

## (ALL CA FOUNDATION BATCHES)

DATE: 09.01.2021

MAXIMUM MARKS: 100

TIMING: 3 Hours

## PAPER : PRINCIPLES &amp; 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: }{1 M}**  
Expense incurred to recover installments due from customer do not increase the revenue generating capability in future. It is a normal recurring expense of the business. Thus the legal expenses incurred in this case is revenue expenditure in nature. }{1 M}
- (ii) **False: }{1 M}**  
When amount is written on wrong side, it is known as an error of commission. }{1 M}
- (iii) **False : }{1 M}**  
Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance. }{1 M}
- (iv) **False: }{1 M}**  
The bills payable account is a liability account that is disclosed in the balance sheet. }{1 M}
- (v) **True : }{1 M}**  
Sum of years digit method depreciation is calculated as  $10/55 \times (12,00,000 - 1,00,000) = 2,00,000$  }{1 M}
- (vi) **True: }{1 M}**  
According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). }{1 M}

## Answer:

(b) (1)

	Debentures		Shares
1.	Debenture holders are the creditors of the company.	1.	Shareholders are the owners of the company.
2.	Debenture holders have no voting rights and consequently do not pose any threat to the existing control of the company.	2.	Shareholders have voting rights and consequently control the total affairs of the company.
3.	Debenture interest is paid at a pre-determined fixed rate. It is payable, whether there is any profit or not. Debentures rank ahead of all types of shares for payment of the interest due on them.	3.	Dividend on equity shares is paid at a variable rate which is vastly affected by the profits of the company (however, dividend on preference shares is paid at a fixed rate).
4.	Interest on debentures are the charges against profits and they are deductible as an expense in determining taxable profit of the company.	4.	Dividends are appropriation of profits and these are not deductible in determining taxable profit of the company.
5.	There are different kinds of debentures, such as Secured/ Unsecured; Redeemable / Irredeemable; Registered/ Bearer; Convertible / Non-convertible, etc.	5.	There are only two kinds of shares– Equity Shares and Preference Shares.
6.	In the Company's Balance Sheet, Debentures are shown under "Long Term Borrowings".	6.	In the Company's Balance Sheet, shares are shown under "Shareholder's Fund" detailed in 'Share Capital' of Notes to Accounts.

{Any 4 point 1/2 M}

**(2) Distinction Between Receipts & Payments Account and  
Income & Expenditure Account**

	<b>Basis of Distinction</b>	<b>Receipts and Payments Account</b>	<b>Income and Expenditure Account</b>
1.	Nature	It is a summary of the Cash book.	It is like a Profit and Loss account of a profit seeking entity.
2.	Sides	Debit side of this account records receipts and credit side records payments	Debit side of this account records expenses and losses and credit side records income and gains.
3.	Type of Account	It is a real account.	It is a nominal account.
4.	Opening Balance	It starts with the opening balance of cash and bank.	It has no opening balance.
5.	Closing Balance	Closing balance of this account represents the closing cash in hand and at bank or overdraft at bank.	Closing balance of this account indicates either excess of income over expenditure (surplus) or excess of expenditure over income (deficit).
6.	Capital and Revenue items	It records receipts and payments both of capital and revenue nature.	It records income and expenditure of only revenue nature.

{Any 4 point 1/2 M}

**Answer:**

- (c) (1)**
- (a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.
  - (b) To write off preliminary expenses of the company.
  - (c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.
  - (d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.
  - (e) For the purchase of own shares or other securities.
- (2)** A partnership firm may decide to take a Joint Life Insurance Policy on the lives of all partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

**Answer 2:****(a)**

**Weak, Able & Lazy  
Profit and Loss Appropriation Account for the year ended  
31<sup>st</sup> December, 2019**

	<b>Rs.</b>	<b>Rs.</b>		<b>Rs.</b>	<b>Rs.</b>
To Interest on Capital :			By Net Profit (Adjusted)		55,750
Weak	7,500		By Interest on Drawings:		
Able	4,000		Weak	630	
Lazy	3,000	14,500	Able	520	
To Partner's Current A/cs-		{1 M}	Lazy	400	1,550

{1 M}

{1 M}

Share of profit:					
Weak	21,400				
Able	10,700				
Lazy	10,700	42,800	{1 M}		
		57,300			57,300

