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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are true or false:*

(i) *Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.*

(ii) *Re-issue of forfeited shares is allotment of shares but not a sale.*

(iii) *If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.*

(iv) *There are two ways of preparing an account current.*

(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 x 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 ₹ 3,000 posted to Subham account as ₹ 300.* JE

(ii) *A Sales Return of ₹ 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 ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.*

(iv) *An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.* ***(4 Marks)***

Answer

(a) (i) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

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(ii) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

(iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) **False:** There are three ways of preparing an Account Current: (i)With help of interest table; (ii) By means of products and (iii) By means of products of balances.

(v) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

(vi) **False:** Interest coverage ratio is computed as Earnings before interest and taxes divided by Interest. This indicates the firm's ability to meet only the interest and other fixed-charges obligations and not instalments.

(b) Difference between Provision and Contingent liability

	Provision	*Contingent liability*
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

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(c) **Journal Entries**

	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	
	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

Question 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*

CONSIGN

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 1st 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 received Cash loan*	*₹ 1,500*

BOE

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Alok pays the whole amount on 31st 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 2nd - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 80,000

December 10th - Goods returned by customers ₹ 35,000

SOA

December 17th - Received letters from customers for approval ₹ 35,000

December 23rd - 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 31st Dec. 2017.

OR

(ii) *From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st 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*

(5 Marks)

Answer

(a) In the books of Shri Ganpath

Consignment to Rawat of Jaipur Account

Particulars	***₹***	***Particulars***	***₹***
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
		By Goods lost in Transit 50 cases @ ₹ 1,650 each*	82,500

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To	Bank (Expenses: 15,000+45,000+15,000)	75,000	By	Consignment Inventories:	
To	Rawat (Expenses: 18,000+25,000+7,000)	50,000		In hand 50 @ ₹ 1,695 each	84,750
To	Rawat (Commission)	73,500	By	Consignment Inventories:	
To	Profit on Consignment ts/f to Profit & Loss A/c	36,250		In transit 50 @ ₹ 1,650 each**	82,500
		9,84,750			9,84,750

Considered as abnormal loss.

*** The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value.*

Rawat's Account

Particulars	**₹**	***Particulars***	**₹**
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c(Expenses)	50,000
		By Consignment A/c(Commission)	73,500
		By Balance c/d	6,11,500
	7,35,000		7,35,000

Working Notes:

(i) Consignor's expenses on 500 cases amounts to ₹ 75,000; it comes to ₹ 150 per case. The cost of cases lost will be computed at ₹ 1,650 per case.

(ii) Rawat has incurred ₹ 18,000 on clearing 400 cases, i.e., ₹ 45 per case; while valuing closing inventories with the agent ₹ 45 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of ₹ 6,11,500 is not yet paid.

(b) Calculation of average due date

Alok pays the whole amount on 31st March, 2018 together with interest at 6% per annum.

Due Date	***Amount***	***No. of days from Jan. 1***	***Product***
2018	***₹***		
Jan. 1	650	0	0
Jan. 15	1,200	14	16,800
Feb. 10	850	40	34,000
March 7	1,500	65	97,500
	4,200		1,48,300

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Average due date = Base date + days equal to $\frac{\text{Sum of Products}}{\text{Sum of the amounts}}$

= Jan. 1 + $\left[\frac{1,48,300}{4,200}\right]$

= Jan. 1 + 35.31*days

= Feb. 6

Interest therefore has been calculated on ₹ 4,200 from 6th Feb. to 31st March, i.e., for 54 days.

4,200 x 6% x 54/365= ₹ 37.28

(c) (i) **In the books of Mr. Badhri**

Journal Entries

Date	*Particulars*		*L.F.*	*Dr. (in ₹)*	*Cr. (in ₹)*
2017					
Dec. 2	Trade receivables A/c	Dr.		80,000	
	To Sales A/c				80,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		35,000	
	To Trade receivables A/c				35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		15,000	
	To Trade receivables A/c				15,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		12,000	
	To Trading A/c (Note 3)				12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

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Note:

(1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards account.

(2) No entry is required for receiving letter of approval from customer.

(3) Cost of goods with customers = ₹ 15,000 x 100/125 = ₹ 12,000

(4) It has been considered that the transaction values are at involve price (including profit margin).

(ii) Bhuvanesh

in Account Current with Avinash
for the period ending on 31st March 2018

Date	*Particulars*	*Amount*	*Days*	*Products*	*Date*	*Particulars*	*Amount*	*Days*	*Products*
2018		*₹*			*2018*		*₹*		
Jan.1	To Balance b/d	1,800	90*	1,62,000	Jan.15	By Sales Returns	650	75	48,750
Jan. 10	To Sales A/c	1,500	80	1,20,000	Feb. 12	By Bank A/c	1,000	47	47,000
March, 11	To Sales A/c	720	20	14,400	Feb. 20	By B/R A/c (due date: March 23)	1,500	8	12,000
March, 31	To Interest A/c	24			March, 14	By Cash A/c	800	17	13,600
					March, 31	By Balance of products			1,75,050
						By Balance c/d	94		
		4,044		2,96,400			4,044		2,96,400

***Calculation of interest**

Interest = (1,75,050 x 5%)/365= ₹ 24

**Opening day considered in calculation of no. of days.*

Question 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*

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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*	
General expenses	*11,000*	
Bank charges	*3,800*	
Bad debts	*12,200*	
Repairs the 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	***30,73,400***	***30,73,400***

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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)

Answer

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		*Less:* Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Raghuram & Associates

Profit and Loss Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			

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To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Raghuram & Associates as at 31st March 2018

Liabilities	***Details***	***Amount***	***Assets***	***Details***	***Amount***
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		*Less:* Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	*Less:* Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	*Less:* Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	*Less:* Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000

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			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium

	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months $\left(\frac{6,000}{15}\times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	=	4,500
Less: interest as per Trial Balance	=	(4,400)
Amount (Outstanding)		100

(4) Provision for bad debts A/c

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

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Question 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 30th 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:*

COMP

(i) ₹ 2 per share payable on application, to be received by 1st July, 2017;

(ii) Allotment to be made on 10th 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 30th 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;

(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 31st 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	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
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

PARTNER

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B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .

(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 ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
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)***

Answer

(a) Journal of Piyush Limited

Date 2017	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with			

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	allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)			
April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares @ ₹ 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

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(b) **Revaluation Account**

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy	10,000	By Provision for	
To Partners' capital A/cs:		doubtful debts	15,000
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		
	5,62,000		5,62,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation reserve	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2018 (After B's retirement)

Liabilities	₹	₹	*Assets*	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000

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			JLP		1,50,000
			Cash at bank		1,50,000
		28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. **Average of last 4 year's profit**

   = (90,000+1,40,000+1,20,000+1,30,000)/4

   = ₹ 1,20,000

2. **Goodwill at three years' purchase**

   ₹ 1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	***Share of goodwill (New ratio)***	***Adjustment***
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

Question 5

(a) You are provided with the following details:

Current ratio	*2.5*
Liquidity ratio	*1.5*
Net Working Capital	*₹ 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*

COMP

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

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Zoom Ltd.

Balance Sheet as at 31st March, 2018

Liabilities	*₹*	*Assets*	*₹*
Share Capital	*?*	*Fixed Assets*	*?*
Reserves and Surplus	*?*	*Stock*	*?*
Long-Term Borrowings	*1,50,000*	*Debtors*	*?*
Current Liabilities	*?*	*Bank*	*50,000*
Total	*11,00,000*		*11,00,000*

(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% if 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)

COMP

Answer

(a) Balance Sheet of Zoom Ltd. as at 31.3.2018

Capital and Liabilities	**₹**	***Assets***	**₹**
Share Capital	5,00,000	Fixed assets	6,00,000
Reserves & Surplus	2,50,000	Stock	2,00,000
Long term borrowings	1,50,000	Debtors	2,50,000
Current liabilities	2,00,000	Bank	50,000
	11,00,000		11,00,000

Working Notes:

Assume Current Liabilities	1.0
Current Assets are	2.5
Therefore, Difference or working capital	1.5
Given, Working Capital	₹ 3,00,000

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Current Assets = ₹ 3,00,000 x 2.5/1.5 =	₹ 5,00,000
Current Liabilities =	₹ 2,00,000
Given, Liquidity Ratio =	1.5
Liquid Assets ₹ 2,00,000 x 1.5 =	₹ 3,00,000
Therefore, Stock = (Current Assets – Liquid Assets) =	
₹ 5,00,000 - ₹ 3,00,000	
Stock = ₹ 2,00,000	
Cost of Sales (as stock turnover is 6) = ₹ 2,00,000 x 6 =	₹ 12,00,000
Sales (G.P. ratio 20%) = ₹ 12,00,000 + [20/80) x 12,00,000]	
Sales = 15,00,000*	
Fixed Assets = ₹ 12,00,000 / 2 = ₹ 6,00,000	
Debtors = ₹ 15,00,000/6 = ₹ 2,50,000**	
Net worth = ₹ 6,00,000 x 1/ 0.8 = ₹ 7,50,000	
Reserve and Surplus, 1/3rd of net worth = ₹ 2,50,000	
Share Capital = ₹ 7,50,000 - ₹ 2,50,000 = ₹ 5,00,000	

**Alternatively, candidates may use fixed assets turnover ratio for computation of sales.*

***The balance of Debtors can be calculated as balancing figure in the balance sheet.*

(b) **Trade Receivables Turnover Ratio = Net Credit Sales/ Average Trade receivables**

Trade Receivables Turnover Ratio = ₹ 4,50,000/ ₹ 1,00,000

= 4.5 times.

Average collection period

$$= \frac{\text{Average accounts receivable}}{\text{Average daily credit sale}}$$

Average daily credit sales = 4,50,000/360*= 1,250

= 1,00,000/1,250

= 80 days

Therefore, on an average, debtors take 80 days to pay.

** 360 days considered.*

Gross Profit Ratio

= Gross Profit/Sales x 100

= (6, 00,000 – 4, 20,000) / 6, 00,000 x 100= 30%

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Working notes:

1. **Credit sales= Total sales – Cash sales**

   Cash Sales = 25% of ₹ 6,00,000 = ₹1,50,000

   Credit Sales = ₹ 6,00,000 – ₹ 1,50,000 = ₹ 4,50,000

2. **Average Trade Receivables** = (Opening Trade Receivables + Closing Trade Receivables)/ 2

   = (₹ 60,000 + ₹ 1,40,000) / 2

   = ₹ 1,00,000

Question 6

(a) The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following:

(i) A Cheque of Rs,1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.

(ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

BRS

(iii) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to ₹ 7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.

(v) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.

(vi) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.

(vii) A Bill Receivable for ₹ 5,200 previously dishonoured (Discount ₹ 200) with the Bank had been dishounoured but advice was received on 1st April, 2018.

(viii) A Bill for ₹ 10,000 was retired /paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018. ***(10 Marks)***

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(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 undercast by ₹ 8,000.

(ii) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.

RECTI

(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)***

Answer

(a) **Bank Reconciliation Statement**

as on 31st March, 2018

Particulars	***₹***
Bank balance (Debit i.e. overdraft) as per Bank Pass book	33,575
(i) No adjustment required as there would be no difference on 31.3.18	
(ii) *Add:* No entry in Cash book for interest collection by Bank	2,800
(iii) *Less:* Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(7,500)
(iv) *Add:* Cheque credited in cash book but not debited in pass book	2,500
(v) *Add:* Reversal of wrong Credit	500
Less: Reversal of wrong debit	(300)
(vi) *Less:* Cheque of ₹ 1,0000 entered in cash book but omitted to be banked	(1,000)
(vii) *Less:* Discounted dishonored but no entry in Cash book	(5,200)
(viii) *Add:* Rebate on bill retired not entered in cash book	175
(viii) *Add:* Cheques deposited in bank not yet recorded in cash book	2,400
Balance (Cr. i.e. overdraft) as per Cash book	27,950

Note: A cheque of ₹ 1,080 credited in Pass Book on 28th March, 2018 and later debited in Pass Book on 1st April, 2018 has no effect on Bank Reconciliation statement as at 31st March, 2018.

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(b) Journal Entries in the books of Miss Daisy

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c	Dr.	8,000	
	To Suspense*A/c			8,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	2,500	
	To Profit & Loss Adjustment A/c			2,500
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anbu's Account	Dr.	1,200	
	To Asok's Account			1,200
	(Amount received from Asok wrongly posted to the account of Anbu; now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)			
(v)	Profit & Loss Adjustment A/c	Dr.	1,800	
	To Machinery A/c			1,800
	(Repairs to machinery was wrongly debited to machinery account, now rectified)			
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. Paul Account			6,000
	Credit purchase of goods from Mr. Paul sale last year, now rectified)			
(vii)	Daisy's Capital A/c	Dr.	13,750	
	To Profit and Loss Adjustment Account			13,750
	(Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	8,450	
	To Daisy's Capital A/c			8,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

**Considering that the difference was posted to Suspense account.*

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Working Notes

1. Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c (Bal. Transfer)	13,750
To Machinery A/c	1,800		
To Mr. Paul's A/c	6,000		
	16,250		16,250

2. Suspense Account

	₹		₹
To Daisy's Capital A/c (Balance Transfer)	8,450	By P & L Adj. A/c	8,000
		By P & L Adj. A/c	450
	8,450		8,450

GBC

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are true or false:*

(i) *Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.*

(ii) *Depreciation is a non-cash expense and does not result in any cash outflow.*

(iii) *Fees received for Life Membership is a revenue receipt as it is of recurring nature.*

(iv) *If Closing Stock appears in the Trial Balance:*

The closing inventory in then not entered in Trading Account. It is shown only in the balance sheet.

(v) *Inventory Turnover Ratio is also known as Stock Turnover Ratio.*

(vi) *If del-creders commission is paid to consignee, the loss of bad debts is to be borne by the consignor.* ***(6 x 2 = 12 Marks)***

(b) *Discuss the limitations which must be kept in mind while evaluating the Financial Statements.* THEORY ***(4 Marks)***

(c) *A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.* DEPRE ***(4 Marks)***

Answer

(a) **(i)** **False:** Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.

(ii) **True:** Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

(iii) **False:** Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

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(iv) **True:** The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.

(v) **True:** Inventory Turnover Ratio is also known as Stock Turnover Ratio. It establishes the relationship between the cost of goods sold during the year and average inventory held during the year.

(vi) **False:** To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

(i) The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money

(ii) Balance sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in the long run and not for the past date.

(iii) Accounting ignores changes in some money factors like inflation etc.

(iv) There are occasions when accounting principles conflict with each other.

(v) Certain accounting estimates depend on the sheer personal judgment of the accountant.

(vi) Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – ₹ 1,00,000 × 4 = ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

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Question 2

(a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

(i) Sales Day Book was overcast by ₹ 1,000.

(ii) A sale of ₹ 5,000 to X was wrongly debited to the Account of Y. RECTI

(iii) General expenses ₹ 180 was posted in the General Ledger as ₹ 810.

(iv) A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.

(v) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.

(vi) Cash received from Ram was debited to Shyam ₹ 1,500.

(vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

(10 Marks)

(b) *Define the term "Royalty" and give any four examples for the same.* THEORY ***(5 Marks)***

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

(i) From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31st October, 2018 by means of product method charging interest @ 5% p.a.

Date	Particulars	(₹)
1st July	Balance due from XY	1,500
20th August	Sold goods to XY	2,500
28th August	Goods returned by XY	400
25th September	XY paid by cheque	1,600
20th October	Received cash form XY	1,000

A/C CURRENT

(ii) Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at ₹ 75,000 which included ₹ 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to-

SOA

Mr. Adhitya ₹ 3,900 and Mr. Bakkiram ₹ 2,600.

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Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was ₹ 50,000. ***(5 Marks)***

Answer

(a)

(i)	P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.	1,000	 1,000
(ii)	X To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)	Dr.	5,000	 5,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)	Dr.	630	 630
(iv)	Bills Receivable A/c Bills Payable A/c To P (Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)	Dr. Dr.	1,550 1,550	 3,100
(v)	P & L Adjustment A/c To Mrs. Neetu (Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)	Dr.	1,190	 1,190
(vi)	Suspense A/c To Ram To Shyam (Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)	Dr.	3,000	 1,500 1,500
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)	Dr.	90	 90

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Suspense A/c

	₹		₹
To P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram	1,500	By Difference in Trial Balance (Balancing figure)	2,720
To Shyam	1,500		
To P&L Adjustment A/c	90		
	3,720		3,720

(b) "Royalty" may be defined as Periodic payment made by one person (lessee) to another person (lessor) for using the right by the lessee vested in the lessor.

