

Sample Questions Paper-1

- Ans. 1.** Accrual basis of accounting gives a correct picture of operating results and financial position of a firm. [1]
- Ans. 2.** Reserves are classified as : Capital Reserves & Revenue Reserves. [1]
- Ans. 3.** Vaishali is incorrect as according to the concept of Revenue Realisation an order received should not be included in sales figure as no obligation is established in this transaction. [1]
- Ans. 4.** Mr. Rohan has breached the **value of trust**. Small investors can approach Economic Offence cell of police department and lodge a case against him to trace him and his arrest. [3]
- Ans. 5.** Accounting standards may be defined as codified generally accepted accounting principles. According to **Kohler**, "Accounting standard is a mode of conduct imposed on accountants by custom, law or professional body".
Following points highlight the need of accounting standards :
- (1) Accounting standards make accounting procedures universally acceptable by removing the effect of diverse accounting practices and policies.
 - (2) Accounting standards serve as guides for solving one or more accounting problems.
 - (3) Accounting standards provide the basis upon which financial statements are prepared. [3]
- Ans. 6.** **In the Books of M/s Kishore & Sons** [3]

Sales Book

Date	Particulars	L.F.	Details ()	Amount ()
2011	M/s Gupta & Verma 30 shirts @ ` 150 20 trousers @ ` 300 Less : Trade Discount @ 10% Sales as per invoice No..... dated....		4,500 6,000 10,500 1,050	9,450
	M/s Jain & Sons 50 shirts @ ` 150 Sales as per invoice No..... dated....		7,500	7,500
	M/s Mathur & Jain 100 shirts @ ` 175 10 overcoats @ ` 500 Less : Trade Discount @ 10% Sales as per invoice No..... dated....		17,500 5,000 22,500 2,250	20,250
	Sales A/c Cr.			37,200

Note : Sale of furniture is not entered in Sales Book as the firm does not deal in furniture.

- Ans. 7.**
- | Trial Balance | Balance Sheet |
|--|--|
| 1. In trial balance, balances of all the accounts are written. | 1. In balance sheet, balances of only assets and liabilities are recorded. |
| 2. Trial balance is prepared from Ledger A/c balances. | 2. Balance sheet is prepared from balances in trial balances. |
| 3. Trial balance is prepared to check the arithmetical accuracy of accounts. | 3. Balance sheet is prepared to depict the financial position of the business. |

4. All the revenue and capital nature accounts are shown.	4. Only capital nature accounts are shown.
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Ans. 8. **Limitations of Accounting : (Any four)** [4]

1. Financial accounting is not absolutely exact : Accounting information is not necessarily exact. Lot of information presented in the books of account are based on personal judgment. There cannot be absolute guarantee of accuracy when assumptions are based on personal opinion.

2. Financial accounting does not show the exact worth of business : The values of most of the assets in the books are presented on the basis of their purchase price, which is known as historic figures. Their present market values or realizable values are usually quite different. In other words, the books of accounts fail to show the exact value of assets or liabilities.

3. Problem of window dressing : Balance sheet figures are often modified to make it look better. This process conceals many weaknesses of the business. Thus the accounting information becomes unreliable for accurate judgment.

4. Worthless assets often shown in the balance sheet : Several worthless items can appear in the balance sheet as asset. This will project a wrong picture of the business.

5. No effect of inflationary trends : Currency is not a stable unit of measurement of value. Inflation can make the value of currency itself different. Measurement with this "elastic tape" can give conflicting results.

Ans. 9. **Bank Reconciliation Statement** [4]

S. No.	Particulars	Plus Items (+ ₹)	Minus Items (- ₹)
(i)	Debit balance as per bank column of the Cash Book	3,72,000	
(ii)	Cheques issued but not yet presented for payment	72,000	
(iii)	Dividend received not entered in the Cash Book	5,000	
(iv)	Interest allowed by the Bank	1,250	
(v)	Cheques deposited for collection, but not collected		15,400
(vi)	Bank charges		200
(vii)	Cheque dishonoured but no intimation received		320
(viii)	Bank paid House Tax		350
	Credit balance as per bank Pass Book		4,33,980
		4,50,250	4,50,250

Ans. 10. The advantages of accounting are explained as follows:

- (i) **Replacement of Memory:** It is not possible for any human being to remember all the transactions of business. Accounting has replaced the need of such sharp memory. All financial transactions are recorded in a systematic manner in the books of accounts so that there is no need to rely only on memory.
- (ii) **Planning:** Accounting information is helpful in preparing business plans. The basis of past records and comparative study of financial statements future events may be estimated.
- (iii) **Decision Making:** The accountant helps the management in decision making by providing the relevant information. Determining selling price, allowing discount and credit facility to regular customers, etc. are few of the important decisions.
- (iv) **Controlling:** To make effective controlling actual performance is compared with the desired or planned targets. The actual data is supplied by accounting books, without that the controlling may not be possible.

