

**Foundation (New Syllabus)**  
**Paper - 1**  
**Principles and Practice**  
**of Accounting**

**MAY 2018**

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Roll No. ....

Total No. of Printed Pages : 12

Total No. of Questions : 6

Maximum Marks : 100

Time allowed : 3 Hours

**INSTRUCTIONS TO CANDIDATES**

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium and answers in Hindi, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are required to answer any **four** questions from the remaining **five** questions.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made and indicated in the answer by the candidates.

1. (a) State with reasons, whether the following statements are true or false :
- Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
  - Re-issue of forfeited shares is allotment of shares but not a sale.
  - If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
  - There are two ways of preparing an account current.

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(2)

JMKS

- (v) when there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.
- (vi) Interest coverage ratio indicates the firm's ability to pay off current interest and installments.

(6 Statements × 2 Marks = 12 Marks)

(b) Differentiate between provision and contingent liability. (4 Marks)

(c) Give journal entries (narrations not required) to rectify the following:

- (i) Purchase of Furniture on credit from Nigam for Rs.3,000 posted to Subham account as Rs.300.
- (ii) A Sales Return of Rs.5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.
- (iii) Investments were sold for Rs.75,000 at a profit of Rs.15,000 and passed through Sales account.
- (iv) An amount of Rs.10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account. (4 Marks)

2. (a) Shri Ganpath of Nagpur consigns 500 cases of goods costing ₹ 1,500 each to Rawat of Jaipur. Shri Ganpath pays the following expenses in connection with the consignment :

Particulars	₹
Carriage	15,000
Freight	45,000
Loading Charges	15,000

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Shri Rawat sells 350 cases at ₹ 2,100 per case and incurs the following expenses:

Clearing charges	18,000
Warehousing and Storage charges	25,000
Packing and selling expenses	7,000

It is found that 50 cases were lost in transit and another 50 cases were in transit. Shri Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Shri Ganpath.

(10 Marks)

- (b) Mr. Alok owes Mr. Chirag ₹ 650 on 1<sup>st</sup> January 2018. From January to March, the following further transactions took place between Alok and Chirag :

January 15	Alok buys goods	₹ 1,200
February 10	Alok buys goods	₹ 850
March 7	Alok receives Cash loan	₹ 1,500

Alok pays the whole amount on 31<sup>st</sup> March, 2018 together with interest @ 6% per annum. Calculate the interest by average due date method. (5 Marks)

- (c) Attempt any one of the following two sub-parts i.e. either (i) or (ii)

- (i) Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017.

December 2<sup>nd</sup> – Sent goods to customers on sale or return basis at cost plus 25%—₹ 80,000

December 10<sup>th</sup> – Goods returned by customers – ₹ 35,000

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P.T.O.

(4)

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December 17<sup>th</sup> – Received letters from customers for approval – ₹ 35,000

December 23<sup>rd</sup> – Goods with customers awaiting approval – ₹ 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31<sup>st</sup> Dec. 2017. (5 Marks)

**OR**

- (ii) From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31<sup>st</sup> March, 2018 by means of products method charging interest @ 5% per annum:

Date	Particulars	Amount (₹)
2018 January 1	Balance due from Bhuvanesh	1,800
January 10	Sold goods to Bhuvanesh	1,500
January 15	Bhuvanesh returned goods	650
February 12	Bhuvanesh paid by cheque	1,000
February 20	Bhuvanesh accepted a bill drawn by Avinash for one month	1,500
March 11	Sold goods to Bhuvanesh	720
March 14	Received cash from Bhuvanesh	800

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3. The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates., at Chennai :

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	

**JMKS**

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Particulars	Debit (₹)	Credit (₹)
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs to Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	<u>30,73,400</u>	<u>30,73,400</u>

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Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

- (a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- (b) Value of stock at the close of the year was ₹ 4,10,000.
- (c) One month rent for godown is outstanding.
- (d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017.
- (e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- (f) Insurance premium includes ₹42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018. (20 Marks)

4. (a) Piyush Limited is a company with an authorized share capital of ₹2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30<sup>th</sup> June, 2017. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being :
- (i) ₹ 2 per share payable on application, to be received by 1<sup>st</sup> July, 2017;
  - (ii) Allotment to be made on 10<sup>th</sup> July, 2017 and a further ₹ 5 per share (including the premium) to be payable;
  - (iii) The final call for the balance to be made, and the money received by 30<sup>th</sup> April, 2018.

Applications were received for 4,20,000 shares and were dealt with as follows:

- (1) Applicants for 20,000 shares received allotment in full;
- (2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

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P.T.O.