Examples:

1. For the extraction of oil, coal, and minerals.
2. To an author for sale of his books.
3. To a patentee for the use of patent.
4. For use of technical knowhow developed by a party

(c) (i) XY in Account Current with AB as on 31st Oct, 2018

		(₹)	Days	Product (₹)			(₹)	Days	Product (₹)
01.07.18	To Bal. b/d	1,500	123	1,84,500	28.08.18	By Sales Returns	400	64	25,600
20.8.18	To Sales	2,500	72	1,80,000	25.09.18	By Bank	1,600	36	57,600
31.10.18	To Interest	37			20.10.18	By Cash	1,000	11	11,000
					20.10.18	By Balance of Products			2,70,300
					31.10.18	By Bal. c/d	1,037		
		4,037		3,64,500			4,037		3,64,500

Note:

Interest $= ₹\ 2,70,300 \times \frac{5}{100} \times \frac{1}{365} = ₹\ 37$ (approx.)

(ii) In the Books of Mr. Ganesh

Journal Entries

Date	*Particulars*		*L.F.*	*Dr.* ₹	*Cr.* ₹
2018	Sales A/c	Dr.		6,500	

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March 31	To Trade receivables A/c				6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				
March 31	Inventories with Customers on Sale or Return A/c	Dr.		5,000	
	To Trading A/c (Note 1)				5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April 25	Trade receivables A/c	Dr.		3,900	
	To Sales A/c				3,900
	(Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)				

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	₹	*Assets*	₹	₹
		Trade receivables (₹ 75,000 - ₹ 6,500)		68,500
		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	55,000
				1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x ₹ 6,500 = ₹ 5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

Question 3

(a) *Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:*

Liabilities	*(₹)*	*Assets*	*(₹)*
Trade payables	*22,500*	*Land & Buildings*	*37,000*
Outstanding Liabilities	*2,200*	*Furniture & Fixtures*	*7,200*
General Reserve	*7,800*	*Closing stock*	*12,600*
Capital Accounts:		*Trade Receivables*	*10,700*
Dinesh 15,000			

PARTNER

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Ramesh	*15,000*			
Naresh	*10,000*	*40,000*		
			Cash in hand	*2,800*
			Cash at Bank	*2,200*
		72,500		***72,500***

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

(i) *Suresh shall bring ₹ 8,000 towards his capital.*

(ii) *The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.*

(iii) *Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.*

(iv) *The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.*

(v) *The new profit sharing ratio shall be divided equally among the partners.*

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

(b) *Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:*

Trading and P&L A/c for the year ended 31st March, 2018

Particulars	*(₹)*	*Particulars*	*(₹)*
To Cost of Goods sold	*22,00,000*	*By Sales*	*45,00,000*
To Gross Profit C/d	*?*		*45,00,000*
		By Gross Profit B/d	*?*
To Salaries paid	*12,00,000*	*By Other Income*	*45,000*
To General Expenses	*6,00,000*		
To Selling Expenses	*?*		
To Commission to Manager (On net profit before charging such commission)	*1,00,000*		
To Net Profit	*?*		
	?		*?*

FA

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Selling expenses amount to 1% of total Sales

You are required to compute the missing figures.

Answer

(a) **Revaluation Account**

2018			₹	2018		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs:					
	(Profit on revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

Partners' Capital Accounts

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.		1,500	
Suresh (6/24 of ₹18,000)	Dr.		4,500	
To Dinesh (6/24 od ₹18,000)				4,500
To Ramesh (2/24 of ₹18,000)				1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	₹	₹	*Assets*	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners :			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		*Less:* Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			86,245

(b) Trading and P&L A/c for the year ended 31st March 2018

Dr. *Cr.*

Particulars	₹	Particulars	₹
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	23,00,000		
	45,00,000		45,00,000
To Salaries A/c	12,00,000	By Gross Profit b/d	23,00,000

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To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses (1% of 45,00,000)	45,000		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	4,00,000		
	23,45,000		23,45,000

Question 4

(a) *Raj of Gwalior consigned 15,000 kgs of Ghee at ₹ 30 per kg to his agent Siraj at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim.*

CONSIGN

Siraj sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.

(b) *Prepare a bank reconciliation statement from the following particulars as on 31st March, 2018.*

Particulars	**(₹)**
Debit balance as per bank column of the cash book	*18,60,000*
Cheque issued to creditors but not yet presented to the Bank for payment	*3,60,000*
Dividend received by the bank but not entered in the Cash book	*2,50,000*
Interest allowed by the Bank	*6,250*
Cheques deposited into bank for collection but not collected by bank up to this date	*7,70,000*
Bank charges not entered in Cash book	*1,000*
A cheque deposited into bank was dishonoured, but no intimation received	*1,60,000*
Bank paid house tax on our behalf, but no intimation received form bank in this connection	*1,75,000*

BRS

(10 Marks + 10 Marks = 20 Marks)

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Answer

(a) **Consignment Account**

	₹			₹
To Goods sent on consignment A/c (15,000 kg x ₹ 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x ₹ 60)		4,50,000
To Cash A/c (Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c (Insurance claim - WN)	9,000	
To Consignee's A/c:		Add: Abnormal Loss (WN) (Profit and Loss Account)	5,000	14,000
Advertisement & Recurring expenses	33,000			
Commission @ 5% on ₹4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			
	7,10,690			7,10,690

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x ₹ 30)	12,000
Add: expenses incurred by the consignor @ ₹5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (₹)
Total Cost (15,000 kg x ₹30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of ghee sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

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(b) **Bank Reconciliation Statement as on 31st March, 2018**

Particulars	Details ₹	Amount ₹
Debit balance as per Cash Book		18,60,000
Add: Cheque issued but not yet presented to bank for payment	3,60,000	
Dividend received by bank not entered in cash book	2,50,000	
Interest credited by bank	6,250	6,16,250
		24,76,250
Less: Cheques deposited into bank but not yet collected	7,70,000	
Bank charges debited by Bank	1,000	
Cheque deposited into bank was dishonoured	1,60,000	
House tax paid by bank	1,75,000	(11,06,000)
Credit balance as per Pass Book		**13,70,250**

Question 5

(a) *You are provided with the following:*

Balance Sheet as on 31st March, 2017

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital Fund	*1,06,200*	*Building*	*1,50,000*
Subscription received in Advance	*6,000*	*Outstanding Subscription*	*3,800*
Outstanding Expenses	*14,000*	*Outstanding Locker Rent*	*2,400*
Loan	*40,000*	*Cash in hand*	*20,000*
Sundry Creditors	*10,000*		
Total	***1,76,200***		***1,76,200***

NPO

The Receipts and Payment Account for the year ended on 31st March, 2018

Receipts		*(₹)*	*Payment*		*(₹)*
To Balance b/d			*By Expenses:*		
Cash in Hand		*20,000*	*For 2017*	*12,000*	
To Subscriptions:			*For 2018*	*20,000*	*32,000*
For 2017	*2000*		*By Land*		*40,000*

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For 2018 21,000		*By Interest*	*4,000*
For 2019 1,000	*24,000*	*By Miscellaneous Expenses*	*4,700*
To Entrance Fees	*38,000*	*By Balance c/d*	
To Locker Rent	*7,000*	*Cash in Hand*	*18,300*
To Sale proceeds of old newspapers	*1,000*		
To Miscellaneous Income	*9,000*		
	99,000		*99,000*

You are required to prepare Income and Expenditure account for the year ended 31st March, 2018 and a Balance Sheet as at 31st March, 2018 (Workings should form part of your answer).

(b) With the following ratios and further information given below, you are required to prepare a Trading account and Profit & Loss account and a Balance Sheet of Sri Ganesh:

(i) Gross Profit Ratio = 25%

(ii) Net Profit/Sales = 20%

(iii) Stock Turnover Ratio = 10

(iv) Net Profit/Capital = 1/5

(v) Capital to Total other Liabilities = 1/2

(vi) Fixed Assets/Capital = 5/4

(vii) Fixed Assets/Total Current Assets = 5/7

(viii) Fixed Assets = ₹ 10,00,000

(ix) Closing Stock = ₹ 1,00,000 ***(10 Marks + 10 Marks = 20 Marks)***

Answer

(a) Income and Expenditure Account for the year ended 31st March, 2018

Expenditure	₹	Income	₹
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of old newspapers	1,000
To Surplus	12,900	By Misc. income	9,000
	41,600		41,600

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Balance Sheet as at 31st March, 2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription receivable (2017)	1,800
Add: Entrance fee	38,000		(3,800 – 2,000)	
Add: Surplus	12,900	1,57,100		
Loan		40,000	Cash in hand	18,300
Creditors		10,000		
Outstanding expenses (2017) (14,000-12,000)		2,000		
Subscription received in advance		1,000		
		2,10,100		2,10,100

Note: Entrance fees have been capitalized in the above solution.

(b) **Trading and Profit and Loss Account for the year ended...............**

	₹		₹
To Opening Stock	20,000	By Sales	8,00,000
To Purchases (Balancing figure)	6,80,000		
To Gross Profit c/d	2,00,000	By Closing stock	1,00,000
	9,00,000		9,00,000
To Expenses	40,000	By Gross Profit b/d	2,00,000
To Net Profit	1,60,000		
	2,00,000		2,00,000

Balance Sheet of Sri Ganesh as at.............

Liabilities	₹	Assets	₹
Capital		Fixed assets	10,00,000
Opening Balance	6,40,000		
Add: Net Profit	1,60,000	Closing stock	1,00,000
	8,00,000		
Current Liabilities	16,00,000	Other Current assets	13,00,000
	24,00,000		24,00,000

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1. Fixed Asset is ₹10,00,000

   Fixed Assets / Capital = 5/4

   Therefore, Capital – ₹10,00,000 x 4/5 = ₹8,00,000
2. Capital is ½ of Total Liabilities

   Therefore Liabilities = ₹8,00,000 x 2 = ₹16,00,000
3. Net Profit is 1/5 of Capital

   Therefore Net Profit = ₹8,00,000 x 1/5 = ₹1,60,000
4. Net Profit is 20% of Sales

   Therefore Sales = ₹1,60,000 x 100/20 = ₹8,00,000
5. Gross Profit Ratio = 25% of Sales

   Therefore, Gross Profit = ₹8,00,000 x 25% = ₹2,00,000
6. Stock Turnover Ratio (i.e. Cost of Sales/Average Inventory) is 10

   Cost of Sales = Sales – Gross Profit

   = ₹8,00,000 – ₹2,00,000

   = ₹6,00,000

   Therefore Average Inventory = ₹6,00,000 / 10 = ₹60,000
7. Closing Stock is ₹1,00,000

   Average Inventory = ₹60,000

   Therefore, Opening Stock = (₹60, 000 x 2) - Rs1,00,000 = ₹20,000
8. Fixed Assets is ₹10,00,000

   Fixed Assets / Total Current Assets = 5/7

   Therefore, Total Current Assets is 10,00,000 x 7/5 = ₹14,00,000

   Closing Stock = ₹1,00,000

   Therefore other Current Assets = ₹13,00,000

Question 6

(a) *Give necessary journal entries for the forfeiture and re-issue of shares:*

(i) *X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for ₹ 8 per share.* COMP

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(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

(iii) X Ltd. forfeited 100 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 80 shares were re-issued to Simple at ₹ 8 per share and called up for ₹ 6 share.

(b) Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.

Calculate the amount of discount to be written-off in each of the 5 years. COMP

(c) Karan purchased goods from Arjun, the average due date for payment in cash is 10.08.23018 and the total amount due is ₹ 1,75,800. How much amount should be paid by Karan to Arjun, if total payment is made on following dates and interest is to be considered at the rate of 15% p.a.

(i) On average due due

(ii) On 28th August, 2018

(iii) On 29th July, 2018 ***(10 + 5 + 5 = 20 Marks)***

Answer

(a) (i) Journal Entries in the books of X Ltd.

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 x ₹ 3)			900
	To Equity Share Final Call A/c (300 x ₹ 4)			1,200
	To Forfeited Shares A/c (300 x ₹ 3)			900
	(Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…………….dated……………..)			
(b)	Bank Account (300 x 8)	Dr.	2,400	
	Forfeited Shares Account (300x 2)	Dr.	600	
	To Equity Share Capital Account			3,000
	(Being the re-issue of 300 forfeited shares @ ₹ 8 each as fully paid up to Suresh as per			

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	Board's resolution No……….dated……………..)			
(c)	Forfeited Shares Account	Dr.	300	
	To Capital Reserve Account			300
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			*Dr.* ₹	*Cr.* ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No………. dated……………….)			
(b)	Bank Account	Dr.	900	
	Forfeited Shares Account	Dr.	600	
	To Equity Share Capital Account			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No……………. dated…………..)			
(c)	Forfeited Shares Account	Dr.	150	
	To Capital Reserve Account			150
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹750
Less: Forfeiture of 150 shares	(₹600)
Profit on re-issue of shares	₹150

(iii)

Date			*Dr.* ₹	*Cr.* ₹
(a)	Equity Share Capital A/c (100 x ₹ 6)	Dr.	600	

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	To Equity Share Final Call A/c (100 x ₹ 3)			300
	To Discount on issue of shares (100 x ₹ 1)			100
	To Forfeited Shares A/c (100 x ₹ 2)			200
	(Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No…………dated…….)			
(b)	Bank Account (80 x ₹ 6)	Dr.	480	
	Discount on issue of shares (80 x ₹ 1)	Dr.	80	
	Forfeited Shares A/c (80 x ₹ 1)	Dr.	80	
	To Equity Share Capital Account (80 x ₹ 8)			640
	(Being the re-issue of 80 shares fully paid up as per Board's Resolution No………dated……….)			
(c)	Forfeited Shares Account		80	
	To Capital Reserve Account			80
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2)	₹ 200.00
Forfeited shares balance for 80 shares	₹ 160
Less: Forfeiture of 80 shares	(₹ 80.00)
Profit on re-issue of shares	₹ 80.00

Note: It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has been given strictly based on the information provided in the question.

(b) Total amount of discount comes to ₹ 60,000 (₹ 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

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4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

(c)

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**		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x 0/365 =0	₹ 1,75,800
(ii)	**Payment on 28th Aug. 2018**		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x 18/365= 1,300 Interest to be charged for period of 18 days from 10th August 2018 to 28th Aug. 2018	₹ 1,77,100
(iii)	**Payment on 29th July, 2018**		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x (12)/365= (867) Rebate has been allowed for unexpired credit period of 12 days from 29.7.2018 to 10.8.2018	₹ 1,74,933

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are true or false:*

(i) *Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.*

(ii) *If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.*

(iii) *In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.*

(iv) *In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.*

(v) *Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.*

(vi) *The relationship between sales and fixed assets is expressed as working capital ratio.*

(6 Statements x 2 Marks = 12 Marks)

(b) *Distinguish between Going Concern concept and Cost concept.* THEORY ***(4 Marks)***

(c) *Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance:*

(i) *An amount of ₹ 4,500 received on account of Interest was credited to Commission account.*

(ii) *A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobhag Traders at ₹ 2,670* RECTI

(iii) *₹ 35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.*

(iv) *Goods returned by customer for ₹ 5,000. The same have been taken into stock but no entry passed in the books of accounts.* ***(4 Marks)***

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Answer

(a) (i) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(ii) **False:** If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

(iii) **False:** In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

(iv) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

(v) **False:** The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

(vi) **False:** The relationship between sales and fixed assets is expressed as fixed assets turnover ratio.

(b) **Going Concern concept:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

Cost concept: By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. It is highly objective and free from all bias.

(c)

S. No.			Debit (₹)	Credit (₹)
1	Commission A/c	Dr.	4,500	
	To Interest Received			4,500
	(Correcting wrong entry of interest received into commission account)			
2	M/s Sobhag Traders A/c	Dr.	90	
	To Suspense A/c			90

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	(Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobhag Traders A/c less by 90, now rectified)		
3	Drawing A/c Dr.	35,000	
	To Machinery A/c		35,000
	(Correction of wrong debit to machinery account for purchase of air-conditioner for personal use)		
4	Return Inward A/c Dr.	5,000	
	To Debtors (Personal) A/c		5,000
	(Correction of omission to record return of goods by customers)		

Question 2

(a) *Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2018 from the particulars given below:*

BRS

(i) The Bank Pass Book had a debit balance of ₹ 25,000 on 30th June, 2018.

(ii) A cheque worth ₹ 400 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30th June, 2018.

(iv) A cheque for ₹ 4,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth ₹ 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2018, ₹ 14,000

(2) Cheques collected on 10th July, 2018, ₹ 4,000

(3) Cheques collected on 12th July, 2018, ₹ 2,000.

(vi) The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.

(vii) Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.

(viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.

(ix) The credit side of bank column of Cash Book was under cast by ₹ 2,000.

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DEPRE.