**Working Notes:**

(i) Adjusted Profit	Rs.		
Net Profit as per Profit & Loss A/c	60,000		
Add: Drawings by Weak : Life Insurance Premium of Weak charged to Miscellaneous Expenditure A/c of the Firm	750	{1 M}	
Drawings by Able : Travelling expenses of Able in connection with pleasure trip to U.K. charged to travelling expenses A/c of the firm	3,000	{1 M}	
			63,750
Less: Repairs to Machinery wrongly capitalised	10,000		
Less: Depreciation charged @ 20%	(2,000)	(8,000)	{1 M}
			55,750 {1 M}

(ii) Interest on Drawings :

	Weak Rs.	Able Rs.	Lazy Rs.	
Drawings	15,000	10,000	10,000	{1 M}
Add: Rectification adjustments	750	3,000	--	
	15,750	13,000	10,000	
Interest @ 8% p.a. for 6 months	630	520	400	

**Partners' Current Accounts**

	Weak Rs.	Able Rs.	Lazy Rs.		Weak Rs.	Able Rs.	Lazy Rs.	
To Balance b/d	--	--	5,000	By Balance b/d	10,000	5,000	--	{1 M}
To Drawings	15,000	10,000	10,000	By Profit & Loss App. A/c (Int. on capital)	7,500	4,000	3,000	
To Life Insurance Premium	750	--	--	By Profit & Loss App. A/c (Share of profit)	21,400	10,700	10,700	
To Travelling Exps.	--	3,000	--					
To Profit & Loss App. A/c (Int. on drawings)	630	520	400					
To Balance c/d	22,520	6,180	--	By Balance c/d	--	--	1,700	
	38,900	19,700	15,400		38,900	19,700	15,400	

**Answer:****(b)****Journal Entries as on 1st April, 2020**

	Dr. (Rs.)	Cr. (Rs.)	
Revaluation Account	Dr.	900	{1 M}
To Plant and machinery Account		400	
To Provision for bad debts Account		500	

(Plant & machinery reduced by 10% and Rs. 500 provided for bad debts)			
Inventory Account	Dr.	2,940	
To Revaluation Account			2,940
(Value of inventory increased by Rs. 2,940)			
Revaluation Account	Dr.	2,040	
To A's capital Account			1,530
To B's capital Account			510
(Profit on revaluation transferred)			
Cash Account	Dr.	12,000	
To C's capital Account			12,000
(Cash brought in by C as his capital)			
C's Capital Account	Dr.	2,000	{1 M}
B's capital Account	Dr.	500	{1 M}
To A's capital Account			2,500
(Entry for goodwill purchased by B and C)			
A's capital Account	Dr.	9,030	{1 M}
B's capital Account	Dr.	10	{1 M}
To Cash Account			9,040
(Excess amount of capital withdrawn)			

## Partners' Capital Accounts

	A Rs.	B Rs.	C Rs.		A Rs.	B Rs.	C Rs.
To A's capital A/c	-	500	2,000	By Balance b/d	15,000	10,000	-
To Cash	9,030	10		By Revaluation A/c	1,530	510	-
To Balance c/d	10,000	10,000	10,000	By Cash	-	-	12,000
				By C's Capital A/c	2,000	-	-
				By B's Capital A/c	500	-	-
	19,030	10,510	12,000		19,030	10,510	12,000

## Working Note:

Calculation of goodwill

C pays Rs. 2,000 on account of goodwill for 1/3rd share of profit/loss. Total goodwill is Rs. 2,000 × 3 = Rs. 6,000.

Gaining ratio:

B:  $\frac{1}{3} - \frac{1}{4} = \frac{1}{12}$

C:  $\frac{1}{3}$

Goodwill to be paid to A:

By B Rs. 6,000 ×  $\frac{1}{12}$  =

Rs. 500

By C Rs. 6,000 ×  $\frac{1}{3}$  =

Rs. 2,000

Total

Rs. 2,500

## Answer 3:

(a)

## (A) Computation of Net Profit:

Commission Manager = Rate of Commission X Net Profit before charging such commission

So, Commission to manager =  $\frac{10}{100}$  X Net Profit before charging such commission

=> Rs. 2,00,000 =  $\frac{10}{100}$  X Net Profit before charging such commission

=&gt; Net Profit before charging such commission = Rs. 20,00,000

=&gt; Net Profit (A) = Rs. (20,00,000 - 2,00,000) = Rs. 18,00,000

**(B) Computation of Selling Expenses:**

Total income appearing in P&L A/c = Rs. 60,00,000

Total expenses other than selling expenses = Rs. (26,00,000 + 13,00,000 + 2,00,000)  
= Rs. 41,00,000

