

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 {1M}</u>
Less: Cost of goods available for sale	4,00,000
Gross margin	<u>1,00,000 {1M}</u>

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

$$\text{Cost of closing inventory} = 1,00,000 \text{ less } 20\% \text{ of Rs. } 1,00,000 = \mathbf{\underline{\underline{Rs.80,000 \{1M\}}}}$$

Answer 2:

(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
	1M	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	½M		11,700	½M
Less: Closing Stock	1,500	8,300	Add: Outstanding Subscriptions for 2012-13	½M 1,300	13,000
To Newspapers		200	By Profit on entertainments		1,500
To Salaries		11,000	By Refreshment receipts (or sale of foodstuffs)		12,000
To General Expenses		1,200	By Entrance fees	2,000	
To Audit Fees		800	Less: 50% transferred to Reserve fund	½M 1,000	1,000
To Excess of Income over Expenditure (Surplus)		½M 6,600			½M 28,100
		28,100			

Balance Sheet as at 31st March, 2013

Liabilities		Rs.	Assets	Rs.
			Balance at Bank	
Reserve Fund	3,500		Current Account	100
Add: Transfer from 50% of Entrance fees	½M 1,000		Deposit Account	5,000
10% of surplus of Rs. 6,600	½M 660	½M 5,160	Outstanding Subscriptions (Rs. 100 + Rs. 1,300)	½M 1,400
Capital Fund (1-4-2012)	31,900		Stock of Foodstuffs	1,500
Add: Surplus (Rs. 6,600-660)	½M 5,940	½M 37840	Crockery	3,000
			Books	2,000
			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 × 2.50 = Rs. 500 } ½M
 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

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	1 M
March 31	Provision for Doubtful Debts A/c Dr. To Bad Debts A/c (Bad debts adjusted against the provision)		8,000	8,000	1 M
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	1 M

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	1 M
20,000	
18,200	

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

Provision for Doubtful DEBTS ACCOUNT

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

MITTAL COMMERCE CLASSES

CA FOUNDATION– MOCK TEST

	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

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	By Closing Stock	26,000
To Gross Profit c/d	1/2M } 56,000		
	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	
To Printing	800	Investment	750
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		
To Depreciation on Plant & Fixtures	800		
To Bad Debts	500		
Add: New Provision	1,225		
To New Profit Transferred to Capital A/c	37,125		
	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	1/2 M { 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	
Less: Drawings	1/2M { 4,500	Doubtful Debts	1/2M
		(5% on Rs.24,500)	1,225
		Closing Stock	26,000
		Investments	15,000
		Add: Accrued Interest	750
		Plant & Fixtures	8,000
		Less: Depreciation	800
	96,225		7,200
			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>

$\frac{1}{2}$ M

Answer 4:

(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
				{1/2 M}						{1/2 M}	
July 17	To Sales A/c	July 17	40	167	6,680	Sep. 1	By Cash A/c	Sep. 1	400	121	48,400
				{1/2 M}						{1/2 M}	
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
				{1/2 M}						{1/2 M}	
Aug. 30	To Sales A/c	Aug. 30	50	123	6,150	Oct. 22	By Purchases A/c	Oct. 22	20	70	1,400
				{1/2 M}						{1/2 M}	
Nov. 12	To Sales A/c	Nov. 12	14	49	686	Dec. 14	By Cash A/c	Dec. 14	50	17	850
				{1/2 M}						{1/2 M}	
						Dec. 31	By Balance of product				71,446
31 Dec.	To Interest A/c		9.79			Dec. 31	By Balance c/d		83.79		--
			{1 M}						{1 M}		
	$\frac{71,446 \times 5\%}{365}$										
				{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		

MITTAL COMMERCE CLASSES

CA FOUNDATION– MOCK TEST

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 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	
	1,500	8,500
Overdraft (Dr.) Balance as per Pass Book		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
(b)	Bank A/c Dr. To Suspense A/c (Interest collected by the bank not entered in Cash Book)		75	75
(c)	Advertisement or Free Sample A/c Dr. To Purchases A/c (Goods received wrongly credited to Ashok Account)		700	700

(d)	Ashok To Suspense A/c (Rent received wrongly credited to Ashok Account)	Dr.		350	350	1M
(e)	Furniture A/c To Purchase A/c To Karnal Furniture Mart (Furniture purchased wrongly entered in the purchase book with wrong amount)	Dr.		65	56 9	1M
(f)(I)	Drawing A/c To Machine A/c (Old Machinery sold to Proprietor)	Dr.		400	400	1M
(II)	Sales A/c To Kishore (Sale of machinery wrongly debited to Kishore's Account)	Dr.		400	400	1M
(g)	Ajay To Purchase A/c (Cash purchases wrongly entered in Purchase Book)	Dr.		189	189	1M
(h)	Closing Stock A/c To Trading A/c (Under valuation of stock corrected)	Dr.		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
To Salary A/c		155	By Ashok		350
		425			425

Answer 6:

(a) JOURNAL OF RAM

Date	Particulars	L. F.	Dr. Amount	Cr. Amount
2012 Jan. 1	Bills Receivable A/c (No. I) Dr. Bills Receivable A/c (No. II) Dr. Bills Receivable A/c (No. III) Dr. To Mohan (Three acceptance received)		Rs. 4,000 5,000 6,000	Rs. 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
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

March 4	Mohan To Bank A/c (Second bill dishonoured and noting charges paid by the bank)	Dr.	5,040	5,040	1 M
March 4	Mohan To Interest A/c (Interest receivable)	Dr.	200	200	1 M
March 4	Bills Receivable A/c (No. IV) To Mohan (New Bill received including Rs. 40 as noting charges and Rs. 200 as interest)	Dr.	5,240	5,240	1 M
March 4	Bank A/c Rebate on Bill A/c To Bills Receivable A/c (Payment of the third Bill received before maturity and rebate allowed, i.e., $6,000 \times \frac{15}{100} \times \frac{1}{12} = \text{RS.75}$)	Dr. Dr.	5,925 75	6,000	1 M
May 4	Bills for Collection A/c To Bills Receivable A/c (Fourth Bill sent to Bank for collection)	Dr.	5,240	5,240	1 M
May 7	Bank A/c To Bill for Collection A/c (Bills collected by Bank on maturity)	Dr.	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	3,740	} ½M
C's Capital Account	Dr.	1,496		
To Provision for Doubtful Debts Account (Raising provision for bad debts)				
B's Capital Account	Dr.	13,425	15,491	} 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)				

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				By Profit and Loss		½M	
Doubtful		½M		Adjustment A/c	12,000	16,000	16,000
Debts A/c	-	2,244	1,496	By Fixtures Less			
To A	-	13,425	2,066	Provision for		½M	
To Balance c/d	-	69,237	47,393	DD A/c	248	331	331
		½M	½M	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	$\frac{4}{11}$	$\frac{2}{5}$	$\frac{2}{55}$	-