(b) *A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2015 and spent ₹ 3,000 on its overhauling. On 1st July 2016, another machine was purchased for ₹ 10,000. On 1st July 2017, the machinery which was purchased on 1st January 2015, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2018, the machine which was purchased on 1st July, 2016 was sold for ₹ 2,000.*

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2016 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2015. **(10 + 10 = 20 Marks)**

Answer

(a) Bank Reconciliation Statement as on 30th June 2018

	Particulars	Amount	Amount
	Overdraft as per Pass Book (Dr. Balance)		25,000
Add:	Cheques issued but not presented ₹ (34,000-20,000)	14,000	
	Cheques deposited into the Bank by Customer but not entered in Cash Book	400	
	Bank charges written twice in Cash Book	80	14,480
			39,480
Less:	Cheques received, recorded in cash Book but not sent to the Bank	4,000	
	Cheques sent to the Bank but not collected	6,000	
	Direct payment made by the bank not recorded in the Cash book	600	
	Interest on Overdraft charged by Bank	1,600	
	Insurance charges not entered in Cash Book	70	
	Credit side of bank column of Cash Book was undercast	2,000	14,270
	Overdraft as per Cash Book		25,210

(b) In the books of Firm

Machinery Account

		₹			₹
1.1.2015	To Bank A/c	37,000	31.12.2015	By Depreciation A/c	4,000

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	To Bank A/c (overhauling charges)	3,000	31.12.2015	By Balance c/d	36,000
		40,000			40,000
1.1.2016	To Balance b/d	36,000	31.12.2016	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2016	To Bank A/c	10,000	31.12.2016	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
		46,000			46,000
1.1.2017	To Balance b/d	39,850	1.7.2017	By Bank A/c(sale)	28,000
1.7.2017	To Bank A/c	25,000	1.7.2017	By Profit and Loss A/c (Loss on Sale – W.N. 1)	305
			31.12.2017	By Depreciation A/c (₹ 2,295 + ₹ 1,388 + ₹ 1,875)	5,558
				By Balance c/d (₹ 7,862 + ₹ 23,125)	30,987
		64,850			64,850
1.1.2018	To Balance b/d	30,987	1.7.2018	By Bank A/c (sale)	2,000
			1.7.2018	By Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
			31.12.2018	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
			31.12.2018	By Balance c/d	19,656
		30,987			30,987

Working Note:

Book Value of machines

	Machine I ₹	*Machine II* ₹	*Machine III* ₹
Cost of all machinery	40,000	10,000	25,000
(Machinery cost for 2015)			
Depreciation for 2015	4,000		

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Written down value as on 31.12.2015	36,000		
Purchase 1.7.2016 (6 months)		10,000	
Depreciation for 2016	5,400	750	
Written down value as on 31.12.2016	30,600	9,250	
Depreciation for 6 months (2017)	2,295		
Written down value as on 1.7.2017	28,305		
Sale proceeds	28,000		
Loss on sale	**305**		
Purchase 1.7.2017			25,000
Depreciation for 2017 (6 months)		1,388	1,875
Written down value as on 31.12.2017		7,862	23,125
Depreciation for 6 months in 2018		590	
Written down value as on 1.7.2018		7,272	
Sale proceeds		2,000	
Loss on sale		**5,272**	
Depreciation for 2018			3,469
Written down value as on 31.12.2018			**19,656**

Question 3

(a) *R & S entered into a joint venture and opened a Joint Bank account with an amount of ₹ 1,50,00,000 towards which R contributed ₹ 1,00,00,000. They agreed to share profits and losses the ratio of 2 : 1. They purchased a big residential house measuring area of 5,000 sq. ft. @ ₹ 2,900 per sq. ft. Out of the total area, 200 sq. ft. was left over for general use as a community hall and remaining area was sub-divided in 6 equal flats. Out of those 6 flats, 4 front facing flats were sold by R for ₹ 1,28,00,000 and the remaining 2 flats were sold by S for ₹ 56,00,000.*

The following expenses were incurred in connection with above transaction -

JOINT VENTURE

Registration fees	*₹ 1,50,000*
Stamp duty	*₹ 1,00,000*
Renovation Exp.	*₹ 25,00,000*

R and S were entitled to brokerage @ 2% on flats sold by them.

Separate books were maintained for the joint venture. You are required to prepare the necessary ledger accounts.

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(b) *On 1st January 2018, Akshay draws two bills of exchange for ₹16,000 and ₹25,000.*

The bill of exchange for ₹16,000 is for two months while the bill of exchange for ₹25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹25,000, the interest rebate i.e. discount being ₹250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

BOE

Show the Journal Entries (with narrations) in the books of Akshay.

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

(i) *Two Traders Yogesh and Yusuf buy goods from one another, each allowing the others, one month's credit. At the end of 3 months the accounts rendered are as follows:*

	Goods sold by Yogesh to Yusuf (₹)		Goods sold by Yusuf to Yogesh (₹)
April,18	12,000	April, 23	10,600
March, 15	14,000	May, 24	10,000
June, 16	16,000		

Calculate the date upon which the balance should be paid so that no interest is due either to Yogesh or Yusuf.

OR

(ii) *Exe Collieries Co. Ltd. took from M/s. Zed a lease of coal field for a period of 20 years from 1st April, 2013, on a royalty of ₹25 per tonne of coal extracted with a dead rent of ₹2,50,000 per annum with power to recoup short-working during the first five years of the lease. The company closes its books of account on 31st March every year.*

The output in the first five years of the lease was as follows:

Year ended	Tonnes
31st - March 2014	3,000
31st - March 2015	4,800
31st - March 2016	10,600
31st - March 2017	16,800
31st - March 2018	21,000

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The output in the first five years of the lease was as follows:

You are required to compute the amount of royalty payable for the years ended 31st March, 2014, 2015, 2016, 2017 and 2018. ***(10 + 5 + 5 = 20 Marks)***

Answer

(a) **Ledgers Accounts**

Joint Bank Account

Particulars	Amount (₹)	Particulars		Amount (₹)
To R A/c	1,00,00,000	By Joint Venture A/c:		
To S A/c	50,00,000	Residential house	1,45,00,000	
		Other Expenses	27,50,000	1,72,50,000
To Joint Venture A/c	1,84,00,000	By Balance transferred:		
		R's A/c	1,07,77,333	
		S's A/c	53,72,667	1,61,50,000
	3,34,00,000			3,34,00,000

Joint Venture Account

Particulars		Amount (₹)	Particulars	Amount (₹)
To Joint Bank A/c:			By Joint Bank A/c (Sales)	1,84,00,000
Residential house	1,45,00,000			
Other Expenses	27,50,000	1,72,50,000		
To R A/c		2,56,000		
To S A/c (Brokerage)		1,12,000		
To Profit to:				
R A/c	5,21,333			
S A/c	2,60,667	7,82,000		
		1,84,00,000		1,84,00,000

R's Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Bank A/c - Repayment	1,07,77,333	By Joint Bank A/c	1,00,00,000
		By Joint Venture A/c - Brokerage	2,56,000
		By Joint Venture A/c	5,21,333

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		- Profit	
	1,07,77,333		1,0777,333

S's Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Bank A/c		By Joint Bank A/c	50,00,000
- Repayment	53,72,667	By Joint Venture A/c	1,12,000
		-Brokerage	
		By Joint venture A/c	2,60,667
		-Profit	
	53,72,667		53,72,667

(b) **Journal Entries in the books of Akshay**

2018			*Dr.* (₹)	*Cr.* (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 on renewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal 's A/c			16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000

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	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c To Bills receivable (No. 3) A/c (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)	Dr.	16,400	16,400
May 7	Bank A/c To Vishal's A/c (Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)	Dr.	8,200	8,200
May 7	Bad debts A/c To Vishal's A/c (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)	Dr.	8,200	8,200

(c) (i) Taking May 21 as the zero or base date

For Yusuf's payments:

Date of Transactions	*Due Date*	*Amount*	*No. of days from the base date*	*Products*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
April 18	May 21	12,000	0	0
May 15	June 18	14,000	28	3,92,000
June 16	July 19	16,000	59	9,44,000
Amount Due to Yogesh		42,000	Sum of products	13,36,000

For Yogesh's payments

Taking same base date i.e. May 21

Date of Transactions	*Due Date*	*Amount*	*No. of days from the base date*	*Products*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
April 23	May 26	10,600	5	53,000
May 24	June 27	10,000	37	3,70,000

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Amount Due to Y		20,600	Sum of products	4,23,000

Excess of Yusuf's products over Yogesh's = ₹ 13,36,000 – ₹ 4,23,000

= ₹ 9,13,000

Excess amount due to Yogesh ₹ 42,000 –₹ 20,600 = ₹ 21,400

Number of days from the base date to the date of settlement is

9,13,000/ 21,400= 42.66 days i.e. 43 days

Hence the date of settlement of the balance amount is 43 days after May 21 i.e., on 3rd July. Yusuf has to pay Yogesh, ₹ 21,400 to clear the account.

Note: Due date is calculated after considering 3 day of grace period.

(ii) Statement showing amount of Royalty Payable

Date	Output (in tonnes)	Royalty @ ₹ 25 per tonne	Minimum Rent	Short workings	Short-workings being recouped	Amount payable
31-3-14	3,000	75,000	2,50,000	1,75,000		2,50,000
31-3-15	4,800	1,20,000	2,50,000	1,30,000		2,50,000
31-3-16	10,600	2,65,000	2,50,000		15,000	2,50,000
31-3-17	16,800	4,20,000	2,50,000		170,000	2,50,000
31-3-18	21,000	5,25,000	2,50,000		1,20,000	4,05,000

Question 4

(a) Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally.

Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as

Liabilities	*Amount*	*Assets*		*Amount*
Creditors	*20,000*	*Land and Building*		*1,50,000*
General Reserve	*12,000*	*Investments*		*65,000*
Capital Accounts:		*Stock in trade*		*15,000*
Monika	*1,00,000*	*Trade receivables*	*35,000*	
Yedhant	*75,000*	*Less: Provision for doubtful debt*	*(2,000)*	*33,000*
Zoya	*75,000*	*Cash in hand*		*7,000*
		Cash at bank		*12,000*
	2,82,000			*2,82,000*

PARTNER

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In order to arrive at the balance due to Zoya, it was mutually agreed that:

(i) *Land and Building be valued at ₹ 1,75,000*

(ii) *Debtors were all good, no provision is required*

(iii) *Stock is valued at ₹ 13,500*

(iv) *Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.*

(v) *Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.*

(vi) *The profit of the preceding five years ended 1st March were:*

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

(1) *Revaluation account*

(2) *Capital accounts of the partners and*

(3) *Balance sheet of the Firm as at 1st July 2018.*

(b) *Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2018.*

Particulars	**Amount**	**Particulars**	**Amount**
Debit Balances:	**₹**	**Credit Balances:**	**₹**
Cash in hand	1,500	Capital	16,000
Purchase	12,000	Bank overdraft	2,000
Sales return	1,000	Sales	9,000
Salaries	2,500	Purchase return	2,000
Tax and Insurance	500	Provision for Bad debts	1,000
Bad debts	500	Creditors	2,000
Debtors	5,000	Commission	500
Investments	4,000	Bills payable	2,500
Opening stock	1,400		
Drawings	2,000		
Furniture	1,600		
Bills receivables	3,000		
	35,000		35,000

FA

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Other information :

(i) Closing stock was valued at ₹ 4,500

(ii) Salary of ₹ 100 and Tax of ₹ 200 are outstanding whereas insurance ₹ 50 is prepaid.

(iii) Commission received in advance is ₹ 100.

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

(vi) Reserve for bad debts is to be kept at ₹ 1,000

(vii) Depreciation on furniture is to be charged @ 10%

You are required to prepare the final accounts after making above adjustments.

(10 + 10 = 20 Marks)

Answer

(a) **Revaluation Account**

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To Partners:		By Provision for doubtful debt	2,000
(Revaluation Profit)			
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	27,000		27,000

Partners' Capital Accounts

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Bal b/d.	1,00,000	75,000	75,000
To Zoya's Executor	-	-	98,125	By General reserve	4,000	4,000	4,000
				By Monika & Yedhant	-	-	8,750
To Bal. c/d	1,08,125	83,125		By Profit and Loss Adjustment* (suspense) A/c	-	-	1,875
				By Revaluation	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

*Profit and Loss Adjustment = [(25,000 + 20,000 + 22,500)/3] x 3/12 x 1/3 = 1,875

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Balance Sheet of Firm as on 1.7.2018

Particulars	₹	Particulars	₹
Monika	1,08,125	Land & Building	1,75,000
Yedhant	83,125	Investment	65,000
Zoya Executor	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March

31.3.2014	28,750
31.3.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250X1/3

= ₹ 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹ 8750X1/2 =₹ 4375

Yedhant =₹ 8750X1/2 = ₹ 4375

(b) **Trading & Profit and Loss Account of**

Mr. Sandeep for the year ended 31st December, 2018

	Particulars	₹	₹		Particulars	₹	₹
To	Opening Stock		1,400	By	Sales	9,000	
To	Purchase	12,000			*Less*: Sales return	(1,000)	8,000
	Less: Purchase return	(2,000)	10,000	By	Closing stock		4,500
To	Gross Profit		1,100				

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		12,500			12,500
To Salary	2,500		By Gross Profit		1,100
Add: Outstanding salary	100	2,600	By Commission	500	
			Less: Advance	(100)	400
To Tax & Insurance	500		By Accrued interest		210
Add: Outstanding	200		By Net Loss		2,500
Prepaid insurance	(50)	650			
To Bad debt	500				
Opening provision	(1,000)				
Closing provision	1,000	500			
To Interest on overdraft		300			
To Depreciation on furniture		160			
		4,210			4,210

Balance Sheet of Mr. Sandeep as on 31.3.2018

Particulars	₹	₹	Particulars	₹	₹
Capital	16,000		By Furniture	1,600	
Less: drawing	(2,000)		*Less:* Depreciation	(160)	1,440
Net loss	(2,500)	11,500	Bill receivable		3,000
Bank overdraft	2,000		Investment	4,000	
Add: interest	300	2,300	Add: accrued interest	210	4,210
Creditors		2,000	Debtors	5,000	
Bills payable		2,500	*Less:* Provision on bad debts	(1,000)	4,000
Outstanding expenses:					
Salary	100		Closing stock		4,500
Tax	200	300	Cash in hand		1,500
Commission received in advance		100	Prepaid insurance		50
		18,700			18,700

Question 5

(a) *What do you understand by Ratio Analysis? Find out the value of Current Assets of a company from the following information:*

COMP

(i) Inventory Turnover Ratio: 4 Times.

(ii) Inventory at the end is ₹ 20,000 more than inventory in the beginning.

(iii) Revenue from Operations i.e., Net Sales ₹ 3,00,000.

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(iv) Gross Profit Ratio 25%.

(v) Current Liabilities ₹ 40,000.

(vi) Quick Ratio 0.75.

(b) From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

	01.04.2018 ₹	31.03.2019 ₹
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

NPO

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 50,000

Rent: ₹ 24,000 out of which ₹ 2,000 outstanding

Misc. Expenses: ₹ 5,000 ***(10 + 10 = 20 Marks)***

Answer

(a) (i) Ratio Analysis: Ratio Analysis is a process of drawing meaningful interpretations from the calculated ratio and taking decisions based on the same. Ratio Analysis is an accounting tool utilized in analysis, interpreting the various items in financial statements and reporting in understandable terms to its users Myers explained it as, "Ratio Analysis is a study of relationship among various financial factors in a business".