So,

Selling Expenses + Remaining Expenses + Net Profit = Total Income

=> Selling Expenses = Rs. 60,00,000 - Rs. 41,00,000 - Rs. 18,00,000

=> Selling Expenses = Rs. 1,00,000

{2 M}

**(C) Computation of Sales:**

We have been given selling expenses amount to 1% of Sales

So, Sales =  $\frac{\text{Selling Expenses}}{1} \times 100$

$\frac{1,00,000}{1} \times 100$

= Rs. 100,00,000

{1 M}

**(D) Computation of Gross Profit:**

In Trading A/c

Particulars	Rs.	Particulars	Rs.
To COGS	45,00,000	By Sales (from C above)	100,00,000
To Gross Profit (Balancing Figure)	55,00,000		
Total (F)	100,00,000	Total (F)	100,00,000

{2 M}

So, Gross Profit (D) = Rs. 55,00,000

**(E) Miscellaneous Income** = Total Income in P&L – Gross Profit

= Rs. (60,00,000 – 55,00,000)

= Rs. 5,00,000

{1 M}

**(F)** = Rs. 100,00,000 (As computed in D above) {1 M}

**(G)** = Rs. 60,00,000 (Total of both sides of P&L is equal after balancing has been done) {1 M}

**Answer:**

**(b)**

**Bank Reconciliation Statement  
as on 31<sup>st</sup> March, 2019**

	Rs.	Rs.
Debit balance as per cash book		37,20,000
Add: Cheque issued but not yet presented to bank for payment	7,20,000 {1 M}	
Dividend received by bank not entered in cash book	5,00,000 {1 M}	
Interest allowed by bank	12,500 {1 M}	
Direct deposited by customer {1 M}	1,00,000	13,32,500
		50,52,500 {1/2 M}
Less: Cheques deposited into bank but not yet collected {1 M}	15,40,000	
Bank charges {1 M}	2,000	
A cheque deposited into bank was dishonoured {1 M}	3,20,000	
House tax paid by bank {1 M}	3,50,000	(22,12,000) {1/2 M}
Credit balance as per pass book		28,40,500 {1 M}

**Answer 4:****(a) Statement of Inventory in trade as on 31st March, 2020**

	Rs.	Rs.	
Inventory as on 1st April, 2019	1,42,500		
Less: Book value of abnormal inventory (Rs. 50,000 - Rs. 17,500) {1 M}	32,500	1,10,000	{1 M}
Add: Purchases		7,62,500	{1 M}
Manufacturing Expenses		1,50,000	{1 M}
		10,22,500	{1 M}
Less: Cost of goods sold:			
Sales as per books	12,45,000		
Less: Sales of abnormal item	45,000 {1 M}		
	12,00,000		
Less: Gross Profit @ 20% {1 M}	2,40,000	9,60,000	{1 M}
Inventory in trade as on 31st March, 2020		62,500	{2 M}

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

**In the books of M/s Nike sports Co.**  
**Consignment to Adidas Co. Account**

**Dr.****Cr.**

Particulars	Rs.	Particulars	Rs.	
To Goods sent on Consignment A/c	2,00,000	By goods sent on consignment	50,000	{1 M}
To Bank (expenses)		By Adidas Co- sale Proceeds	1,76,000	
Freight 10,000		By Abnormal loss Ac (loss in transit)	16,150	{1 M}
Insurance 1,500	11,500	By Inventories on consignment	21,320	{1 M}
To Adidas Co.-expenses				
Octroi duty 1,530				
Go-down rent 2,000				
Commission (WN) {1 M} 12,000	15,530			
To Reserve on closing stock	5,000			
To P&L Account-transfer of profit	31,440			
	2,63,470		2,63,470	

Particulars	Rs.	Particulars	Rs.	
To Consignment to Adidas A/c	1,76,000	By bank (bank draft as advance)	50,000	
		By consignment to Adidas A/c		
		Octroi duty 1,530		
		Go-down rent 2,000		
		Commission (WN) 12,000	15,530	
		By balance amount remitted	1,10,470	{1 M}
	1,76,000		1,76,000	

**Working Notes:****(a) Computation of the abnormal loss- 10 shoes**

a. Cost of 100 shoes	10*1500	15000	{1 M}
b. Freight charges- 100 shoes	10000/100*10	1000	
c. Insurance- 100 shoes	1500/100*10	150	
Abnormal loss		16,150	