- (v) **Provides information to interested parties:** Accounting provides necessary information to various parties or groups like owners, creditors, management, employees, government, consumers, debtors.
- (vi) **Evidence in courts:** When any matter relating to business is referred to the court of law, accounting records of business transactions are treated as satisfactory evidence. These are used in settling the disputes between parties.
- (vii) **Assessment of tax-liability:** Business concerns have to pay sales tax, excise duty, Income tax, etc. as per the government rules. Accounting books are the basis of conclusive proof of tax liability of the business.
- (viii) **Assessing the performance and financial position of the business:** An statement of P & L discloses profit earned (or loss incurred) during a particular accounting period. Profit is a measurement of the performance of the business. A balance sheet states the financial position of the business on a particular data. Thus, accounting helps in assessing the performance and financial positions of the business. [6]

Ans. 11.

Journal Entries
In the books of Neelam

[6]

S. No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Bills payable A/c Dr. To Dinesh (Being bills payable to Dinesh cancelled for renewal)		2,000	2,000
	Interest A/c Dr. To Dinesh (Being interest due to Dinesh for 3 months)		90	90
	Dinesh Dr. To Bills Payable A/c (Being new bills payable issued to Dinesh)		2,090	2,090
(ii)	Rajan Dr. To Bills Receivable A/c (Being bills receivable of Rajan cancelled for renewal)		1,500	1,500
	Cash A/c Dr. To Interest A/c (Being interest received from Rajan in cash)		50	50
	Bills Receivable A/c Dr. To Rajan (Being new bill received from Rajan)		1,500	1,500
(iii)	Bills payable A/c Dr. Noting Charges A/c Dr. To Guddi (Being bills payable to Guddi dishonoured)		15,000 20	15,020
	Guddi Dr. To Bank A/c (Being amount paid to Guddi)		15,020	15,020

Ans. 12.

Machinery A/c

AglaSem Schools

Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
2008 1 Apr.	To Bank A/c		75,000	2009 21 Mar.	By Balance c/d		75,000
			75,000				75,000
2009 1 Apr.	To Balance b/d		75,000	2010 31 Mar.	By Balance c/d		75,000
			75,000				75,000
2010 1 Apr.	To Balance b/d		75,000	2010 1 Oct.	By Prov. for Dep. A/c		2,500
					By Bank A/c		7,000
					By P & L A/c (Loss)		500
				2011 31 Mar.	By Balance c/d		65,000
							75,000
2011 1 Apr.	To Balance b/d		65,000				

Provision for Depreciation A/c

Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
2009 31 Mar.	To Balance c/d		7,500	2009 31 Mar.	By Depreciation A/c		75,000
			75,000				75,000
2010 31 Mar.	To Balance c/d		15,000	2009 1 Apr.	By Balance b/d		75,000
				2010 31 Mar.	By Depreciation A/c		75,000
			15,000				15,000
2010 1 Oct.	To Machinery A/c		2,500	2010 1 Apr.	By Balance b/d		15,000
				1 Oct.	By Depreciation		500
2011 31 Mar.	To Balance c/d		19,500	2011 31 Mar.	By Depreciation A/c		6,500
			22,000				22,000
				2011 1 Apr.	By Balance b/d		19,500

Ans. 13. (a)

Rectification Journal Entries**AglaSem Schools**

S. No.	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Commission received A/c Dr. To Rent Received A/c (Rent received wrongly entered as commission received, now rectified)		1,000	1,000
(ii)	Rent A/c Dr. To Interest A/c (Rent paid, wrongly debited to Interest Account, now rectified)		2,500	2,500
(iii)	Commission received A/c Dr. To Interest Received A/c (Interest received credited wrongly to Commission Account, now rectified)		8,000	8,000
(iv)	Drawings A/c Dr. To Miscellaneous Expenses A/c (Purchase of a motor cycle for proprietor charged to Miscellaneous Expenses Account, now rectified)		35,000	35,000
(v)	Buildings A/c Dr. To Repairs A/c (Expansion of building wrongly debited to Repairs Account, now rectified)		27,500	27,500
(vi)	worker's compensation A/c Dr. To Wages A/c (The worker's compensation claim debited to Wages Account, now rectified)		5,000	5,000

[b] (i) The value of responsibility is missing.