(ii) Calculation of Current Assets

Quick ratio = 0.75

Quick ratio = Quick Assets/Current liability

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Quick Assets = 0.75 x 40,000 = 30,000

Cost of goods sold = Sales-Gross profit

Cost of goods sold = {3,00,000-(3,00,000 x 25%)}

= ₹ 2,25,000

Inventory turnover ratio = Cost of goods sold/ Average Inventory

Average Inventory = ₹ 2,25,000/4

= ₹ 56,250

Average Inventory = (Opening inventory + closing inventory)/2

₹ 56,250 x 2 = x + x + ₹ 20,000

₹ 1,12,500 =2 x + ₹ 20,000

₹ (1,12,500 - 20,000) =2x

₹ 92,500 =2x

X= ₹ 46,250 i.e. (Opening Inventory)

Closing Inventory = ₹ 46,250 + ₹ 20,000= ₹ 66,250

Current Assets = Quick Assets + Closing Inventory

= ₹ (30,000 + 66,250)

Current Assets = ₹ 96,250

(b) **Receipts and Payments Account for the year ended 31-03-2019**

Receipts	₹	Payments	₹
To balance b/d		By Salaries	60,000
Cash and bank	1,10,000	By Purchase of sports goods	10,000
To Subscription received (W.N.1)	2,45,000	₹ (25,000-15,000)	
To Sale of investments (W.N.2)	70,000	By Purchase of machinery	10,000
To Interest received on investment	14,000	₹ (20,000-10,000)	
To Sale of furniture	8,000	By Sports expenses	50,000
		By Rent paid	22,000
		₹ (24,000 -2,000)	
		By Miscellaneous expenses	5,000
		By Balance c/d	
		Cash and bank	2,90,000
	4,47,000		4,47,000

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Income and Expenditure account for the year ended 31-03-2019

Expenditure	₹	₹	Income	₹	₹
To Salaries	60,000		By Subscription		3,00,000
Add: Outstanding for 2019	18,000		By Interest on Investment		
	78,000		Received	14,000	
Less: Outstanding for 2018	(15,000)	63,000	Accrued (W.N.5)	3,500	17,500
To Sports expenses		50,000			
To Rent		24,000			
To Miscellaneous exp.		5,000			
To Loss on sale of furniture (W.N.3)		6,000			
To Depreciation (W.N.4)					
Furniture	1,400				
Machinery	1,500				
Sports goods	2,250	5,150			
To Surplus		1,64,350			
		3,17,500			3,17,500

Working Notes:

1. **Calculation of Subscription received during the year 2018-19**

	₹
Subscription due for 2018-19	3,00,000
Add: Outstanding of 2018	1,40,000
Less: Outstanding of 2019	(2,00,000)
Add: Subscription of 2019 received in advance	30,000
Less: Subscription of 2018 received in advance	(25,000)
	2,45,000

2. **Calculation of Sale price and profit on sale of investment**

Face value of investment sold: ₹ 1,75,000 × 50% = ₹ 87,500

Sales price: ₹ 87,500 × 80% = ₹ 70,000

Cost price of investment sold: ₹ 1,40,000 × 50% = ₹ 70,000

Profit/loss on sale of investment: ₹ 70,000 - ₹ 70,000 = NIL

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3. **Loss on sale of furniture**

	₹
Value of furniture as on 01-04-2018	28,000
Value of furniture as on 31-03-2019	14,000
Value of furniture sold at the beginning of the year	14,000
Less: Sales price of furniture	(8,000)
Loss on sale of furniture	6,000

4. **Depreciation**

Furniture - ₹14,000 × 10% =	1,400
Machinery- ₹10,000 × 15% =	1,500
Sports goods – ₹15,000 × 15% =	2,250

5. **Interest accrued on investment**

	₹
Face value of investment on 01-04-2018	1,75,000
Interest @ 10%	17,500
Less: Interest received during the year	(14,000)
Interest accrued during the year	3,500

Note: It is assumed that the sale of investment has taken place at the end of the year.

Question 6

(a) *Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each.*

The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share COMP

On first and final call - ₹ 2 per share

Applications were received for 3,00,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. B, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ ₹ 6 per share.

Pass necessary Journal entries to record the above transactions in the books of Bhagwati Ltd.

(b) *On 1st January 2018 Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on* COMP

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30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2018.

(c) *Raj Ltd. prepared their accounts financial year ended on 31st March 2019. Due to unavoidable circumstances actual stock has been taken on 10th April 2019, when it was ascertained at ₹ 1,25,000. It has been found that;*

(i) *Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.*

RECTI

(ii) *Purchases are entered in the Purchase Book on the day the Invoices are received.*

(iii) *Sales between 1st April 2019 to 9th April 2019 amounting to ₹ 20,000 as per Sales Day Book.*

(iv) *Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to ₹ 4,000 at cost.*

(v) *Purchases during 1st April 2019 to 9th April 2019 amounting to ₹ 10,000 but goods amounts to ₹ 2,000 not received till the date of stock taking.*

(vi) *Invoices for goods purchased amounting to ₹ 20,000 were entered on 28th March 2019 but the goods were not included in stock.*

Rate of Gross Profit is 25% on cost.

Ascertain the value of Stock as on 31st March 2019. ***(10 + 5+ 5 = 20 Marks)***

Answer

(a) **In the books of Bhagwati Ltd.**

Journal Entries

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at ₹ 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			

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Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6) .	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	
To Equity Share Capital A/c (2,500 x ₹ 10)			25,000
(Being re-issue of 2,500 shares @6)			
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A/c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

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Working Note:

Calculation of amount to be transferred to Capital reserve A/c

			₹
Forfeited amount per share	= 24,000/3,000	=	8
Loss on re issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	4 x 2,500	₹ 10,000	

(b) **Journal Entries**

			Dr. (₹)	Cr. (₹)
1-1-2018	Bank A/c	Dr.	18,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2018	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			
	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000

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	(For transfer of debenture interest to profit and loss account at the end of the year)			
	Profit and Loss A/c To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)	Dr.	60,000	60,000

(c) Statement of Valuation of Physical Stock as on 31st March,2019

	₹	₹
Value of stock as on 10th April, 2019		1,25,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2019 and 9.4.2019	20,000	
Less: Gross profit @20% on sales	(4,000)	16,000
Free sample		4,000
		1,45,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2019 to 9.4.2019	10,000	
Less: Goods not received upto 9.4.2019	(2,000)	(8,000)
		1,37,000
Add: Purchases during March, 2019 but not recorded in stock		20,000
Value of physical stock as on 31.3.2019		1,57,000

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are True or False:*

(i) *Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.*

(ii) *M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure.*

(iii) *Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.*

(iv) *In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.*

(v) *A Partnership firm cannot own any Assets.*

(vi) *Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.* ***(6 x 2 = 12 Marks)***

(b) *Distinguish between Provision and Contingent Liability.* ***(4 Marks)***

(c) *X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.* DEPRE

(4 Marks)

Answer

(a) (i) False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

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(ii) **False:** Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(iii) **True:** The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

(iv) **False:** The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v) **True:** A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi) **True:** As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(b) Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows:

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

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(c) **Machinery Account**

Dr. 2017		₹	2017		Cr. ₹
Jan. 1	To Bank A/c	4,80,000	Dec. 31	By Depreciation A/c	60,000
Jan. 1	To Bank A/c – erection charges	20,000		By Balance c/d	6,40,000
July 1	To Bank A/c	2,00,000			
		7,00,000			7,00,000
2018			2018		
Jan. 1	To Balance b/d	6,40,000	July 1	By Depreciation on sold machine	22,500
July 1	To Bank A/c	5,00,000		By Bank A/c	2,90,000
				By Profit and Loss A/c	1,37,500
			Dec. 31	By Depreciation A/c	44,000
				By Balance c/d	6,46,000
		11,40,000			11,40,000

Working Note:

Book Value of Machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost	5,00,000	2,00,000	5,00,000
Depreciation for 2017	50,000	10,000	
Written down value	4,50,000	1,90,000	
Depreciation for 2018	22,500	19,000	25,000
Written down value	4,27,500	1,71,000	4,75,000
Sale Proceeds	2,90,000		
Loss on Sale	1,37,500		

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Question 2

(a) *On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:*

(i) *A cheque for ₹ 11,14,000 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018.*

(ii) *A payment by cheque for ₹ 18,000 has been entered twice in the Cash book.* BRS

(iii) *On 29th September, 2018, the bank credited an amount of ₹ 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2018.*

(iv) *Bank charges amounting to ₹ 280 had not been entered in the cash book.*

(v) *On 6th September 2018, the bank credited ₹ 30,000 to XYZ in error.*

(vi) *A bill of exchange for ₹ 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2018 but no entry had been made in the books of XYZ.*

(vii) *Cheques issued upto 30th September,2018 but not presented for payment upto that date totalled ₹ 13,46,000.*

(viii) *A bill payable of ₹ 2, 00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.*

You are required:

To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2018 and to prepare a Bank Reconciliation Statement as on that date. **(10 Marks)**

(b) *Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:*

(1) *The sales book has been totalled ₹ 2,100 short.*

(2) *Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.*

(3) *Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.*

(4) *Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.* RECTI

(5) *Discount received from Black and White ₹ 1,200 has not been entered in the books.*

(6) *Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.* **(10 Marks)**

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Answer

(a) **Cash Book (Bank Column)**

Date	Particulars		Amount	Date	Particulars		Amount
2018			₹	2018			
Sept. 30	To	Party A/c	18,000	Sept. 30	By	Balance b/d	8,062
	To	Customer A/c			By	Bank charges	280
		(Direct deposit)	1,15,400		By	Customer A/c	
	To	B/R collected	59,000			(B/R dishonoured)	1,60,000
	To	Balance c/d	1,75,942		By	Bills payable	2,00,000
			3,68,342				3,68,342

Bank Reconciliation Statement as on 30th September, 2018

Particulars	Amount
	₹
Overdraft as per Cash Book	1,75,942
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000
	12,89,942
Less: Cheques issued but not presented for payment up to 30th Sept., 2018	(13,46,000)
Credit by Bank erroneously on 6th Sept.	(30,000)
Balance as per bank statement	86,058

(b) (i) If a Suspense Account is not opened.

(a) Since sales book has been cast ₹ 2,100 short, the Sales Account has been similarly credited ₹2,100 short. The correcting entry is as follows:

Sales A/c

Dr. Date	Particulars	₹	Date	Particulars	₹ Cr.
				By Wrong Totaling of Sales Book	2,100

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Gaurav & Co. credited. The entry is:

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Returns Inward Account Dr. ₹1,800

To Gaurav & Co. ₹1,800

(Goods returned by the firm, previously omitted from the Returns Inward Book)

(c) Sen Brothers have been debited ₹2,250 instead of being credited. This account should now be credited by ₹4,500 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

Date	Particulars	₹	Date	Particulars	₹
				By errors in posting	4,500

(d) By this error Purchases Account has to be debited by ₹15,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account Dr. ₹15,000

To Purchases Account ₹15,000

(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)

(e) The discount of ₹1,200 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made :

Black & White Dr. ₹1,200

To Discount Account ₹1,200

(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

Date	Particulars	₹	Date	Particulars	₹
	To Omission of entry in the Cash Book	180			

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(ii) **If a Suspense Account is opened:**

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		2,100	
	To Sales Account				2,100
	(Being the correction arising from under-casting of Sales Day Book)				
(b)	Return Inward Account	Dr.		1,800	
	To Gaurav & Co	.			1,800
	(Being the recording of unrecorded returns)				
(c)	Suspense Account	Dr.		4,500	
	To Sen Brothers				4,500
	(Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹2,250).				
(d)	Furniture Account	Dr.		15,000	
	To Purchases Account				15,000
	(Being the correction of recording purchase of furniture as ordinary purchases)				
(e)	Black & White	Dr.		1,200	
	To Discount Account				1,200
	(Being the recording of discount omitted to be recorded)				
(f)	Discount Account	Dr.		180	
	To Suspense Account				180
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).				

Question 3

(a) *Anand of Bangalore consigned to Raj of Pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were ₹ 12,000. The account sales received by Anand*

CONSIGN

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shows that Raj has effected sales amounting to ₹ 1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 9,600 10% of consignment goods of the value of ₹ 15,000 were destroyed in fire at the Pune godown and the insurance company paid ₹ 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and ·the account of Raj in the books of Anand along with the necessary calculations. **(10 Marks)**

(b) *A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During May 2018, the following are the details of goods sent:*

SOA

Date (May)	*2*	*8*	*12*	*18*	*20*	*27*
Customers	*P*	*B*	*Q*	*D*	*E*	*R*
Value (₹)	*17,000*	*22,000*	*25,000*	*5,500*	*2,000*	*28,000*

Within the stipulated time, P and Q returned the goods and B, D and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer Q for Sale or Return Account as on 15th June 2019. **(5 Marks)**

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

(i) *The following amounts are due to X by Y. Y wants B to pay on 10th July,2019.*

Interest rate of 9% p.a. is taken into consideration.

Due dates	*₹*
10th January	*750*
26th January (Republic Day)	*1,200*
23rd March	*3,300*
18th August (Sunday)	*4,100*

Determine average due date and the amount to be paid on 10th July, 2019. Assume 10th January as base date. **(5 Marks)**

OR

(ii) *Ramesh has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2018. He has further deposited the following amounts:*

Date	*Amount (₹)*
14-07-2018	*1,23,000*
18-08-2018	*21,000*

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He withdrew the following amounts:

Date	*Amount (₹)*
29-07-2018	*92,000*
09-09-2018	*11,500*

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method.

(5 Marks)

Answer

(a) **Books of Anand**

Consignment to Raj (Pune) Account

Dr. Particulars	₹	*Particulars*	*Cr.* ₹
To Goods sent on Consignment A/c	1,50,000	By Goods sent on Consignment A/c(loading)	30,000
To Cash A/c	12,000	By Abnormal Loss (out of which ₹ 12,000 received from insurance co.)	13,200
To Raj (Expenses)	9,600	By Raj (Sales)	1,20,000
To Raj (Commission)	13,125	By Inventories on Consignment A/c	24,300
To Inventories Reserve A/c	4,500	By General Profit & Loss A/c	1,725
	1,89,225		1,89,225

Raj's Account

Dr. Particulars	₹	*Particulars*	*Cr.* ₹
To Consignment A/c	1,20,000	By Consignment A/c	9,600
		By Consignment A/c	13,125
		By Bank A/c	97,275
	1,20,000		1,20,000

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Working Notes:

1. Calculation of Loading of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹15,000.

   Abnormal Loss as a percentage of total consignment = 10%.

   Hence the value of goods sent on consignment = ₹15,000 x 100/ 10 = ₹1,50,000.

   Loading of goods sent on consignment = ₹1,50,000 X 25/125 = ₹30,000.

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price	=	₹15,000
Abnormal Loss at cost = ₹15,000 x 100/125	=	₹12,000
Proportionate expenses of Anand (10 % of ₹12,000)	=	₹ 1,200
		₹13,200

3. Calculation of closing Inventories (15%):

Anand's Basic Invoice price of consignment	=	₹1,50,000
Anand's expenses on consignment	=	₹ 12,000
		₹1,62,000
Value of closing Inventories = 15% of ₹1,62,000	=	₹24,300

   Loading in closing Inventories = ₹4,500 (30,000 x 15%)

4. Calculation of commission:

   Invoice price of the goods sold = 75% of ₹1,50,000 = ₹1,12,500

   Excess of selling price over invoice price = (₹1,20,000- ₹1,12,500) = 7,500

   Total commission = 10% of ₹1,12,500 + 25% of ₹7,500

   = ₹11,250 + ₹1,875

   = ₹13,125

Note: Abnormal loss is calculated at cost and value of inventories is valued at invoice price as invoice price is given.

(b) **Sale or Return Account**

Date	*Particulars*	₹	*Date*	*Particulars*	₹
2018			2018		
May 31	To Sundries: Sales	29,500	May 31	By Sundries	
June 15	To Sundries: Returned	42,000		(Goods sent on sale or return basis)	99,500

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June 15	To Balance c/d	28,000			
		99,500			99,500
			June 16	By Balance b/d	28,000

Q's Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
2018			2018		
May 31	To Sale or Return A/c	25,000	June 15	By Sale or Return A/c	25,000

(c) (i) **Taking 10th January as the base date**

Due Date (Normal)	*Due Date (Actual)*	*No. of days from 10th January. . .*	*Amount ₹*	*Product*
10th January	10th January	0	750	0
26th January	25th January	15	1,200	18,000
23rd March	23rd March	72	3,300	2,37,600
18th August	17th August	219	4,100	8,97,900
			9,350	11,53,500

Average Due Date = 10th Jan. + $\frac{11,53,500}{9,350}$

= 10th Jan + 124 days (rounded off upward) = 14th May

(b) If the payment is deferred to 10th July, interest is to be paid from 14th May to 10th July i.e., for 17 + 30 + 10 = 57 days.

