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QPCode: 64566

Answer Key - Paper 3 – Principles of Accountancy

Question 1

A) Fill in the blanks choosing correct alternatives.

1. Cash book
2. Capital
3. Cost control
4. Trading account
5. Credit

B) Explain the following terms briefly.

1. Posting: A process of transferring every account from a journal and subsidiary book into the ledger is known as posting.
2. Petty cash book: It is a book used by companies to maintain unimportant petty cash transactions. A petty cashier is appointed to relieve the main cashier from petty recurring transactions. He maintains a record of all the minor expenses in the form of a petty cash book duly supported by vouchers.
3. Bank reconciliation statement: A bank reconciliation statement is a report that is prepared at the end of every month by the account holder to know the difference between the bank balance as per cash book and the balance as per bank pass book.
4. PV Ratio: When contribution is expressed as a percentage of sale value, it is known as PV ratio or profit/volume ratio. It expresses the relationship between contribution and sales.
5. Balance Sheet: It is a statement of assets and liabilities of the business to ascertain the financial position of the company as on a particular date which is March 31st of every financial year.

C) Match the column A with column B.

Column A	Answers	Column B
1. Trial balance	1-d	a. double entry system
2. Purchase book	2-c	b. sales – variable cost
3. Contribution	3-b	c. invoice book
4. Revenue expenditure	4-e	d. a list of debit and credit balances
5. Locus Pacioli	5-a	e. rent

Question 2

A) Identify whether following are real, nominal or personal accounts.

1. Cash - real
2. Mr. Mohan - personal
3. Rent - nominal
4. Capital - personal
5. Furniture - real

B) Journal entries: Journal of Mr. Bindra for the month of January 2016.

Date	Particulars	LF	Debit	Credit
Jan 5	Cash a/c Dr. To capital a/c (Being cash brought in as capital to start business)		20000	20000
Jan 8	Purchase a/c Dr. To Ram's a/c (Being goods purchased on credit from Ram)		4000	4000
Jan 12	Rent a/c Dr. To cash a/c (Being rent paid by cash)		1000	1000
Jan 20	Cash a/c Dr. To furniture a/c (Being furniture sold for cash)		10000	10000
Jan 27	Neha a/c Dr. To purchase return a/c (Being goods worth Rs 2000 purchased from Neha are returned back)		2000	2000
	Total		37000	37000

C) Ledger Posting:

Dr.		Cash A/c				Cr.	
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 5	To capital a/c		20000	Jan 12	By rent a/c		1000
Jan 20	To furniture a/c		10000				
				Jan 31 st	By balance c/f		29000
			30000				
Feb 1 st	To balance b/d		29000				30000

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Purchase Return A/c							
Dr.				Cr.			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 31 st	To balance c/f		2000	Jan 27	By Neha a/c		2000
			2000				2000
				Feb 1 st	By balance b/d		2000

D) Benefits of a Journal: Students to elaborate on any 5 benefits of a journal.

E) Accountancy and Book-Keeping are not one and the same. Book keeping is a part of Accountancy. Students to elaborate on the same.

F) Triple column cash book of Ms. Parveen for the month of October 2017

Dr.		Receipt Side				Cr.		Payment Side					
Date	Rec No./Cash Memo No.	Particulars	LF	Cash	Bank	Discount	Date	Rec No./Cash Memo No.	Particulars	LF	Cash	Bank	Discount
1st		To balance c/d		9000			1st		By balance c/d				1000
5th		To sales a/c (being goods sold for cash)		20000			9th		By bank a/c (Being cheque received on 5th deposited in the bank)	CI	20000		
9th		To cash a/c (Being cheque received on 5th deposited in the bank)	CI		20000		11th		By salary a/c (Being sweeper's salary paid by cash)		900		
							15th		By commission a/c (Being agent's commission paid by cheque)				15000
				29000	20000	NIL	31st		By balance c/f		8100	4000	
1st Nov		By balance b/d		8100	4000						29000	20000	NIL

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D) Bank reconciliation statement of Mr. Ram as on 31/01/2017

(Note: Normal balance as per cash book is given hence go as per the pass book)

Particulars	Rs	Rs
Balance as per cash book		5000
Add:		
Cheques issued but not presented	9000	
Interest on investment collected	<u>1500</u>	<u>10500</u>
		15500
Less:		
Bank charges debited by bank	20	
Cheques deposited but not cleared	<u>8000</u>	<u>(8020)</u>
Balance as per pass book		7480

E) Trial balance and its merits: Students to elaborate on the meaning of trial balance. Briefly explain the gross and net trial balance and mention about the journal and T-ledger formats. Then explain any 5 benefits.