(ii) Following rectification entry should be passed.

[8]

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
	Sales Returns A/c Dr. To Mr. Keshwari (Being goods returned by Mr. Keshwari, now recorded)		10,000	10,000

Or

Ans. 13.

Cash Book

[6]

Date 2012	Particulars	L.F.	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Cash (₹)	Bank (₹)
Jan 1	To Balance b/d		2,00,000		Jan 3	By Bank A/c	C	1,80,000	
Jan 3	To Cash A/c	C		1,80,000	Jan 3	By Bank A/c	C	6,000	

Jan 4	To Kirti & Co.		6,000		Jan 10	By Ratan & Co.		3,300
Jan 7	To Cash A/c	C		6,000	Jan 25	By Bank A/c	C	10,000
Jan 12	To Tripathi & Co.			4,750	Jan 27	By John & Co.		3,750
Jan 12	To Warsi		4,500		Jan 30	By Sundry Exp.		500
Jan 20	To Sales A/c		1,750		Jan 31	By Office rent		2,000
Jan 25	To Cash A/c	C		10,000	Jan 31	By Staff Salaries		3,000
					Jan 31	By Drawings A/c		2,500
					Jan 31	By Commission A/c		3,000
					Jan 31	By balance c/d	12,000	1,86,950
			2,12,250	2,00,750			2,12,250	2,00,750
Feb 1	To balance b/d		12,000	1,86,950				

* It is assumed that the cheques received were not deposited into bank on the same day.

Part B - Financial Accounting II

[40 Marks]

- Ans. 14. Mr. Rohit is not fulfilling the **value of punctuality**. [1]
- Ans. 15. Legacy is the amount received as per the will of a deceased person. It appears on the receipt side of the Receipt and Payment Account and is directly added to capital fund in the balance sheet because it is not of recurring nature. [1]
- Ans. 16. A statement of affairs is a statement which shows assets on one side and the liabilities on the other, just as in case of a balance sheet. It is prepared in single entry system to ascertain the amount of capital. [1]
- Ans. 17. **Statement showing Stationery expenses** [3]

Particular	Amount (₹)	Amount (₹)
Amount paid for stationery during 2012		2,160
Add : Opening Stock of Stationery Closing	600	
Creditor for Stationery Opening	260	
Advance paid for Stationery	40	900
		3,060
Less : Closing Stock of Stationery	100	
Opening Creditor for Stationery	400	
Closing Advance paid for Stationery	60	560
Amount to be shown in Income & Expenditure A/c		2,500

- Ans. 18. **Statement of Profit and Loss** [3]

Particulars	Amount (₹)
Capital at the end of the year	49,950
Add : Drawings made during the year	—
Less : Additional capital introduced	—
Adjusted Capital	49,950
Less : Capital in the beginning of the year	41,650
Profit earned during the year	8,300

Working Notes :

Balance Sheet as on 1-1-2011

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	9,000	Stock-in-Trade	18,700
Bills Payable	1,000	Sundry Debtors	12,000
Capital (Balancing figure)	41,650	Bills receivable	4,000
		Furniture	600
		Building	12,000
		Bank Balance	4,350
	51,650		51,650

Balance Sheet as on 31-12-2011

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	1,500	Stock-in-Trade	23,400
Bills Payable	200	Sundry Debtors	14,000
Bank Overdraft	3,350	Bills receivable	5,000
Capital (Balancing figure)	49,950	Furniture	600
		Building	12,000
	55,000		55,000

Ans. 19. Yes, the value of transparency is the key to the preparation of financial statements. All the material information should be disclosed in the financial statement as per accounting principles. [3]

Ans. 20. Hardware : The term 'hardware' refers to any of the physical devices, which are a part of computer system.