Interest = 9,350 x $\frac{9}{100}$ x $\frac{57}{365}$ = 131.41

The amount to be paid on 10th July: ₹9,350+ 131.41 = ₹9481.41

(ii) **Ramesh's Current Account with Partnership firm (as on 30.9.2018)**

Date	*Particulars*	*Dr. (₹)*	*Cr. (₹)*	*Balance (₹)*	*Dr.or Cr.*	*Days*	*Dr. Product (₹)*	*Cr. Product (₹)*
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941						

30.09.18	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	1,89,441				38,90,000	5,70,000

Interest Calculation:

On₹ 38,90,000 x 10% x 1/365 = 1,066

On ₹ 5,70,000 x 8% x 1/365 = ₹ 125

Net interest to be debited = ₹ 941

Question 4

(a) Arup and Swarup were partners. The partnership deed provides inter alia:

(i) That the annual accounts be balanced on 31st December each year;

(ii) That the profits be allocated as follows:

PARTNER

Arup: One-half; Swarup: One-third and Carried to reserve account: One sixth;

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(1) The capital to his credit at the date of death;

(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	*Debit (₹)*	*Credit (₹)*
Arup's Capital		*90,000*
Swarup's Capital		*60,000*
Reserve		*45,000*
Bills receivable	*50,000*	
Investment	*55,000*	
Cash	*1,10,000*	
Trade payables		*20,000*
Total	*2,15,000*	*2,15,000*

The profits for the three year were 2016: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account. ***(10 Marks)***

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(b) *From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:*

NPO

Income & Expenditure Account for the year 2018-19

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		25,960

Balance sheet as at 31st March 2019

Liabilities		₹	Assets	₹
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding)	770
Less: Prizes given	2,200	26,400	(2018-2019)	
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

(i) *Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018-19.*

(ii) *One fourth of entrance fee has been capitalized by transfer to General Fund.*

(iii) *Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.*

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(iv) *Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110.*

(v) *Furniture was purchased during the year.* ***(10 Marks)***

Answer

(a)

(i)	**Ascertainment of Swarup's Share of Profit**		(ii)	**Ascertainment of Value of Goodwill**	
	2016	51,000		2016	51,000
	2017	39,000		2017	39,000
	2018	45,000		2018	45,000
	Total Profit	1,35,000		Total Profit for 3 years	1,35,000
	Average Profit	45,000		Average Profit	45,000
	4 months' Profit	15,000		Goodwill - 3 years	
	Swarup's Share in Profit (2/5th of ₹15,000)	6,000		Purchase of Average Profit	1,35,000
				Swarup's Share of goodwill (2/5 of ₹1,35,000)	54,000

Working Note:

Profit sharing ratio between Arup and Swarup = ½; 1/3; = 3: 2, Therefore Swarup's share of Profit = 2/5

Swarup's Executors Account

Date 2019	Particulars	₹	Date 2019	Particulars	₹
May 1	To Swarup's Loan A/c	1,38,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of ₹45,000)	18,000
			May 1	By Arup's Capital A/c (Share of goodwill)	54,000

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			May 1	By P&L Suspense A/c (Share of Profit)	6,000
		1,38,000			1,38,000

(b) **Receipts and Payments Account**

for the year ending 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	16,126	By Upkeep of Ground (11,000+660)	11,660
To Subscription	19,052	By Printing (1,100+264)	1,364
To Interest on Prize Fund Investments	1,100	By Salaries	11,100
		By Furniture (9,900 +1,100)	11,000
To Lecture (fee)	1,650	By Rent	1,660
To Entrance Fee	2,860	By Prizes	2,200
To Sale of Newspapers (old)	286	By Balance c/d	2,530
To Misc. Income	440		
	41,514		41,514

Note:

₹660 paid for upkeep of ground for 2017-18 and ₹264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

		₹			₹
2018 April	To Subscription Outstanding (2017-18)	880	2018 April 1	By Subscription in Advance (2017-18)	220
	To Subscription In Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
				By Cash (Balancing figure)	19,052

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2019					
March	To Income &				
	Expenditure A/c	19,052			
		20,042			20,042

Question 5

(a) *An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.*

Particulars	*Debit (₹)*	*Credit (₹)*
Provision for Doubtful Debts	*250*	*-*
Cash Credit Account	*1,654*	*-*
Capital	*-*	*4,591*
Trade payables	*-*	*1,637*
Due from customers	*2,983*	*-*
Discount Received	*252*	*-*
Discount Allowed	*-*	*733*
Drawings	*1,200*	*-*
Office Furniture	*2,155*	*-*
Carriage Inward	*-*	*829*
Purchases	*10,923*	*-*
Returns Inward	*-*	*330*
Rent & Rates	*314*	*-*
Salaries	*2,520*	*-*
Sales	*-*	*16,882*
Inventory	*2,418*	*-*
Provision for Depreciation on Furniture	*364*	*-*
Total	*25,033*	*25,002*

FA

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account. ***(5 Marks)***

(b) *Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019.* ·

Opening work-in-progress (9000 units)	MFG	*26,000*
Closing work-in-progress (14,000 units)		*48,000*

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Opening inventory of Raw Materials	*2,60,000*
Closing inventory of Raw Materials	*3,20,000*
Purchases	*8,20,000*
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	*2,60,000*
Direct wages-contracted@ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	*1,80,000*
Units produced - 5,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

(5 Marks)

(c) *The balance sheet of Mittal on 1st January, 2018 was as follows:*

Liabilities	*Amount ₹*	*Assets*	*Amount ₹*
Trade payables	*16,00,000*	*Plant & Machinery*	*31,00,000*
Expenses payable	*2,50,000*	*Furniture & Fixture*	*4,00,000*
Capital	*51,00,000*	*Trade receivables*	*14,50,000*
		Cash at bank	*7,00,000*
		Inventories	*13,00,000*
	69,50,000		*69,50,000*

During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:

FA

(i) *Interest on capital @ 6% p.a.*

(ii) *Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a..*

(iii) *A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.*

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling ₹ 1,85,000 and (2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year

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he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.

You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year. ***(10 Marks)***

Answer

(a) Trial Balance as on 31st March, 2019

Heads of Accounts	Dr. ₹	Cr. ₹
Provision for Doubtful Debts	–	250
Cash credit account (Bank overdraft)	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Dues from customers	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
Carriage inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory*	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,225	
Total	25,630	25,630

** considered as opening inventory.*

(b) In the Books of Mr. Shyamal

Manufacturing Account for the Year ended 31.03.2019

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		9,000	26,000	By Closing Work-in-Process	14,000	48,000

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To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,33,600
Opening Inventory	2,60,000					
Add: Purchases	8,20,000					
	10,80,000					
Inventory	(3,20,000)		7,60,000			
To Direct Wages – W.N. (1)			4,05,600			
To Direct expenses: Hire charges on Machinery – W.N. (2)			3,50,000			
To Indirect expenses: Hire charges of Factory			2,60,000			
Repairs & Maintenance			1,80,000			
			19,81,600			19,81,600

Working Notes:

(1) Direct Wages – 5,00,000 units @ ₹0.80 = ₹4,00,000

14,000 units @ ₹0.40 = ₹ 5,600

₹ 4,05,600

(2) Hire charges on Machinery – 5,00,000 units @ ₹0.70 = ₹3,50,000

(c) **Profit and Loss Account (Revised)**

Particulars	₹	Particulars	₹
To Outstanding expenses	1,85,000	By Balance b/d	15,10,000
To Net profit	13,50,000	By Prepaid insurance	25,000
	15,35,000		15,35,000

Balance Sheet of Mittal as on 31st December, 2018

Liabilities		₹	Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000

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Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		*Less:* Provision for doubtful debts	(1,05,000)	19,95,000
Less: Drawings	(6,20,000)		Plant and Machinery	31,00,000	
	58,30,000		*Less:* Depreciation	(3,10,000)	27,90,000
Add: Interest on capital	3,06,000	61,36,000	Furniture & Fixtures	4,00,000	
Outstanding expenses		1,85,000	*Less:* Depreciation	(20,000)	3,80,000
Trade payables		13,84,000	Inventories		19,95,000
			Prepaid insurance		25,000
		77,05,000			77,05,000

Question 6

(a) *B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.*

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company. ***(15 Marks)***

(b) *Distinguish between Periodic Inventory System and Perpetual Inventory System.*

(5 Marks)

COMP

Answer

(a) In the books of B Ltd.

Journal Entries

Date	*Particulars*		Dr. ₹	Cr. ₹
	Bank A/c To Equity Share Application A/c (Application money on 50,000 shares @ ₹ 3 per	Dr.	1,50,000	1,50,000

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	share received.)			
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Directors resolution no… dated…)	Dr.	1,50,000	 1,50,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due from members in respect of allotment on 50,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Directors resolution no… dated…)	Dr.	2,50,000	 1,50,000 1,00,000
	Bank A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share.) **'OR'** Bank A/c Calls in Arrear A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share. X, holding 1,000 shares failed to pay allotment money.)	Dr. Dr. Dr.	2,45,000 2,45,000 5,000	 2,45,000 2,50,000
	Equity Share Call A/c To Equity Share Capital A/c (Amount due from members in respect of call on 50,000 shares @ ₹ 4 per share as per Directors resolution no… dated…)	Dr.	2,00,000	 2,00,000
	Bank A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share.) **'OR'** Bank A/c	Dr. Dr.	1,88,000 1,88,000	 1,88,000

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	Calls in Arrear A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share. X, holding 1,000 shares and Y, holding 2,000 shares failed to pay call money.)	Dr.	12,000	 2,00,000
	Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Equity Share Allotment A/c (1,000 X ₹ 5) To Equity Share Call A/c (3,000 X ₹ 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No.....dated ....) **'OR'** Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Calls in Arrear A/c (₹ 5,000 + ₹ 12,000) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No... dated...)	Dr. Dr. Dr. Dr.	30,000 2,000 30,000 2,000	 5,000 12,000 15,000 17,000 15,000
	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 2,500 shares @ ₹8 each as per Board's Resolution No.....dated....)	Dr. Dr.	20,000 5,000	 25,000
	Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	7,000	 7,000

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Balance Sheet of B Limited as at......

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000*
Total		6,03,000

*(5,83,000 +20,000)

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of ₹ 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Working Notes:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹ 4

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Transferred to Capital Reserve: X share (1,000 x ₹ 1)	₹ 1,000
Y's Share (1,500 x ₹ 4)	₹ 6,000
Total	₹ 7,000

(2) Balance of Security Premium:

Total Premium amount receivable on allotment	=	1,00,000
less: Amount reversed on forfeiture	=	(2,000)
Balance remaining	=	98,000

(b)

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. **1** is compulsory.

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are True or False.*

(i) *In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.*

(ii) *In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.*

(iii) *Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.*

(iv) *Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.*

(v) *A Limited is sending goods costing ₹ 50,000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.*

(vi) *A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date.* ***(6 x 2 =12 Marks)***

(b) *What services can a Chartered Accountant provide to the society ?* ***(4 Marks)***

(c) *The following are some of the transactions of M/s. Kamal & Sons for the year ended 31st March, 2020. You are required to make out their Sales Book.*

(i) *Sold to M/s. Ashok & Mukesh on Credit :*

40 Shirts @ ₹ 900 per shirt

SUBS BOOKS

30 trousers @ ₹ 1,000 per trouser

Less: Trade discount @ 10%

(ii) *Sold furniture to M/s. XYZ & Co. on credit ₹ 8,000*

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(iii) Sold 15 shirts to Aman @ ₹ 750 each for cash. ***(4 Marks)***

Answer

(a) (i) False; In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(ii) True; According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.

(iii) True; Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

(iv) False; When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

(v) False; Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.

(vi) False; If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

(b) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

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(c) **SALES BOOK**

Date	Particulars	Details ₹	L.F.	Amount ₹
31.03.2020	M/s. Ashok & Mukesh			
	40 shirts @ ₹ 900 per shirt	36,000		
	30 Trousers @ ₹1,000 per trouser	30,000		
		66,000		
	Less : 10% Trade Discount	(6,600)		
	(Sales as per invoice no. dated .....)			59,400

Note:

1. Cash sale entered in cash book and sale of furniture are entered in journal not in Sales Book.
2. It has been assumed that M/s Kamal & Sons is in business of selling shirts and trousers.

Question 2

(a) *On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹ 98,700. On comparison he finds the following :*

(1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.

BRS

(2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

(3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

(4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.

(5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.

(6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.

(7) The bank allowed interest on deposit ₹ 1,000.

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(8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2020. ***(10 Marks)***

(b) Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020 : STOCK

(1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.

(2) Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March, 2020.

(3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.

(4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.

Determine the value of stock on 29th February, 2020. ***(10 Marks)***

Answer

(a) (i) Adjusted Cash Book as on 31-03-2020

Particulars	₹	*Particulars*	₹
To Interest on deposit	1,000	By balance b/d	98,700
To Customer a/c- Cheque returned	1,500	By bank charges & interest (35 + 2,860)	2,895
To Balance c/d	1,03,595	By customer a/c - cheque dishonoured	500
		By Discount allowed (1,00,000 -96,000)	4,000
	1,06,095		1,06,095

(ii) Bank Reconciliation Statement as on 31st March, 2020

Particulars	₹	₹
Overdraft as per Adjusted Cash book		1,03,595
<u>Add :</u>		
Cheque deposited but not credited in the bank	2,600	
Cheque returned 'out of date' by the bank	3,500	<u>6,100</u>
		1,09,695
<u>Less:</u>		

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Cheques issued but not presented in the bank		
Cheque deposited in another account wrongly credited to this account by the bank	(7,400)	
Cheque drawn in this a/c wrongly debited to another A/c	(1,550)	(9,750)
	(800)	
Overdraft balance as per Bank Statement		
		99,945

(b) Statement of Valuation of Stock on 29thFebruary, 2020

		₹
Value of stock as on 23rd February, 2020		28,00,000
Add: Unsold stock out of the goods sent on consignment	2,30,000	
Purchases during the period from 23rd February, 2020 to 29th February, 2020	1,80,000	
Goods in transit on 29th February, 2020	1,20,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	1,28,000	6,58,000
		34,58,000
Cost of sales during the period from 23rdFebruary, 2020 to 29thFebruary, 2020		
Sales (₹ 13,60,000-₹ 1,60,000)	12,00,000	
Less: Gross profit	1,20,000	
		10,80,000
Value of stock as on 29th February, 2020		23,78,000

Working Notes:

1.	Calculation of normal sales:		
	Actual sales		13,60,000
	Less: Abnormal sales	1,50,000	
	Return of goods sent on approval	1,60,000	3,10,000
			10,50,000
2.	Calculation of gross profit:		
	Gross profit on normal sales 20/100 x		2,10,000

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	₹ 10,50,000 Less: Loss on sale of particular (abnormal) goods (₹ 2,40,000-₹ 1,50,000) Gross profit		 90,000 1,20,000

Question 3

(a) *Maya consigned 400 boxes of shaving brushes, each box containing 100 shaving brushes. Cost price of each box was ₹ 3,000. Maya spent ₹ 500 per box as cartage, freight, insurance and forwarding charges. One box was lost on the way and Maya lodged claim with insurance company and could get 2,700 as claim on average basis. Consignee took delivery of the rest of the boxes and spent ₹ 1,99,500 as non recurring expenses and ₹ 1,12,500 as recurring expenses. He sold 370 boxes at the rate of ₹ 65 per shaving brush. He was entitled to 2% commission on sales plus 1% del-credere commission.* CONSIGN

You are required to prepare Consignment Account. ***(5 Marks)***

(b) *Attempt any ONE of the following two sub-parts i.e.* ***either (i) or (ii).*** ***(5 Marks)***

(i) *From the following particulars prepare an account current, as sent by Mr. Raju to Mr. Sunil as on 31st October 2020 by means of product method charging interest @ 12% p.a.*

2020	***Particulars***	***Amount (₹)***
1st July	*Balance due from Sunil*	*840*
15th August	*Sold goods to Sunil*	*1,310*
20th August	*Goods returned by Sunil*	*240*
22nd September	*Sunil paid by cheque*	*830*
15th October	*Received cash from Sunil*	*560*

OR

(ii) *Rakesh had the following bills receivable and bills payable against Mukesh.*

Date	*Bills Receivable*	*Tenure*	*Date*	*Bills Payable*	*Tenure*
1st June	*3,400*	*3 month*	*29th May*	*2,500*	*2 month*
5th June	*2,900*	*3 month*	*3rd June*	*3,400*	*3 month*
9th June	*5,800*	*1 month*	*9th June*	*5,700*	*1 month*
12th June	*1,700*	*2 month*			
20th June	*1,900*	*3 month*			

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15th August was a public holiday. However, 6th September, was also declared as sudden holiday.

Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

(c) *Suresh draws a bill for ₹15,000 on Anup on 15th April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October,2020.* BOE

Pass necessary Journal entries for the above transactions in the books of Suresh.

(10 Marks)

Answer

(a) **Consignment Account**

Particulars	₹	*Particulars*	₹
To Goods sent on consignment A/c (400x ₹3,000)	12,00,000	By Consignee's A/c-Sales (370 x100x₹ 65)	24,05,000
To Cash A/c (expenses 400x₹500)	2,00,000	By Insurance Co./ Cash A/c (insurance claim)	2,700
To Consignee's A/c:		By Profit and loss account (abnormal loss)	800
Recurring expenses	1,12,500		
Non-recurring expenses	1,99,500	By Consignment stock A/c	1,16,000
Commission @ 2% on ₹24,05,000	48,100		
Del-credere commission @ 1% on ₹ 24,05,000	24,050		
To Profit and loss A/c (profit on consignment)	7,40,350		
	25,24,500		25,24,500

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Working note:

	₹
Abnormal loss:	
Cost of boxes lost during transit	3,000
Add: Expenses incurred by Maya	500
Gross Abnormal loss	3,500
Less: Insurance claim received	(2,700)
Net Abnormal loss	800
Closing inventories	**No. of Boxes**
Boxes consigned	400
Less: Boxes lost in transit	(1)
	399
Less: Boxes sold	370
Closing inventories	29

	₹
Cost of inventories at the end:	
29 boxes @ ₹3,000	87,000
Add: Expenses incurred by Maya (29x₹500)	14,500
Add: Proportionate (non-recurring) expenses incurred by the consignee (29/399x ₹1,99,500)	14,500
	1,16,000

(b) (i) **Mr. Sunil in Account Current with Mr. Raju**

for the period ending on 31st October, 2020

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2020		₹			2020		₹		
July1	To Balance b/d	840	123	1,03,320	Aug. 20	By Sales Returns	240	72	17,280
Aug 15	To Sales A/c	1,310	77	1,00,870	Sept. 22	By Bank A/c	830	39	32,370
Oct. 31	To Interest A/c	47.73							
					Oct. 15	By Cash A/c	560	16	8,960
					Oct .31	By Balance of products			1,45,580
					Oct.31	By Balance c/d	567.73		
		2,197.73		2,04,190			2,197.73		2,04,190

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Calculation of interest:

Interest = 1,45,580/366 X 12 % = ₹47.73

Note: Year 2020 is a leap year; hence 366 days are taken for interest calculation.