F) Trial balance of Mr. Saurabh for the month of April 2017

Particulars	Debit	Credit
Capital		50000
Debtors	8000	
Wages	6000	
Depreciation	15000	
Furniture	20000	
Sales		40000
Bank loan		10000
Purchases	51000	
Total	100000	100000

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Question 4

A) State whether following expenses are capital or revenue in nature.

1. Purchase of office furniture - capital
2. Training expenses - revenue
3. Installation of plant - capital
4. Depreciation - revenue
5. Expenses incurred on extending a wing in a hotel - capital

B) Identify whether following costs are fixed costs or variable costs.

1. Salary of a supervisor - fixed
2. Depreciation - fixed
3. Rent - fixed
4. Kitchen supplies - variable
5. Staff uniforms - variable

C) Which product is more profitable?

Product A - Contribution = Selling Price – Variable Cost = 250 – 70 = 180

PV ratio = $180 * 100/250 = 72\%$ (contribution * 100/SP)

Product B – Contribution = Selling price – Variable Cost = 300 – 105 = 195

PV ratio = $195 * 100/300 = 65\%$ (contribution * 100/SP)

As PV ratio of Product A is higher than B, it is more profitable

D) Trading account of Mr. Nikhil for the year ended March 31st 2015.

Particulars	Amt	Amt	Particulars	Amt	Amt
To opening stock		25000	To sales	1000000	
To purchases	40000		Add: unrecorded sales	<u>20000</u>	
Add: unrecorded purchase	<u>10000</u>			1020000	
	50000		Less: returns	<u>(4000)</u>	1016000
Less: returns	<u>(3000)</u>	47000			
To import duty		10000	To closing stock		200000
To fuel charges		20000			
To octroi		4500			
To carriage inward		3500			
To gross profit c/f		1106000			
		1216000			1216000

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E) Profit and Loss account of Mr. Susheer for the year ending March 31st 2014.

Particulars	Amt	Amt	Particulars	Amt	Amt
To trading expenses		20000	<i>By gross profit b/d</i>		<i>500000</i>
To gratuity paid		15000	By royalty recd		20000
To sundry expenses		13000	By misc receipt		5000
To carriage outward		4300	By rent received		7000
To discount given		3700			
To electricity charges		25000			
<i>To net profit c/f</i>		<i>451000</i>			
		532000			532000

F) Deferred revenue expenditure: It is an expenditure which is partly capital and partly revenue in nature. Normally it will fall under the revenue category but since its benefit lasts or increases to a period of more than one financial year, it is referred to as deferred revenue expenditure. The word **deferred**, which means 'holding something back for a later time'. The main difference between revenue and deferred revenue expenditure is its benefit that lasts for more than a year. For example advertising expenditure is revenue in nature but **heavy advertising expense** incurred on a launch of a new product whose benefit can be enjoyed for more than a year is a deferred revenue expense. Another example is white washing a kitchen is a revenue expense as its benefit will last for a year but oil painting is a deferred revenue expenditure as its benefit will last for more than a year. Third example is preliminary (initial) expenditure incurred by the sole proprietor on marketing of a new product. The benefits of the same are assumed to be enjoyed to be for 4 years.

Question 5

Part A:

Write detailed notes on any 3 out of 4.

1. Types of cheques: Students to elaborate on cross cheque and bearer cheque with a diagram.
2. Material cost and labour cost: Students to elaborate on material cost (F&B cost) and labour cost with examples.
3. Final accounts: Students to explain the basic meaning of final accounts and then elaborate on Trading, P&L accounts and balance sheet.
4. Capital and drawing: Capital is the amount invested by the proprietor and drawings are withdrawals for personal use. (elaborate)

Part B:

Gross Profit = Rs. 38150

Net loss = Rs. 3700

Balance sheet = Rs 181550