Software : Software denotes a set of programmes, procedures, rules, etc. concerned with the operation of the data processing system. There are following six types of software :

- Operating System :** An integrated set of specialised programmes that are meant to manage the resources of a computer and also facilitate its operation is called operating system. It creates as necessary interface that is an interactive link, between the user and the computer hardware.
- Utility Programmes :** These are a set of computer programmes, which are designed to perform certain supporting operations; such as programme to format a disk duplicate a disk, physically reorganise stored data and programmes.
- Application Software :** These are user oriented programmes designed and developed for performing certain specified tasks : such as payroll accounting, inventory accounting, financial accounting, etc.
- Language Processors :** These are the software, which check for language syntax and eventually translate (or interpret) the source programme (that is a programme written in a computer language) into machine language (that is the language which the computer understands).
- System Software :** These are a set of programmes which control such internal functions as reading data from input devices, transmitting processed data to output devices and also checking the system to ensure that its components are functioning properly.
- Connectivity Software :** These are set of programmes which create and control a connection between a computer and a server so that the computer is able to communicate

and share the resources of server and other connected computers.

[4]

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- Ans. 21. (i) The value missing in the above case is honesty.
 (ii) Donation, if received in small amount is treated as income but if received in large amount, being a capital receipt, is shown in balance sheet in liabilities side. [VB][4]

Ans. 22. Following are the main limitations of computerized accounting : [6]

- (i) **High Cost** : The computerized accounting system is a very costly system. It includes the cost of computers, peripherals and network devices. It also includes the cost of software that is to be used to automate the system. Computerized accounting also includes the cost of media that has been used to take regular backups of data. For example tape drives and compact disks are generally used for backup purpose.
- (ii) **Problem of Obsolescence** : Obsolescence is the major problem of computerized accounting. The hardware and software industry is continuously growing at a rapid rate. It has been found that the size of an average hardware chip reduces to its half after every 18 months. That too without compromising on its processing power. Due to such high speed developments, new hardware devices replace the older ones. The software industry is also growing at a similar rate and newer versions of software are being introduced on routine basis. Newer versions of software require newer hardware devices to run. Therefore, the organization has to spend a considerable amount of money to purchase new hardware and software.
- (iii) **Dependence on Computer Accountant** : Computerized accountancy requires computer accountants to record and analyse the transactions. These are the people who have complete knowledge of accounts and computers. In a computerized accounting system, a computer illiterate person cannot do anything in the system. The company is completely dependent on computer accountant for all their accounting needs. In few companies, the managers also have the knowledge of computerized accounting but most of the companies depend on computer accountants.
- (iv) **Problem of Security and Secrecy** : The computers are not faithful machines. They just obey the commands of the person who is sitting in front of it. If a person manages to get access to the computer, he or she may harm the information stored in the computer. Several types of other problems like virus or failures may lead to data loss. Computer networks also cause security problems as the information of one computer can be accessed from the other. Very strict and careful handling of the information is needed in computerized accounting system.
 This security can be implemented by using separate cabins and lock and key mechanisms or by using password mechanisms.
- (v) **Training Requirements** : The computerized accounting system requires the training of accountants as per the software that has been installed to automate the accounting system. The duration and cost of this training varies with the type of accounting software. The customized accounting software are generally easy to use and require less training. In most of the cases, the training is provided by the software vendors.

Ans. 23. The following is the Receipts and Payments account of Apollo Hospital for the year ended 31st March, 2012.

Expenditure	Amount	Income	Amount
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To payment for medicine	33,000		By Subscription	48,000	
Add : Opening Stock	10,000		Add : Due at the end	1,000	
Closing creditors	<u>12,000</u>		Adv. in the begining	<u>1,000</u>	
	55,000			50,000	
Less : Closing Stock	15,000		Less : Due in the beginning	500	
Opening Creditors	<u>8,000</u>	32,000	Advance at the end	<u>500</u>	49,000
To fees to Doctors		24,000	By Donation		15,000
To Salaries		27,000	By Interest on Investment		9,000

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To Charity show Expenses	4,000	By Proceed from Charity show	12,000
To Sundry Expenses	1,200	By Grant in Aid	20,000
To Depreciation on :			
Equipment	7,000		
Building	<u>5,000</u>		
To Surplus	4,800		
	<u>1,05,000</u>		<u>1,05,000</u>