On the assumption of 365 days interest will be as below:-

Interest = 1,45,580/355 x 12% = ₹47.86 (or) ₹48.

Note: The alternative answer based on backward method i.e. Epoque method is also possible.

(ii) Let us take 12.07.2020 as Base date.

Bills receivable

Due date	No. of days from 12.07.2020	Amount	Product
04/09/2020	54	3,400	1,83,600
08/09/2020	58	2,900	1,68,200
12/07/2020	0	5,800	0
14/08/2020	33	1,700	56,100
23/09/2020	73	1,900	1,38,700
		15,700	5,46,600

Bills payable

Due date	No. of days from 12.07.2020	Amount	Product
01/08/2020	20	2,500	50,000
07/09/2020	57	3,400	1,93,800
12/07/2020	0	5,700	0
		11,600	2,43,800

Excess of products of bills receivable over bills payable = 5,46,600 -2,43,800= 3,02,800

Excess of bills receivable over bills payable = 15,700 – 11,600 = 4,100

Number of days from the base date to the date of settlement is $\frac{3,02,800}{4,100}$

= 73.85 (appox.)

Hence date of settlement of the balance amount is 74 days after 12th July i.e. 24th September.

On 24th September, 2020 Mukesh has to pay Rakesh ₹4,100 to settle the account.

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(c) **In the books of Suresh**

Journal Entries

Date	Particulars		Debit Amount	Credit Amount
2020			₹	₹
April 15	Bills receivable account	Dr.	15,000	
	To Anup's account			15,000
	(Being acceptance received from Anup for mutual accommodation)			
April 18	Bank account	Dr.	14,700	
	Discount account	Dr.	300	
	To Bills receivable account			15,000
	(Being bill discounted with bank)			
April 18	Anup's account	Dr.	5,000	
	To Bank account			4,900
	To Discount account			100
	(Being one-third proceeds of the bill sent to Anup)			
July 18	Anup's account	Dr.	17,500	
	To Bills payable account			17,500
	(Being Acceptance given)			
July 18	Bank account	Dr.	2,825	
	Discount account (400x/3/4)	Dr.	300	
	To Anup's account			3,125
	(Being proceeds of second bill received from Anup)			
Oct.21	Bills payable account	Dr.	17,500	
	To Anup's account			17,500
	(Being bill dishonoured due to insolvency)			
Oct.31	Anup's account (10,000+3,125)	Dr.	13,125	
	To Bank account			6,562.50

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	To Deficiency account (Being insolvent, only 50% amount paid to Anup)			6,562.50

Question 4

(a) *M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:*

Balance Sheet of M/s. TB as on 30-6-2020 PARTNER

Liabilities	*Amount (')*	*Assets*	*Amount (')*
A's Capital A/c	*1,24,000*	*Land*	*1,20,000*
B's Capital A/c	*96,000*	*Building*	*2,20,000*
C's Capital A/c	*1,60,000*	*Plant & Machinery*	*4,00,000*
Long Term Loan	*4,20,000*	*Investments*	*42,000*
Bank Overdraft	*64,000*	*Inventories*	*1,36,000*
Trade Payables	*2,13,000*	*Trade Receivables*	*1,59,000*
	10,77,000		*10,77,000*

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

(a) *Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.*

(b) *Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.*

(c) *In the reconstituted firm, the total capital will be 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.*

(d) *The amount due to retiring partner shall be transferred to his loan account.*

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes. ***(10 Marks)***

(b) *From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :* NPO

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Particulars	*Amount (₹)*	*Amount (₹)*
Security Deposit - Students	-	*1,55,000*
Capital Fund	-	*13,08,000*
Building Fund		*19,10,000*
Tuition Fee Received		*8,10,000*
Government Grants		*5,01,000*
Interest & Dividends on Investments	-	*1,75,000*
Hostel Room Rent	-	*1,65,000*
Mess Receipts (Net)		*2,05,000*
College Stores - Sales	-	*7,60,000*
Outstanding expenses	-	*2,35,000*
Stock of Stores and Supplies (opening)	*3,10,000*	-
Purchases - Stores & Supplies	*8,20,000*	-
Salaries - Teaching	*8,75,000*	-
Salaries - Research	*1,25,000*	-
Scholarships	*85,000*	-
Students Welfare expenses	*37,000*	-
Games & Sports expenses	*52,000*	-
Other investments	*12,75,000*	-
Land	*1,50,000*	-
Building	*15,50,000*	-
Plant and Machinery	*8,50,000*	-
Furniture and Fittings	*5,40,000*	-
Motor Vehicle	*2,40,000*	-
Provision for Depreciation :		-
Building	-	*4,90,000*
Plant & Equipment	-	*5,05,000*
Furniture & Fittings	-	*3,26,000*
Cash at Bank	*3,16,000*	-
Library	*3,20,000*	
	75,45,000	***75,45,000***

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Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching	*₹ 52,000.*
Research -	*₹ 1,45,000*
Students Welfare -	*₹ 78,000*
Games or Sports -	*₹ 24,000*

(b) Tuition fee receivable from Government for backward class Scholars ₹ 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates:

Building	*5%*
Plant & Equipment	*10%*
Furniture & Fixtures	*10%*
Motor Vehicle	*20%*

(10 Marks)

Answer

(a) **Revaluation Account**

2020		₹	2020		₹
July 1	To Building	11,000	July 1	By Investments (46,000 - 42,000)	4,000
	To Plant and Machinery	80,000		By Partners' Capital A/cs (loss on revaluation)	
	To Trade receivable (Bad Debts)	23,850		A (3/10) 33,255	
				B (2/10) 22,170	
				C (5/10) 55,425	1,10,850
		1,14,850			1,14,850

Dr. **Partners' Capital Accounts** *Cr.*

	A ₹	B ₹	C ₹	D ₹		A ₹	B ₹	C ₹	D ₹
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-

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To B's and C's capital A/cs	–	–	–	90,000	By D's Capital A/c (W.N.1)	–	60,000	30,000	–
To Investments A/c	–	46,000	–	–	By Bank A/c	29,255	–	25,425	2,10,000
To B's loan A/c	–	87,830	–	–					
To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

Working Notes:

1. Adjustment of goodwill

   Goodwill of the firm is valued at ₹ 3 lakhs

   Sacrificing ratio:

   A 3/10 - 3/10 = 0

   B 2/10 - 0 = 2/10

   C 5/10 - 4/10 = 1/10

   Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place.

   Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

		₹
B:	90,000 x 2/3 = 60,000	
C:	90,000 x 1/3 = 30,000	90,000

2. Capital of partners in the reconstituted firm:

	₹
Total capital of the reconstituted firm (given)	4,00,000
A (3/10)	1,20,000
C (4/10)	1,60,000
D (3/10)	1,20,000

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(b) **AS College**

Income and Expenditure Account

for the year ending 31st March, 2020

Expenditure	₹	₹	Income	₹	₹
To Salaries: Teaching		8,75,000	By Tutions & other fee		8,92,000
Research		1,25,000	By Govt. Grants		5,01,000
To Material & Supplies Consumed			By Income from Investments		1,75,000
Teaching		52,000	By Hostel room Rent		1,65,000
Research		1,45,000	By Mess Receipts		2,05,000
			By Profit-stores sales		1,14,000
To Sports & Games Expenses					
Cash	52,000				
Materials	24,000	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	78,000	1,15,000			
To Scholarships		85,000			
To Depreciation:					
Building		77,500			
Plant & Equipment		85,000			
Furniture		54,000			
Motor Vehicle		48,000			
To Excess of Income over Expenditure		3,14,500			
		20,52,000			20,52,000

AS College

Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
			Fixed Assets:		
Capital Fund			Land		1,50,000
Opening balance	13,08,000		Building Cost	15,50,000	

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Add: Excess of Income over Expenditure	3,14,500	16,22,500	Less: Dep.	(5,67,500)	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
Current Liabilities:			Less: Dep.	(5,90,000)	2,60,000
Outstanding Expenses		2,35,000			
Security Deposit		1,55,000	Furniture & Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	(48,000)	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		3,16,000
		39,22,500			39,22,500

Working Notes:

(1)	Material & Supplies-Closing Stock		₹	₹
	Opening Stock			3,10,000
	Purchases			8,20,000
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		2,99,000	(9,45,000)
	Balance			1,85,000
(2)	Provisions for Depreciation			

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		Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	77,500	85,000	54,000
	Closing Balance	5,67,500	5,90,000	3,80,000

Question 5

(a) *M/s. Applied Laboratories were unable to agree the Trial Balance as on 31st March, 2020 and have raised a suspense account for the difference. Next year the following errors were discovered:*

RECTI

(i) *Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.*

(ii) *The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.*

(iii) *Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.*

(iv) *Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.*

(v) *A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.*

You are required to pass journal entries to rectify the above mistakes. ***(5 Marks)***

(b) *Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31st December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each.*

On 1 July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate : FA

(i) *Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2019.*

(ii) *Amount actually paid as salaries during 2019.*

(iii) *Outstanding salaries as on 31st December, 2019.* ***(5 Marks)***

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(c) *Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing in these accounts.*

Raw Material A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	
To Creditors A/c	-	By Closing Stock	-

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		-

Manufacturing A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
to Direct Expenses	2,49,000		

Additional Information:

(i) *Purchase of machinery worth ₹ 12,00,000 on 1st April; 2019 has been omitted, Machinery is chargeable at a depreciation rate of 15%.*

(ii) *Wages include the following:*

Paid to factory workers - ₹ 3,15,000

Paid to labour at office - ₹ 50,000

(iii) *Direct expenses included the following :*

Electricity charges - ₹ 80,000 of which 25% pertained to office

Fuel charges - ₹ 25,000

Freight inwards - ₹ 32,000

Delivery charges to customers - ₹ 22,000

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You are required to prepare revised Manufacturing A/c and Raw Material A/c. ***(10 Marks)***

Answer

(a) Rectification entries in the books of M/s Applied Laboratories

	Particulars	**L.F.**	**Dr.** ₹	**Cr.** ₹
1.	Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)		12,500	12,500
2.	Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		1,500	1,500
3.	Suspense Account Dr. To Rani & Co. (Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)		2,100	2,100
4.	Profit and Loss Adjustment Account Dr. To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)		30,000	30,000
5.	Raja & Co. Dr. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		20,000	20,000

(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31st December, 2019

Employees	= 9 x ₹ 44,000 x 12 =	₹47,52,000
Trainees	= 2 x ₹ 21,000 x 6 =	₹ 2,52,000
Salaries charged to P & L A/c		₹50,04,000

(ii) Amount actually paid as salaries during 2019

Employees = 9 x ₹ 44,000 x 11 + 9 x ₹ 40,000 = ₹ 47,16,000

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Trainees = 2 x ₹21,000 x 5 = ₹ 2,10,000

Amount paid as salaries ₹ 49,26,000

(iii) Outstanding salaries as on 31.12.2019

Employees = 9 x ₹ 44,000 = ₹ 3,96,000

Trainees = 2 x ₹ 21,000 = ₹ 42,000

Outstanding salaries ₹ 4,38,000

(c) Manufacturing A/c

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	18,32,000		**18,32,000**

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c (Balancing Figure)	6,52,000
	15,67,000		15,67,000

Working Notes:

(1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted.

So, depreciation omitted from being charged = 12,00,000 X 15%

= ₹ 1,80,000

Correct total depreciation expense = ₹ (2,15,000 + 1,80,000)

= 3,95,000

(2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.

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(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	22,000
Total expenses not part of Direct Expenses	42,000

=> Revised Direct Expenses = ₹ (2,49,000 - 42,000)

= ₹ 2,07,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	**₹**
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	(42,000)
Revised balance to be transferred	**18,32,000**

(5) **Creditors A/c**

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d		By Raw Materials A/c	
	6,60,000	(Bal. figure)	14,40,000
	30,10,000		30,10,000

Question 6

(a) ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

₹ 2 per share on application

₹ 3 per share on allotment COMP

₹ 4 per share on first call

₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of ₹ 2 per share.

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Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited. ***(10 Marks)***

(b) *Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows :*

COMP

(i) *To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.*

(ii) *To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.*

(iii) *To the banker as collateral security for a loan of ₹ 14,00,000 - ₹ 15,00,000 nominal value,*

You are required to pass necessary Journal Entries. ***(5 Marks)***

(c) *Discuss the factors taken into consideration for calculation of depreciation.* ***(5 Marks)***

Answer

(a)

1. Bank A/c To Equity Share Application A/c (Being the application money received for 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
2. Equity Share Application A/c To Equity Share Capital A/c (Being share allotment made for 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
3. Equity Share Allotment A/c To Equity Share Capital A/c (Being allotment amount due on 20,000 equity shares at ₹ 3 per share as per Directors' resolution no... dated...)	Dr.	60,000	60,000
4. Bank A/c To Equity Share Allotment A/c (Being allotment money received for 20,000 equity shares at ₹ 3 per share)	Dr.	60,000	60,000
5. Equity Share First Call Account To Equity Share Capital A/c (Being first call money due on 20,000 equity shares @ Rs. 4 per share)	Dr.	80,000	80,000

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6. Bank Account	Dr.	78,800	
To Equity Share First Call Account			78,800
(Being full amount of first call money received except on 300 shares)			
OR			
Bank Account	Dr.	78,800	
Calls in Arrear A/c	Dr.	1,200	
To Equity Share First Call Account			80,000
(Being full amount of first call money received except on 300 shares)			
7. Equity Share Final Call Account	Dr.	20,000	
To Equity Share Capital A/c			20,000
(Being first call and final call money due)			
8. Bank Account	Dr.	19,700	
To Equity Share Final Call Account			19,700
(Being full amount of final call money received except on 300 shares)			
OR			
Bank Account	Dr.	19,700	
Calls in Arrear A/c	Dr.	300	
To Equity Share Final Call Account			20,000
(Being full amount of final call money received except on 300 shares)			
9. Equity Share Capital A/c (300 x ₹ 10)	Dr.	3,000	
To Equity Share First Call Account			1,200
To Equity Share Final Call Account			300
To Forfeited Shares A/c			1,500
Being forfeiture of 300 equity shares for non- payment of call money as per Board's Resolution No.....dated ....)			
OR			
Equity Share Capital A/c	Dr.	3,000	
To Forfeited Shares A/c			1,500
To Calls in Arrears			1,500
(Being 300 shares forfeited on which first call and final			

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call money was unpaid.)			
10. Bank A/c (300 x ₹ 8) Forfeited Shares A/c To Equity Share Capital A/c Being re-issue of 300 shares @ ₹8 each as per Board's Resolution No.....dated....)	Dr. Dr.	2,400 600	 3,000
11. Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr	900	 900

(b) **In the books of Y Company Ltd.**

Journal Entries

Date	*Particulars*		*Dr.* ₹	*Cr.* ₹
(i)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	13,00,000	 13,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 12% Debentures A/c (Being the issue of debentures of ₹ 15,00,000 to vendor to satisfy his claim)	Dr. Dr.	13,00,000 2,00,000	 15,00,000
(ii)	Bank A/c To Debentures Application A/c (Being the application money received on 5,000 debentures @ ₹ 540 each)	Dr.	27,00,000	 27,00,000
	Debentures Application A/c Discount on issue of Debentures A/c To 12% Debentures A/c (Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No....dated....)	Dr. Dr.	27,00,000 3,00,000	 30,00,000
(iii)	Bank A/c	Dr.	14,00,000	

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	To Bank Loan A/c (See Note) (Being a loan of ₹14,00,000 taken from bank by issuing debentures of ₹15,00,000 as collateral security)			14,00,000

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

(c) Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.

2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.

3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. **1** is compulsory.