- (b) **Computation of the Closing stock- (100-10-8)**
- |                              |               |        |       |
|------------------------------|---------------|--------|-------|
| a. Invoice price of 10 shoes | 10*2000       | 20,000 | {1 M} |
| b. Freight charges- 10 shoes | 10000/100*10  | 1000   |       |
| c. Insurance- 10 shoes       | 1500/100*10   | 150    |       |
| d. Octroi duty-10 shoes      | 1530/90*10    | 170    |       |
|                              | Closing stock | 21,320 |       |
- (c) Stock reserve on the goods sent on consignment= 100 shoes\* 500 (2000-1500)= 50,000 {1 M}
- (d) Stock reserve on the closing stock of consigned goods= 10 shoes\*500 (2000-1500)= 5000 {1 M}
- (e) Computation of over-riding commission payable to Adidas Co.
- Sales at invoice price= 80\*2000= 1,60,000
- Commission at 5% on the above= 5% \* 1,60,000=8000
- Surplus over the invoice price= 2200-2000= 200 Rs.
- Commission of 25% over the surplus= 200\*80= 16000 \*25%= 4000
- Total commission = Normal + surplus commission= 8000+4000= 12,000 {1 M}

**Answer 5:**

- (a) **Calculation of Interest chargeable from Partners**  
**Taking 1st May as the base date**

	Dates	Amount (Rs.)	Days from 1st May	Products (Rs.)
Yash	1.5.2019	75,000	0 {1 M}	0
	2.7.2019	20,000	62 {1 M}	12,40,000
	31.3.2020	15,000	334 {1 M}	50,10,000
		1,10,000		62,50,000

$$\text{Average Due Date} = \frac{62,50,000}{1,10,000} \text{ days from 1st May i.e. 57 days.}$$

$$= 27^{\text{th}} \text{ June } \{1 \text{ M}\}$$

Interest is chargeable for Yash from 27<sup>th</sup> June to March 31 i.e. 277 days.

$$\text{Rs. } 1,10,000 \times 10\% \times 277 / 365 = \text{Rs. } 8,348 \{1 \text{ M}\}$$

	Dates	Rs.	Days from 1 May	Prdocuts (Rs.)
Harsh	15.8.2019	60,000	106 {1 M}	63,60,000
	31.12.2019	50,000	244 {1 M}	1,22,00,000
	04.03.2020	75,000	307 {1 M}	2,30,25,000
		1,85,000		4,15,85,000

$$\text{Average Due Date} = \frac{4,15,85,000}{1,85,000} \text{ days from 1st May} = 225 \text{ days.}$$

$$= 12^{\text{th}} \text{ Dec. } \{1 \text{ M}\}$$

Interest is chargeable for Harsh from 12 December to 31<sup>st</sup> March i.e. fro 109 days.

$$\text{Rs. } 1,85,000 \times \frac{10}{100} \times \frac{109}{365} = \text{Rs. } 5,525 \{1 \text{ M}\}$$

Thus, interest amounting Rs. 8,348 will be charged from Yash and amount of Rs. 5,525 will be charged from Harsh.

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

**Bali in Account Current with Ali**  
**(Interest to 31st Dec 2020, @ 8% p.a.)**

Date 2020	Particulars	Amount Rs.	Days	Product	Date 2020	Particulars	Amount Rs.	Days	Product
Oct. 1	To Balance b/d	2,000	92 {1 M}	1,84,000	Oct. 19	By Purchases A/c	3,200	73 {1 M}	2,33,600
Oct. 25	To Purchase returns A/c	800	67 {1 M}	53,600	Dec. 18	By Bills receivable A/c (drawn for a month)	2,400	13 {1 M}	31,200
Nov. 3	To Sales A/c	5,400	58 {1 M}	3,13,200	Dec 15	By cash A/c	2,000	16 {1 M}	32,000
Nov 30	To bills receivable (dishonoured)	3,000	31 {1 M}	93,000	Dec. 31	By Balance of products			3,47,000
Dec. 31	To Interest Ac	76.05 {1 M}			Dec 31	By Balance c/d	3676.05 {1 M}		
		11,276.05		6,43,800			11,276.05		6,43,800

Calculation of interest:  $3,47,000 \times 8\% \times 1/365 = 76.05$  {1 M}

**Answer 6:****(a)****(a)**

**Sportswriters Club**  
**Balance Sheet as on 31st March, 2019**

Liabilities	Rs.	Rs.	Assets	Rs.
Outstanding expenses :			Furniture	9,600
Salaries	710		Library Books	5,000
Rent & Electricity	864		Sports Equipment	7,200
Magazines & Newspapers	226	1,800	Fixed Deposit	20,000
Capital Fund (Balancing figure)	{1 M}	47,000	Cash in hand & at Bank	4,820
			Prepaid Expenses	417
			Subscription receivable	1,263
			Interest accrued	500
		48,800		48,800

