

NATIONAL LAW UNIVERSITY, JODHPUR
End Term Examination August-December - 2025
UG I Semester
Principles of Accounting

Time: Three Hours

Marks: 100

Instructions:

- i) *Attempt any five questions out of six questions.*
- ii) *Adhere to the examination rules.*
- iii) *Use of simple calculator is permitted.*

Q.1). A. "Accounting is the language of business, while management is the art of using that language to make informed decisions." Discuss the relationship between accounting and management in light of this statement. How does accounting information support various functions of management such as planning, controlling, and decision-making?

B. Explain the following accounting concepts:

- i. Periodicity
- ii. Going Concern

(Marks 10+10=20)

Q.2). Arham Legal Consultants, a corporate law firm in Mumbai specializing in mergers and acquisitions, recorded various transactions during the financial year ending March 31, 2025. Some of the transactions occurred during the financial year 2024-25 are as follows: On July 1, 2024, the firm purchased new office furniture and computers for ₹ 3,60,000 to modernize its infrastructure. It also renovated its conference room for ₹ 95,000 and installed legal drafting software costing ₹ 80,000 to streamline due diligence work. During the same period, the firm earned ₹ 12,50,000 as professional fees for merger advisory and restructuring services, and ₹ 40,000 as consultancy income from assisting a client with corporate registration.

To support daily operations, the firm paid annual office rent amounting to ₹ 2,40,000 and disbursed ₹ 1,90,000 as staff and associate salaries. Expenditure on journals, and stationery totalled ₹ 25,000, while ₹ 22,000 was spent on a staff training workshop on corporate restructuring. Additional payments included ₹ 28,000 for external audit services, ₹ 18,000 for electricity and internet, and ₹ 9,500 for professional indemnity insurance. The firm also received ₹ 35,000 as reimbursement from clients for travel and conveyance and ₹ 20,000 as interest income from a fixed deposit. Later in the year, a senior partner infused an additional ₹ 1,00,000 into the firm's capital, and an old photocopying machine was sold for ₹ 15,000.

Classify each transaction under *Capital Expenditure*, *Revenue Expenditure*, *Capital Receipt*, or *Revenue Receipt* with justification.

(Marks 20)

Q.3). Write notes on the following:

- i. IND AS 1 - Presentation of Financial Statements
- ii. IND AS 2 - Inventories
- iii. IND AS 7 - Statement of Cash Flows
- iv. IND AS 24 - Related Party Disclosures

(Marks 4*5=20)

Q.4). Dimple, Sara and Jigna are three close friends who love the outdoors. They are avid trekkers and have an entrepreneurial spirit. They decide to create a small company to sell trekking accessories. They call the company DSJ. Each partner contributes ₹ 20,000. They incorporate DSJ on July 1 of year 1, and each owner receives 4,000 shares with a nominal value of ₹ 5. On the same day, DSJ borrows ₹ 18,000 from a local bank at an annual interest rate of 4%. The loan is to be repaid in full on December 31 of year 1 and the interest is to be repaid on a monthly basis. All the money is deposited in DSJ's current account. On July 1, DSJ rents a warehouse and pays ₹ 10,800 for six months' rent in advance. Following transactions took place in the period from 1st July to 30th September of year 1:

In early July, DSJ pays ₹ 8,000 in cash for equipment. The equipment is expected to have a useful economic life of five years and zero residual value at the end of its life.

The company purchases merchandise inventory (i.e., trekking gear) worth ₹ 56,000 on credit.

DSJ sells trekking accessories costing ₹ 42,000 for ₹ 64,000. All sales are on account except for ₹ 6,000, which are for cash.

The company receives ₹ 3,000 from a customer as a deposit for an order to be delivered in October.

The company collects ₹ 23,000 from credit customers.

DSJ pays ₹52,000 to the suppliers of merchandise inventory.

On July 1, DSJ hires an employee. His monthly salary is ₹ 2,400 and is paid in cash at the end of each month.

Other operating expenses (utilities, etc.) amount to ₹ 4,500 and are paid in full in the period.

At the end of September, DSJ records a depreciation expense of ₹ 400 to recognize that the equipment is not new anymore.

The company also records the rent expense for the three-month period.

The interest expense incurred during this three-month period is ₹ 180, which is not paid.

The income tax rate is 25%. DSJ recognizes an income tax expense of ₹ 850, which will be paid in November.

Analyse the effect of the above transactions on the accounting equation. Prepare Balance Sheet as on 30th September for DSJ.

(Marks 20)

Q.5). A. What effect would the following actions have on a firm's current ratio? Assume that the working capital is positive. Provide proper reasons.

- i. Payments made to suppliers
- ii. A long-term debt is paid off early
- iii. A customer pays off credit account
- iv. Inventory is sold for a profit

B. Explain the meaning and interpretation of the debtors' turnover ratio and assets turnover ratio.

(Marks 10+10=20)

Q.6). Briefly discuss the underlying motivations for committing fraud in financial reporting of a business firm.

(Marks 20)