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are True or False :*

(i) *Re-issue of forfeited shares is allotment of shares but not a sale.*

(ii) *Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.*

(iii) *The Sale Book is kept to record both the cash and credit sales.*

(iv) *There are two ways of preparing an account current.*

(v) *Consignee will not pass any journal entry in his books at time of receiving of goods from Consignor.*

(vi) *Accounting Standards for non-corporate entities in India are issued by the Central Government.* ***(6 x 2 = 12 Marks)***

(b) *Define the following terms:*

(i) *Capital Commitment*

(ii) *Expired Cost*

(iii) *Floating Charge*

(iv) *Obsolescence* ***(4 Marks)***

(c) *Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2020 :*

BRS

Particulars	*₹*
Bank Balance as per Cash Book (Debit)	*1,98,000*
Bank Charges debited by the bank not recorded in Cash Book	*34,000*
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	*1,00,000*
Cheque issued but not presented for payment	*45,000*
Cheque deposited but not cleared	*25,000*

Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	*5,000*
Instruction for payment given to the bank on 31st December, 2020 but the same effected by the Bank on 01st January, 2021	*4,000*

(4 Marks)

Answer

(a) (i) **False**; Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.

(ii) **True;** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

(iii) **False**; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.

(iv) **False;** There are three ways of preparing an Account Current: with help of interest table; by means of products and by means of products of balances.

(v) **True;** Consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He does not pass any entry in his books at the time of receiving goods from consignor.

(vi) **False;** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

(b) (i) **Capital commitment**: **Future liability** for capital expenditure in respect of which contracts have been made.

(ii) **Expired cost**: The portion of the expenditure from which no further benefit is expected. Also termed as expense.

(iii) **Floating charge**: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.

(iv) **Obsolescence**: **Diminution in the value of an asset** by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

(c) Adjusted Cash Book as on 31st December, 2020

Particulars	₹	Particulars	₹
To Balance b/d	1,98,000	By Bank charges	34,000
To Debtors	1,00,000	By Debtor (cheque dishonour)	5,000
		By Balance c/d	2,59,000
	2,98,000		2,98,000

Bank Reconciliation Statement as on 31st December, 2020

Particulars	₹	₹
Balance as per adjusted cash book		2,59,000
ADD: Cheque issued but not presented	45,000	
Payment not effected by bank	4,000	
		49,000
		3,08,000
LESS: Cheque deposited but not cleared	25,000	25,000
Balance as per Bank pass book		2,83,000

Question 2

(a) *Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:*

(i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

(ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

(iii) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from Senu, ₹ 895 was posted to debit of Sethu.

(v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.

(vii) ₹ 600 due from Mr. Q was omitted to be taken ·to the trial balance.

(viii) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

RECTI

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You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly. ***(10 Marks)***

(b) M/s. Dayal Transport Company purchased 10 trucks @ ₹ 50,00,000 each on 1st July 2017. On 1st October, 2019, one of the trucks is involved in an accident and is completely destroyed and ₹ 35,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 60,00,000. The company writes off 20% of the original cost per annum. The company observes the calendar year as its financial year. DEPRE

Give the motor truck account for two years ending 31st December, 2020. ***(10 Marks)***

Answer

(a) **Journal Entries**

	Particulars		*L.F.*	*Dr.* ₹	*Cr.* ₹
(i)	Suspense Account	Dr.		936	
	To Profit and Loss Adjustment A/c				936
	(Correction of error by which Purchase Account was over debited last year- ₹5,615 carried forward instead of ₹6,551)				
(ii)	Profit & Loss Adjustment A/c	Dr.		540	
	Customer's Account	Dr.		1,102	
	To Suspense Account				1,642
	(Correction of the entry by which (a) Sales A/c was over credited by ₹ 540 (b) customer was credited by ₹821 instead of being debited by ₹281)				
(iii)	Suspense Account	Dr.		590	
	To Profit & Loss Adjustment A/c				590
	(Correction of error by which Returns Inward Account was debited by ₹295 instead of Returns Outwards Account being credited by ₹295)				
(iv)	Suspense Account	Dr.		1,790	
	To Senu				895

	To Sethu (Removal or wrong debit to Sethu and giving credit to Senu from whom cash was received)				895
(v)	Customer's Account To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered)	Dr.		1,400	1,400
(vi)	Profit & Loss Adjustment A/c To Customer's Account (The Customer's A/c credited with goods not yet purchased by him)	Dr.		1600	1,600
(vii)	Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c)	Dr.		1280	1280
(viii)	Trade receivable/ Q's Account To Suspense Account (₹600 due by Q not taken into trial balance, now rectified)	Dr.		600	600
(ix)	R's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to R omitted, now rectified)	Dr.		3,000	3,000
(x)	Profit & Loss Adjustment A/c To Joshi's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.		5,066	5,066

(b) **Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d	35,000,000	Oct-01	By bank A/c	35,00,000
Oct-01	To Profit & Loss A/c Profit on settlement of Truck (W.Note 1)	7,50,000	Oct-01	By Depreciation on lost assets	7,50,000

Date	Particulars	Amount	Date	Particulars	Amount
Oct-01	To Bank A/c	60,00,000	Dec-31	By Depreciation A/c (W Note 3)	93,00,000
			Dec-31	By balance c/d	2,82,00,000
		4,17,50,000			4,17,50,000
2020			2020		
Jan-01	To balance b/d	2,82,00,000	Dec-31	By Depreciation A/c (W Note 3)	1,02,00,000
			Dec-31	By balance c/d	1,80,00,000
		2,82,00,000			2,82,00,000

Working Note:

1. Profit on settlement of truck

Original cost as on 1.7.2017	50,00,000
Less: Depreciation for 2017 (6 months)	5,00,000
	45,00,000
Less: Depreciation for 2017	10,00,000
	35,00,000
Less: Depreciation for 2019 (9 months)	7,50,000
	27,50,000
Less: Amount received from Insurance company	35,00,000
Profit on settlement of truck	7,50,000

2. Calculation of WDV of 10 trucks as on 01.01.2018

	Amount
WDV of 1 truck as on 31.12.2017 (Refer W.N 1)	35,00,000
WDV of 10 trucks as on 01.01.2018	3,50,00,000

3. Calculation for Depreciation for 2018 and 2019

	Amount
Depreciation for 2018	
On 9 trucks (₹ 50,00,000 x 9 x 20%)	90,00,000
On new truck (₹ 60,00,000 x 1 x 20% x 3/12)	3,00,000
	93,00,000
Depreciation for 2019	

On 9 tucks (₹ 50,00,000 x 9 x 20%) On new truck (Rs 60,00,000 x 1 x 20%)	90,00,000 12,00,000 1,02,00,000

Question 3

(a) *A Products Limited of Kolkata has given the following particulars regarding tea sent on consignment to C Stores of Mumbai:* CONSIGN

	Cost price	*Selling price*	*Qty consigned*
5 Kg. Tin	*₹ 100 each*	*₹ 150 each*	*1,000 Tins*
10 Kg. Tin	*₹ 180 each*	*₹ 250 each*	*1,000 Tins*

(i) *The consignment was booked on freight "To Pay" basis. The freight was charged @ 5% of selling value.*

(ii) *C Stores sold 500, 5 kg Tins and 800, 10 kg Tins. It paid insurance of ₹ 10,000 and storage charges of ₹ 20,000.*

(iii) *C Stores is entitled to a fixed commission @ 10% on Sales.*

(iv) *During transit 50 quantity of 5 kg Tin and 20 quantity of 10 kg Tin got damaged and the transporter paid ₹ 5,000 as damage charge.*

Prepare the Consignment Account in the books of A Products Limited. **(10 Marks)**

(b) *From the following particulars prepare an account current, as sent by Mr. Amit to Mr. Piyush as on 31st December, 2020 by means of product method charging interest @ 8% p.a.*

Date	*Particulars*	*₹*
01-09-2020	*Balance due from Piyush*	*900*
15-10-2020	*Sold goods to Piyush*	*1,450*
20-10-2020	*Goods returned by Piyush*	*250*
22-11-2020	*Piyush paid by Cheque*	*1,200*
15-12-2020	*Received cash from Piyush*	*600*

(5 Marks)

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

(i) *From the following information show the journal entries in the books of ABC Limited for the year ended 31st March, 2020:*

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(1) 100 units of goods costing ₹ 500 each sent to XYZ Limited on Sales or Return Basis @ ₹ 750 per unit. This transaction was however treated as actual sales in the books of accounts.

(2) Out of the above 100 units, only 60 units were accepted by XYZ Limited during the year @ ₹ 700 per unit. No information was received about acceptability of balance units by the year end.

OR

(ii) Mahesh had the following bill receivables and bills payables against Rajesh. Calculate the average due date, when the payment can be received or made without any loss of interest.

Date	*Bills Receivable*	*Tenure*	*Date*	*Bills Payable*	*Tenure*
12-06-20	*5,000*	*3 months*	*27-05-20*	*3,700*	*3 months*
10-07-20	*6,200*	*1 month*	*07-06-20*	*4,000*	*3 months*
15-07-20	*3,500*	*3 months*	*10-07-20*	*5,000*	*1 month*
12-06-20	*1,500*	*2 months*			
28-06-20	*2,500*	*2 months*			

15th August, 2020 was Public holiday. However, 10th September, 2020 was also suddenly declared as holiday. ***(5 Marks)***

Answer

(a) **A Products Ltd.**

Dr. **Consignment to Mumbai Account** **Cr.**

Particulars		₹	Particulars		₹
To Goods sent on Consignment A/c			By C Stores		
1,000 5 kg. tins @ Rs 100	1,00,000		500, 5 kg. tins @ ₹ 150	75,000	
1,000 10 kg. tins. @ ₹ 180	1,80,000	2,80,000	800,10 kg. tins. @ ₹ 250	2,00,000	2,75,000
To C Stores:			By Bank A/c (Damage charges)		5,000
Freight	20,000		By Profit & Loss A/c -		

Insurance	10,000		abnormal loss (Net)		4,225
Storage charge	20,000				
Commission	27,500	77,500	By Inventory on consignment A/c		83,025
To Profit & Loss A/c – Profit		9,750			
		3,67,250			3,67,250

Working Notes:

(i) Calculation of Freight

Sale value of total consignment:

1,000 5 kg. tins @ ₹ 150	1,50,000
1,000 10 kg. tins @ ₹ 250	2,50,000
	4,00,000
Freight @ 5% of above	20,000

(ii) Inventories at the end:

450, 5 kg. tins @ ₹ 100 (Selling Price ₹ 67,500)	45,000
180,10 kg. tins. @ ₹ 180 (Selling Price ₹ 45,000)	32,400
	77,400
Add: Freight 5% of (Selling Price ₹ 1,12,500)	5,625
	83,025

(iii) Loss in transit:

Cost of 50,5 kg. tins @ ₹ 100 & 20, 10 kg tins @ 180	8,600
Freight @ 5% of Selling Price ₹ 12,500	625
Gross abnormal Loss	9,225
Less : Damage charges received	(5,000)
Net abnormal Loss	4,225

(b) Piyush in Account Current with Amit

for the period ending on 31st December, 2020

Date	*Particulars*	*Amount*	*Days*	*Products*	*Date*	*Particulars*	*Amount*	*Days*	*Products*
2020		₹			2020		₹		
Sept. 1	To Balance	900	122	1,09,800	Oct.	By Sales	250	72	18,000

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	b/d				20	Returns			
Oct. 15	To Sales A/c	1,450	77	1,11,650	Nov. 22	By Bank A/c	1,200	39	46,800
Dec. 31	To Interest A/c	32			Dec. 15	By Cash A/c	600	16	9,600
					Dec. 31	By Balance of products			1,47,050
						By Balance c/d	332		
		2,382		2,21,450			2,382		2,21,450

Calculation of interest:

Interest = 1,47,050/ 366 days X 8% = ₹ 32 (Rounded off)

Note: 366 days taken for interest calculation since 2020 is a leap year. Alternatively,365 days can also be taken. In that case amount of interest will be ₹ 32.23 (Rounded off ₹ 32) and amount of balance c/d will be ₹ 332.23 (Rounded off ₹ 332).

(c) (i) In the books of ABC. Ltd.

Journal Entries

Date	***Particulars***		***L.F.***	***Dr.*** ₹	***Cr.*** ₹
March. 31	Sales A/c (₹ 50 X 60)	Dr.		3,000	
	To XYZ Limited A/c				3,000
	(Being the60 units of goods accepted by XYZ limited at 700 per unit.)				
	Sales A/c (40 X ₹ 750)	Dr		30,000	
	To XYZ Limited A/c				30,000
	(Being the cancellation of original entry for sale in respect of 40 units of goods not yet returned or approved by customers)				
March. 31	Inventories with Customers on Sale or Return A/c	Dr.		20,000	
	To Trading A/c				20,000
	(Being the cost of goods sent to customers on approval or return basis not yet approved, adjusted)				

Note: Quantity of goods lying with XYZ as on 31.3.2020 = 100-60 = 40

(ii) Let us take 13.08.2020 as Base date.

Bills receivable

Bill Date	Tenure	*Due date*	*No. Of days from 13.08.2020*	*Amount*	*Product*
12/06/19	3 months	15/09/2020	33	5,000	1,65,000
10/07/19	1 month	13/8/2020	0	6,200	0
15/07/19	3 months	18/10/2020	66	3,500	2,31,000
12/06/19	2 months	14/08/2020	1	1,500	1,500
28/06/19	2 months	31/8/2020	18	2,500	45,000
				18,700	4,42,500

Bills payable

Bill Date	Tenure	*Due date*	*No. Of days from 13.08.2020*	*Amount*	*Product*
27/05/19	3 months	30/08/2020	17	3,700	62,900
07/06/19	3 months	11/09/2020	29	4,000	1,16,000
10/07/19	1 month	13/08/2020	0	5,000	0
				12,700	1,78,900

Excess of products of bills receivable over bills payable = 4,42,500 - 1,78,900= 2,63,600

Excess of bills receivable over bills payable = 18,700 – 12,700 = 6,000

Number of days from the base date to the date of settlement is 2,63,600 /6,000 = 43.94 (approx.)

Hence date of settlement of the balance amount is 44 days after 13.08.2020 i.e. **26th September, 2020.**

On **26th September, 2020**, Rajesh has to pay Mahesh ₹ 6,000 to settle the account.

Question 4

(a) *The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:* PARTNER

(i) *The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.*

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(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn ₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017	Profit ₹ 29,340
2018	Profit ₹ 26,470
2019	Loss ₹ 8,320
2020	Profit ₹ 13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years. **(10 Marks)**

(b) Dr. Deku started private practice on 1st April, 2019 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account: NPO

Receipts	₹	Payments	₹
Own Capital	2,00,000	Medicines Purchased	2,45,000
Loan	3,00,000	Surgical Equipment	2,50,000
Prescription Fees	6,60,000	Motor Car	3,20,000
Visiting Fees	2,50,000	Motor Car Expenses	1,20,000
Lecture Fees	24,000	Wages and Salaries	1,05,000

Pension Received	*3,00,000*	*Rent of Clinic*	*60,000*
		General Charges	*49,000*
		Household Expenses	*1,80,000*
		Household Furniture	*25,000*
		Expenses on Daughter's Marriage	*2,15,000*
		Interest on Loan	*36,000*
		Balance at Bank	*1,10,000*
		Cash in Hand	*19,000*
	17,34,000		*17,34,000*

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2020 was valued at ₹ 95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2020. Ignore depreciation on fixed assets.

(10 Marks)

Answer

(a) **P's Capital Account**

2020		₹	2020		₹
Sep. 30	To Current A/c	25,000	Jan. 1	By Balance b/d	30,000
	(30,000 - 5000)		Dec. 31	By Profit and Loss A/c :	
Dec. 31	To Profit and Loss Adjt.	3,000		Interest on Capital	2,400
	(Unrecorded Liability)		Dec. 31	Share of Profit	4,735
Dec. 31	To Balance Transferred to P's Executor's A/c	38,465		Q&R (Goodwill)	11,830
			Dec. 31	Insurance Policies A/c	17,500
		66,465			66,465

Working Notes:

(i) Valuation of Goodwill

Year	Profit before Interest on fixed capital ₹	Interest ₹	Profit after interest ₹
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	47,490	12,000	35,490

	₹
Average	11,830
Goodwill at two years purchase of average net profits	23,660
Share of P in the goodwill	11,830

(ii) Profit on Separate Life Policy:

P's policy	25,000
Q and R's policy @ 20% of ₹ 50,000	10,000
	35,000
Share of P (1/2)	17,500

(iii) Share in profit for 2020:

Profit for the year	13,470
Less : Interest on capitals	(4,000)
	9,470
P's share in profit (1/2)	4,735

(b) Income and Expenditure Account

for the year ended 31st March, 2020

		₹		₹
To Medicines consumed			By Prescription fees	6,60,000
Purchases	2,45,000			
Less: Stock on 31.3.20	(95,000)	1,50,000	By Visiting fees	2,50,000
To Motor car expense		80,000	By Fees from lectures	24,000

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To Wages and salaries (1,05,000 – 30,000)	75,000		
To Rent for clinic	60,000		
To General charges	49,000		
To Interest on loan	36,000		
To Net Income	4,84,000		
	9,34,000		9,34,000

Capital Account

for the year ended 31st March, 2020

	₹		₹
To Drawings:		By Cash/bank	2,00,000
Motor car expenses	40,000	By Cash/ bank (pension)	3,00,000
(one-third of ₹ 1,20,000)		By Net income from practice (derived from income and expenditure A/c)	4,84,000
Household expenses	1,80,000		
Daughter's marriage exp.	2,15,000		
Wages of domestic servants	30,000		
Household furniture	25,000		
To Balance c/d	4,94,000		
	9,84,000		9,84,000

Question 5

(a) *From the following particulars ascertain the value of inventories as on 31st March, 2020 :*

Inventory as on 1st April, 2019	*₹ 3,50,000*
Purchase made during the year	*₹ 12,00,000*
Sales	*₹ 18,50,000*
Manufacturing Expenses	*₹ 1,00,000*
Selling and Distribution Expenses	*₹ 50,000*
Administration Expenses	*₹ 80,000*

STOCK

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

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Except the above mentioned transaction, gross profit earned during the year was 20 on sales. ***(5 Marks)***

(b) *Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below:*

On 1st April, 2019 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21- During the year 2019-20 he made cash sales of ₹ 7,50,000.