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- (3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
- (4) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the journal of Piyush limited. (10 Marks)

- (b) A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31<sup>st</sup> March, 2018 stood as :

Liabilities	₹	Assets	₹
Capital Accounts		Building	10,00,000
A	8,00,000	Furniture	2,40,000
B	4,20,000	Office equipments	2,80,000
C	4,00,000	Stock	2,50,000
	16,20,000	Sundry debtors	3,00,000
Sundry Creditors	3,70,000		
General Reserves	3,60,000	Less : Provision for Doubtful debts	30,000
			2,70,000
		Joint life policy	1,60,000
		Cash at Bank	1,50,000
	23,50,000		23,50,000

B retired on 1<sup>st</sup> April, 2018 subject to the following conditions :

- (i) Office Equipments revalued at Rs. 3,27,000.
- (ii) Building revalued at Rs.15,00,000. Furniture is written down by Rs.40,000 and Stock is reduced to Rs,2,00,000.

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- (iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
- (iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is Rs.1,50,000.
- (v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were :

Year	Rs.
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

- (vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement. (10 Marks)

5. (a) You are provided with the following details:

Current ratio	2.5
Liquidity ratio	1.5
Net Working Capital	Rs,3,00,000
Stock Turnover Ratio	6 times
Ratio of Gross Profit on Sales	20%
Turnover to Fixed assets (net)	2 times
Average debt collection period	2 months
Fixed Assets to net worth	0.8
Reserve and Surplus to Capital	0.5

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Draw up the Balance Sheet as at 31<sup>st</sup> March, 2018 of Zoom Ltd. with appropriate figures:

Zoom Ltd.  
Balance Sheet as at 31<sup>st</sup> March, 2018

Liabilities	Rs.	Assets	Rs.
Share Capital	?	Fixed Assets	?
Reserves and Surplus	?	Stock	?
Long-Term Borrowings	1,50,000	Debtors	?
Current Liabilities	?	Bank	50,000
Total	<u>11,00,000</u>		<u>11,00,000</u>

(10 Marks)

- (b) Calculate the Trade Receivables Turnover Ratio, the average collection period and Gross Profit Ratio from the following information :

Particulars		₹
Total revenue from operations	—	6,00,000
Cash revenue from operations	—	25% of Total Revenue from operations
Trade Receivables as at 01.04.2017	—	60,000
Trade Receivables as at 31.03.2018	—	1,40,000
Cost of Revenue from Operations	—	4,20,000

(10 Marks)

6. (a) The Bank Pass Book of Account No.5678 of Mrs.Rani showed an overdraft of Rs.33,575 on 31<sup>st</sup> March 2018. On going through the Pass Book, the accountant found the following :
- A Cheque of Rs,1,080 credited in the pass book on 28<sup>th</sup> March 2018 being dishonoured is debited again in the pass book on 1<sup>st</sup> April 2018. There was no entry in the cash book about the dishonour of the cheque until 15<sup>th</sup> April 2018.
  - Bankers had credited her account with Rs.2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

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- (iii) Out of Rs.20,500 paid in by Mrs.Rani in cash and by cheques on 31<sup>st</sup> March 2018 cheques amounting to Rs.7,500 were collected on 7<sup>th</sup> April 2018.
- (iv) Out of Cheques amounting to Rs.7,800 drawn by her on 27<sup>th</sup> March 2018 a cheque for Rs.2,500 was encashed on 3<sup>rd</sup> April 2018.
- (v) Bankers seems to have given her wrong credit for Rs.500 paid in by her in Account No.8765 and a wrong debit in respect of a cheque for Rs.300 against her account No.8765.
- (vi) A Cheque for Rs.1,000 entered in Cash Book but omitted to be banked on 31<sup>st</sup> March, 2018.
- (vii) A Bill Receivable for Rs.5,200 previously dishonoured (Discount Rs.200) with the Bank had been dishonoured but advice was received on 1<sup>st</sup> April, 2018.
- (viii) A Bill for Rs.10,000 was retired/paid by the bank under a rebate of Rs.175 but the full amount of the bill was credited in the bank column of the Cash Book.
- (ix) A Cheque for Rs.2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31<sup>st</sup> March, 2018.

Prepare Bank Reconciliation Statement as on 31<sup>st</sup> March 2018.

(10 Marks)

- (b) Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.
- (i) Purchase account was under cast by ₹ 8,000.
  - (ii) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.
  - (iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.
  - (iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.
  - (v) Repairs to Machinery was debited to Machinery Account ₹ 1,800.
  - (vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale. Suggest the necessary rectification entries.

(10 Marks)

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