**(b) Income and Expenditure Account for the year ending 31st March, 2020**

Expenditure	Rs.	Income	Rs.
To Salaries {1 M}	11,460	By Subscription {1 M}	28,912
To Rent & Electricity {1 M}	7,329	By Interest on FD	2,000
To Magazines & Newspapers {1 M}	2,286	By Misc. Income	700
To Sundry Expenses {1 M}	10,075	By Excess of expenditure over income	2,888
To Depreciation :			
Furniture	960		
Sports Equipment	1,640		
Library Books	750	3,350 {1 M}	
	34,500		34,500



(c)

**Balance Sheet of Sports Writers Club  
as on 31st March, 2020**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Outstanding Expenses:			Furniture		
Salaries	170		Cost	9,600	
Rent & Electricity	973		Less : Depreciation	(960)	8,640
Newspapers	340	1,483	Magazines & Sport		
Capital Fund:			Equipment:		
Opening balance	47,000		Opening balance	7,200	
Less : Excess of exp. over income	(2,888)	44,112 {1 M}	Addition	1,000	
				8,200	
			Less : Depreciation	(1,640)	6,560
			Library Books :		
			Opening Balance	5,000	
			Addition	1,000	
				6,000	
			Less : Depreciation	(750)	5,250 {1 M}
			Fixed Deposit		20,000
			Cash in hand & at bank		2,450
			Prepaid Expenses		620
			Subscription Receivable		1,575
			Interest accrued		500
		45,595	{1/2 M}		45,595 {1/2 M}

**Working Notes:**

(i)	Expenses	Salaries Rs.	Rent & Electricity Rs.	Magazines & News-Papers Rs.	Sundry Expenses Rs.
	Paid during the year	12,000	7,220	2,172	10,278
	Add : Outstanding on 31.3.2020	170	973	340	--
	Add : Prepaid on 31.3.2019	--	--	--	417
		12,170	8,193	2,512	10,695
	Less : Outstanding on 31.3.2019	(710)	(864)	(226)	--
	Less : Prepaid on 31.3.2020	--	--	--	(620)
	Expenditure for the year	11,460	7,329	2,286	10,075
					<b>Rs.</b>
(ii)	Depreciation				
	(a) Furniture @10% on Rs. 9,600				960
	(b) Sports Equipment @ 20% on Rs. 8,200				1,640
	(c) Library books - book value			6,000	
	Revalued at			(5,250)	750
(iii)	Subscription				
	Received in cash				28,600
	Add : Receivable on 31.3.2020				1,575
					30,175
	Less: Receivable on 31.3.2019				(1,263)
					28,912

Answer:

(b)

2020			Rs.	Rs.	
May	General Reserve Account	Dr.	5,000		{1 M}
	To Seed's Capital Account			2,500	
	To Plant's Capital Account			1,500	
	To Flower's Capital Account			1,000	
	(General Reserve transferred to Capital Account on the death of Plant)				
	Seed's Capital Account	Dr.	3,750	{1 M}	{1 M}
	Flower's Capital Account	Dr.	7,500	{1 M}	
	To Plant's Capital Account			11,250	
	(Adjustment for goodwill on the death of Plant on the basis of gaining ratio) (Value = $3 \times (10,000 + 13,000 + 12,000 + 15,000)/4$ )		{1 M}		
	Revaluation Account	Dr.	5,000		{1 M}
	To Fixed Assets Account			4,000	
	To Bills Receivable Account			1,000	
	(Depreciation of fixed assets @ 10% and writing off of one bill for Rs. 1,000 on Plant's death)				
	Seed's Capital Account	Dr.	2,500		{1 M}
	Plant's Capital Account	Dr.	1,500		
	Flower's Capital Account	Dr.	1,000		
	To Revaluation Account			5,000	
	(Loss on Revaluation transferred to capital accounts)				
	Profit and Loss Suspense Account	Dr.	1,500		{1 M}
	To Plant's Capital Account			1,500	
	(Plant's share of four month's profit based on the previous year)				
	Plant's Capital Account	Dr.	27,750		
	To Plant's Executor's Account			27,750	{1 M}
	(Amount standing to the credit of Plant's Capital Account transferred to the credit of his Executor's Account)				
	Plant's Executor's Account	Dr.	7,750		
	To Bank Account			7,750	
	(Amount paid to Plant's Executors)				

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