profit and Loss Account for the year ending on 31st December, 1998 and a Balance Sheet as on that date after taking into consideration the necessary adjustments :

Particulars	Dr. (Rs.)	Cr. (Rs.)	Particulars	Dr. (Rs.)	Cr. (Rs.)
Capital and Drawings	10,200	95,000	Furniture and Fixture	8,600	
Stock (1.1.1998)	18,900		Trade Expenses	12,650	
Purchase and Sales	1,38,600	2,02,000	Outstanding Trade Expenses		1,600
Printing and Stationery	2,600		Provision for Doubtful Debts		2,200
Debtors and Creditors	22,800	16,020	Bad Debt Recovered		700
Freehold Premises	39,000		Income Tax	7,900	
Deposit with Das at 10% (since 30.6.1998)	18,000		Bank Balance	6,950	
Salaries (including advance Rs. 3,500)	28,200		Cash in Hand	6,310	
Returns	890	1,580	Patent Right	5,400	
Provident Funds		6,550	Suspense Account		900
Interest on Deposit with Das		450	TOTAL	3,27,000	3,27,000

Adjustments:

- Stock as on 31.12.1998 was valued at Rs. 16,400 (at cost).
- Goods costing Rs. 650 pilfered by a dishonest employee and furniture (book value on 1.1.1998 Rs. 700) destroyed by an accidental fire on 31.12.1998.
- Bhowmick is included in both debtors and creditors – the amount due from him is Rs. 430 and the amount due to him is Rs. 200.
- New furniture costing Rs. 1,200 was purchased on 31.12.1998 on credit but not yet recorded.
- Suspense Account represents a cheque received from a debtor in full settlement of a claim of Rs. 1,000. The cheque was deposited into bank and duly collected also.
- The employer's contribution to provident fund Rs. 1,240 is yet to be paid. This is a forming part of salary.
- Write-off Rs. 400 as bad and maintain provision for doubtful debts @ 5% on debtors.
- Depreciate all tangible fixed assets @ 10% p.a. Patent was acquired in 1997 and annual amortization equal to 1/10th of the cost started last year.
- Creditors include suppliers of stationery Rs. 200 which has to be shown separately in balance sheet.

(15 Marks)

Question 6:

- (a) A, B and C are partners sharing profits and losses in the ratio of 3 : 3: 4. The Balance Sheet as on 31.12.2007 is :

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	12,000	Cash at Bank	3,000
Bills Payable	18,000	Bills Receivable	11,000
6% Mortgage Loan	17,000	Stock	25,000
Capital Accounts		Sundry Debtors	20,000
(A-Rs. 50,000; B-Rs. 45,000; C-Rs. 65,000)	1,60,000	Furniture	5,000
General Reserve	10,000	Plant and Machinery	40,000
		Land and Building	1,13,000
	2,17,000		2,17,000

The firm earned profits as follows for the past five years : 2003 – Rs. 14,000; 2004 – Rs. 15,000; 2005 – Rs. 16,500; 2006 – Rs. 15,000; and 2007 – Rs. 15,800.

On December 31, 2007, C retired from partnership and in order to ascertain the amount due to C, the account of 2007 were verified and the following mistakes were detected :

- (i) A bill receivable for Rs. 1,000 which was dishonoured and became irrecoverable was not taken into consideration while preparing the final accounts.
- (ii) An amount of Rs. 200 paid for the rent of the house occupied by C was wrongly debited to the Rent Account of the firm.
- (iii) Goods worth Rs. 1,500 given by B to the firm were not taken into account.
- (iv) An outstanding bill for Rs. 500 towards electricity was not paid and the same was not adjusted while preparing the final accounts.
- (v) Purchase of machinery of July 1, 2007 at a cost of Rs. 9,500 was wrongly treated as the Purchase Account and the expenses of Rs. 500 incurred towards erection of the machinery were charged to the Machinery Repairs Account. Depreciation on the Machinery Account was charged at 10% p.a.

The partners agreed to rectify the mistakes noted above and the following adjustments were made to settle the accounts of C:

- (i) A provision was made at 5% on sundry debtors;
- (ii) Stock was revalued at Rs. 21,925;
- (iii) Plant and machinery were depreciated by 15%;
- (iv) Land and building were appreciated by 20%;
- (v) Sundry creditors for Rs. 2,900 will not rank;
- (vi) Goodwill of the firm should be ascertained at three time the average profit of the last five years. The Goodwill Account should not appear in the books. Goodwill of C should be shared by A and B;
- (vii) The share of C should be purchased by A and B in the ratio of 3 : 2;
- (viii) Since C was in urgent need of Rs. 50,000, the partners are required to make payment to him in cash in their new profit / loss sharing ratio and the balance of C's capital was be treated as loan; and
- (ix) The partners are also required to adjust their capitals in cash and in proportion to their new profit / loss sharing ratio.

You are required to prepare the Profit and Loss Adjustment Account, Revaluation Account, Capital Accounts of the Partners and also the Balance Sheet after the retirement of C.

(15 Marks)

- (b)** A firm sends goods on sale or return basis. Customers having the choice of returning the goods within a month. During May 2016, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (Rs.)	15,000	20,000	28,000	3,000	1,000	26,000

Within the stipulated time, P and Q returned the goods and B, D, and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer- P for Sale or Return Account on 15th June, 2016.

(5 Marks)