Balance Sheet

As at 31st March, 2011

Liabilities	Amount	Assets	Amount
Subscription recd. in Advance	500	Cash in Hand	8,300
Amount due to medicine suppliers	12,000	Subscription due	1,000
Capital found	2,05,000	Stock of medicine	15,000
Add : Surplus + <u>4,800</u>	2,09,800	Equipment	33,000
		Building	65,000
		Investment	1,00,000
	<u>2,22,300</u>		<u>2,22,300</u>

Working Notes :

Balance Sheet

As at 31st March, 2011

Liabilities	Amount	Assets	Amount
Subscription recd in Advance	1,000	Cash in hand	8,500
Amount due to Medicine suppliers	8,000	Subscription due	500
Capital fund (Balancing figure)	2,05,000	Stock of medicines	10,000
		Equipment	25,000
		Building	70,000
		Investment	1,00,000
	<u>2,14,000</u>		<u>2,14,000</u>

Ans. 24.

Trading and Profit & Loss Account

[8]

Dr. *for the year ended 31st March, 2012* **Cr.**

Particulars	Amount ()	Particulars	Amount ()
To Opening Stock	2,000	By Sales	16,400
To Purchases	10,500	Less : Returns Inward	<u>300</u>
Less: Returns Outward	<u>500</u>	By Closing Stock	1,450
To Wages	5,000	By Gross Loss transferred to	
To Manufacturing Expenses	800	Profit and Loss A/c	500
To Carriage	150		
To Fuel and Power	100		
	<u>18,050</u>		<u>18,050</u>

To Gross Loss b/d	500	By Net Loss-transferred to Capital A/c	2,790
To Repairs	50		
Add : Due for repairs	<u>40</u>		
To Rent	400		
To Trade Expenses	700		
To Bad Debts	200		
To Dep. on Plant & Machinery	400		
To Interest on Capital	500		
	<u>2,790</u>		<u>2,790</u>

Balance Sheet

as at 31st March, 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	1,200	Bank	1,000
Bills Payable	500	Sundry Debtors	2,400
Outstanding Repairs	40	Closing Stock	1,450
Capital :		Plant & Machinery	4,000
Opening Balance	10,000	Less : Depreciation	<u>400</u>
Add : Interest	500		3,600
Less : Net Loss	2,790		
Less : Drawings	1,000		
	<u>6,710</u>		
	<u>8,450</u>		<u>8,450</u>

Or

Ans.

Trading and Profit & Loss Account

[8]

Dr.

for the period ended 31st March, 2012

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	11,520	By Sales	1,97,560
To Purchases	81,350	Less: Returns	<u>1,360</u>
Less: Returns	<u>1,000</u>	By Closing Stock	13,600
To Wages	20,960		
Less: Erection of a Cycle Shed	<u>4,000</u>		
To Carriage	4,080		
To Fuel & Power	9,460		
To Gross Profit c/d	87,430		
	<u>2,09,800</u>		<u>2,09,800</u>

To Carriage Outward		6,400		
To Salaries	30,000		By Gross Profit b/d	87,430
Add: Outstanding	<u>3,000</u>	33,000		
To General Expenses		6,000		
To Insurance	1,200			
Less : Prepaid	<u>170</u>	1,030		

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To Depreciation on :			
Machinery	4,000		
Patents	<u>3,000</u>	7,000	
To Provision for Doubtful Debts		1,450	
To Net Profit t/f to Capital A/c		32,550	
		87,430	87,430

Balance Sheet as at 31st March, 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	12,600	Cash in hand	1,080
Outstanding Salaries	3,000	Cash at bank	5,260
<i>Capital:</i>		Debtors	29,000
Opening Balance	1,42,000	<i>Less : Provision</i>	<u>1,450</u>
<i>Add; Net Profit</i>	<u>32,550</u>	Prepaid Insurance	170
	1,74,550	Closing Stock	13,600
<i>Less: Drawings</i>	<u>10,490</u>	Building (₹ 60,000 + ₹ 4,000)	64,000
	1,64,060	Land	20,000
		Machinery	40,000
		<i>Less: Depreciation</i>	<u>4,000</u>
		Patents	15,000
		<i>Less: Depreciation</i>	<u>3,000</u>
	1,79,660		1,79,660