You are required to compute :

(i) *Total income for the year 2019-20.*

(ii) *Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is ₹ 2,55,000.* ***(5 Marks)***

(c) *From the following Income and Expenditure Account and additional information of A TK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.* NPO

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	Income	₹
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		8,40,000

Additional Information:

Particulars	As on 31st March, 2019	As on 31st March, 2020
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600

Salaries Outstanding	*24,000*	*32,000*
Audit Fees Payable	*8,000*	*10,000*
Bank Loan	*1,20,000*	*1,20,000*
Value of Sports Equipment	*2,08,000*	*2,52,000*
Value of Club Premises	*7,60,000*	*7,60,000*
Cash in Hand	*?*	*1,14,000*

(10 Marks)

Answer

(a) Statement of Inventory in trade as on 31st March, 2020

	₹	₹
Inventory as on 31st March, 2019	3,50,000	
Less: Book value of abnormal inventory		
(₹ 55,000 - ₹ 20,000)	35,000	3,15,000
Add: Purchases		12,00,000
Manufacturing Expenses		1,00,000
		16,15,000
Less: Cost of goods sold:		
Sales as per books	18,50,000	
Less: Sales of abnormal item	50,000	
	18,00,000	
Less: Gross Profit @ 20%	3,60,000	14,40,000
Inventory in trade as on 31st March, 2020		1,75,000

(b) (i) Computation of Income for the year 2019-20:

	₹
Money received during the year related to 2019-20	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2019-20	9,75,000

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(ii) **Advance from Customers A/c**

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2019	By Balance b/d	3,00,000
				By Bank A/c (Balancing Figure)	1,80,000
31.3.20	To Balance c/d	2,55,000			
		4,80,000			4,80,000

So, total money received during the year is:

	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

(c) **ATK Club**

Receipts and Payments Account for the year ended 31st March, 2020

RECEIPTS	₹	₹	PAYMENTS	₹	₹
To Balance b/d (balancing figure)		54,400	By Salaries Paid (W.N. 2)		4,72,000
To Subscriptions Received (W.N.1)		6,53,600	By Audit fee (W.N. 3)		8,000
To Entrance Fees		16,000			
To Misc. Income		1,44,000	By Telephone		6,000
			By Stationery & Printing		24,000
			By Postage		2000
			By Office expense		48,000
			By Bank Interest		22,000
			By Annual general meeting expenses		1,00,000

			By Sports Equipment's (W.N.4)		72,000
			By Balance c/d		1,14,000
		8,68,000			8,68,000

Balance Sheet of ATK Club as at March31, 2020

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Club Premises		7,60,000
Balance as per previous			Sport Equipment		2,52,000
Balance Sheet	8,82,400		Subscription Outstanding		72,000
Add: Surplus for 2020	1,20,000	10,02,400	Cash in hand		1,14,000
Bank Loan		1,20,000			
Subscription received in advance		33,600			
Audit Fee Outstanding		10,000			
Salaries Outstanding		32,000			
		11,98,000			11,98,000

Balance Sheet of ATK Club as at 31st March, 2019

Liabilities	₹	Assets	₹
Subscriptions received in advance	52,000	Club Premises	7,60,000
Salaries Outstanding	24,000	Sports Equipment	2,08,000
Audit fees payable	8,000	Subscriptions Outstanding	64,000
Bank Loan	1,20,000	Cash in hand	54,400
Capital Fund (balancing figure)	8,82,400		
	10,86,400		10,86,400

Working Notes:

1. Subscription received in 2019-20

   Add: Subscription for 2019-20 on accrual basis 6,80,000

Add: Amount received in advance on 31.03.2020	33,600
Outstanding as on 01.04.2019 received in 2019-20	64,000
	7,77,600
Less: Outstanding to be received on 31.03.2020	72,000
Amount of 2019-20 received in 2018-19	52,000
	Rs 6,53,600

2. Salary paid in 2019-20

Salary for 2019-20 on accrual basis	4,80,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	24,000
Less: Outstanding to be paid on 31.03.2020	32,000
	Rs .4,72,000

3. Audit Fees paid in 2019-20

Audit Fees for 2019-20 on accrual basis	10,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	8,000
Less: Outstanding to be paid on 31.03.2020	10,000
	₹ 8,000

4. Sports Equipment purchased during 2019-20

WDV as on 31.03.2020	2,52,000
Add: Depreciation	28,000
Less: WDV as on 31.03.2019	2,08,000
	Rs 72,000

Question 6

(a) *A Limited is a company with' an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :* COMP

(i) *₹ 2 per share payable on application, to be received by 31st May, 2020;*

(ii) *Allotment to be made on 10th June, 2020 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 31st December, 2020.*

Applications were received for 5,60,000 shares and dealt with as follows:

(1) Applicants for 10,000 shares received allotment in full;

(2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(3) Applicants for 5,00,000 shares 'received an allotment of 1 share for every 5 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 bank transactions) in the Journal Book of A Limited. ***(15 Marks)***

(b) Discuss the rules if there is no Partnership Agreement. ***(5 Marks)***

Answer

(a) Journal of A Limited

Date 2020	*Particulars*		*Dr.* ₹	*Cr.* ₹
May 31	Bank A/c (Note 1 – Column 3)	Dr.	11,20,000	
	To Equity Share Application A/c			11,20,000
	(Being application money received on 5,60,000 shares @ ₹ 2 per share)			
June 10	Equity Share Application A/c	Dr.	11,20,000	
	To Equity Share Capital A/c			2,70,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			5,50,000
	To Bank A/c (Note 1–Column 6)			3,00,000
	(Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,75,000	
	To Equity Share Capital A/c			1,35,000
	To Securities Premium a/c			5,40,000
	(Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No....dated....)			

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	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	1,25,000	 1,25,000
Dec. 31	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,35,000 shares @₹ 7 per share as per Board's Resolution No.....dated....)	Dr.	9,45,000	 9,45,000
	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ ₹ 7 each received)	Dr.	9,45,000	 9,45,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

(b) As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State With reasons, whether the following statements are True or False:*

(i) *Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out,*

(ii) *A Company is not allowed to issue shares at a discount to the public in general.*

(iii) *Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.*

(iv) *A person holding preference shares of a company cannot hold equity shares of the same company.*

(v) *Business of partnership comes to an end on death of a partner.*

(vi) *Cash book is a subsidiary book as well as a principal book.* ***(6 x 2 = 12 Marks)***

(b) *Discuss the basic considerations in distinguishing between capital and revenue expenditure.* ***(4 Marks)***

(c) *The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54;000. Out of this, a plant having book value of ₹ 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off@ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.* ***(4 Marks)***

DEPRE

Answer

(a)

(i)	**False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.
(ii)	**True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
(iii)	**False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting **the**

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	inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.
(iv)	**False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
(v)	**False:** Surviving partners may continue to carry on the business in case of partnership.
(vi)	**True:** Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.

(b) The basic considerations in distinction between capital and revenue expenditures are:

(a)	**Nature of business:** For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is a very important criterion in separating expenditure between capital and revenue.
(b)	**Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.
(c)	**Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
(d)	**Effect on revenue generating capacity of business:** The expenses which help to generate income/revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.
(e)	**Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

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(c) Calculation of depreciation for the year ended 31.3.21

	Machine I (28,54,000 - 2,16,000) ₹	Machine II Purchased on 1st July ₹	Machine III Purchased on 1st Nov ₹	Depreciation on sold machine IV ₹
Book value as on 1st April, 2020	26,38,000	4,80,000	5,60,000	2,16,000
Depreciation @15%	3,95,700 (for full year)	54,000 (for 9 months)	35,000 (for 5 months)	8,100 (for 3 months)

Total depreciation (I + II + III + IV) ₹ 4,92,800

Question 2

(a) *Mr. Ratan was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:*

(i) *Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.*

RECTI

(ii) *Purchase account was over cast by ₹ 1,00,000.*

(iii) *A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.*

(iv) *Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.*

(v) *Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.*

(vi) *₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.*

(vii) *Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.*

(viii) *Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.*

Suggest the necessary rectification entries. **(10 Marks)**

(b) *From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:*

(i) *Debit balance as per Bank Pass Book ₹ 3,500.* BRS **(5 Marks)**

(ii) *A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.*

(iii) *During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.*

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(iv) A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book.

(v) A Cheque for ₹ 1,500 was debited twice in the cash book.

(c) From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

INVENTORY

Purchase during the year	-	*₹ 5,00,000*
Sales during the year	-	*₹ 7,50,000*
Opening Inventory		*Nil*
Closing Inventory at selling price	-	*₹ 1,00,000*

(5 Marks)

Answer

(a)

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Scooter Account To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of ₹27,000, i.e., ₹30,000 less 10% depreciation)	Dr.	27,000	27,000
(2)	Suspense Account To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year error now rectified).	Dr.	1,00,000	1,00,000
(3)	Profit & Loss Adjustment A/c To X's Account (Credit purchase from X₹20,000, entered as sales last year, now rectified)	Dr.	40,000	40,000
(4)	Bhaskar's Account To Anand's Account (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)	Dr.	10,000	10,000
(5)	Suspense Account	Dr.	10,000	

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	To Chandu's Account (₹ 5,000 received from Chandu wrongly debited to his account; now rectified)			10,000
(6)	Trade receivables (Ramesh) / Ramesh To Suspense Account (₹5,000 due by Mr. Ramesh not taken into trial balance now rectified)	Dr.	5,000	5,000
(7)	Ram's Account To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted)	Dr.	20,000	20,000
(8)	Suspense Account To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹25,930, instead of ₹23,950, now adjusted)	Dr.	1,980	1,980
(9)	Profit & Loss Adjustment A/c To Ratan's Capital Account (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	1,08,980	1,08,980
(10)	Ratan's Capital Account To Suspense Account (Balance of Suspense Account transferred to Capital Account)	Dr.	1,06,980	1,06,980

(b) Bank Reconciliation Statement as on 31st March,2021

Particulars	*Amount ₹*
Balance as per Pass Book (Dr.)	(3,500)
Add: Cheques deposited but returned on 24th March,2021	2,500
Discounted bill from Mr. Balaji dishonoured	5,000
Wrong debit in passbook	1,500
	5,500
Less: Bill discounted by bank (2,500+500)	(3000)
Balance as per Cash book (Dr. / Favourable)	2,500

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(c)

Sales	7,50,000
Add: Closing inventory (at selling price)	1,00,000
Selling price of goods available for sale:	8,50,000
Less: Cost of goods available for sale	5,00,000
Gross margin	3,50,000

Rate of gross margin $= \frac{3,50,000}{8,50,000} \times 100 = 41.18\%$

Cost of closing inventory = 1,00,000 less 41.18% of ₹1,00,000 = ₹ 58,820

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹ 58,824

OR as 41.17% in that case, the closing inventory will be valued at ₹ 58,830

Question 3

(a) Ramesh lent ₹ 1,50,000 to Deepak on 1st January, 2016 at the rate of 12% per annum. The loan is repayable as under:

(i) ₹ 10,000 on 1st January, 2017

(ii) ₹ 20,000 on 1st January, 2018

(iii) ₹ 30,000 on 1st January, 2019

(iv) ₹ 40,000 on 1st January, 2020

(v) ₹ 50,000 on 1st January, 2021

You are required to determine the average due date for settling all the above installments by a single payment and compute interest. ***(5 Marks)***

(b) ABC Limited supplied goods on sale or return basis to customers.

Goods are to be returned within 15 days from the date of dispatch, failing which it is treated as sales. The books of BC Limited are closed on 31st March, 2021. The particulars of the same are as under:

Date of Dispatch	Party Name	Amount	Remarks
10.03.2021	PQR	25,000	No information till 31.03 .2021
12.03.2021	DEF	15,000	Returned on 16.03.2021
15.03.2021	GHI	40,000	Goods worth ₹ 8,000 Returned on 20.03.2021
20.03.2021	DEF	10,000	Goods Retained on 24.03.2021
25.03.2021	PQR	22,000	Goods Retained on 28.03.2021
30.03.2021	XYZ	35,000	No information till 31.03.2021

SOA

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You are required to prepare the following accounts in the books of ABC Limited:

(i) Goods on sale or return, sold and returned day books

(ii) Goods on sales or return total account **(5 Marks)**

(c) *Max Chemical Works consigned 700 boxes of medicines to Raja Medical Stores at an invoice price of ₹ 1,68,000 which was·20% above the actual cost price and paid ₹ 14,000 for Insurance and freight. In the course of transit, 50 boxes were lost and the transporter paid ₹ 22,000 for the loss. The Consignee took the delivery of the remaining boxes and incurred ₹ 9,750 for carriage. The Consignee sold 500 boxes for ₹ 1,60,000 and incurred ₹ 6,000 for selling expenses. The Consignee is entitled to a commission of 6% on gross sales.* CONSIGN

Show the Consignment Account. **(10 Marks)**

Answer

(a)

Due date	Amount (in ₹)	No. of months from 1.1.2016	Products
1st January 2017	10,000	12	1,20,000
1st January 2018	20,000	24	4,80,000
1st January 2019	30,000	36	10,80,000
1st January 2020	40,000	48	19,20,000
1st January 2021	50,000	60	30,00,000
	1,50,000		66,00,000

Average due date= Base date + $\frac{\text{Total of product}}{\text{Total of amount}}$

1st January 2016+ $\frac{66,00,000}{1,50,000}$ = 44 months

Average due date= 1st January 2016+ 44 months = 1st September 2019.

Interest for the 44 months = $\frac{1,50,000 \times 12 \times 44/12^{*}}{100}$ = ₹ 66,000.

*may be considered as 3.67 years, in this case, interest will be calculated as ₹ 66,060.

(b) **In the books of 'ABC'**

Goods on sales or return, sold and returned day book

Date 2021	Party to whom goods sent	L.F	Amount ₹	Date 2021	Sold ₹	Returned ₹
Mar.10	M/s PQR		25,000	Mar. 25	25,000	-

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Mar.12	M/s DEF		15,000	Mar. 16	-	15,000
Mar.15	M/s GHI		40,000	Mar. 20	32,000	8,000
	M/s DEF		10,000	Mar. 24	10,000	-
Mar.20						
Mar.25	M/s PQR		22,000	Mar. 28	22,000	-
Mar.30	M/s GHI		35,000	-		
			1,47,000		89,000	23,000

Goods on Sales or Return Total Account

Date	*Particulars*	*Amount* ₹	*Date*	*Particulars*	*Amount* ₹
2021			2021		
Mar. 31	To Returns	23,000	Mar. 31	By Goods sent	
	To Sales	89,000		on sales or return	1,47,000
	To Balance c/d	35,000			
		1,47,000			1,47,000

(c)

Books of Max Chemical works

Consignment to Raja Medical store Account

	Particulars	₹	₹		*Particulars*	₹
To	Goods sent on Consignment A/c (700 box)		1,68,000	By	Goods sent on Consignment A/c (loading)	28,000
To	To Cash A/c		14,000	By	Abnormal Loss (50 box)	11,000
To	Raja Medial Store -			By	Raja medical store	1,60,000
	Carriage Expenses on 650 box		9,750		(Sales- 500 box)	
	Selling exp		6,000			
To	Commission		9,600	By	Inventories on Consignment A/c	41,250
To	Inventories Reserve A/c		6,000			
To	General Profit & Loss A/c		26,900			
			2,40,250			2,40,250

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Working Notes:

1. Calculation of value of goods sent on consignment

   Value of goods sent on consignment = 1,68,000

   Loading of goods sent on consignment 1,68,000 X 20 / 120 =28,000

2. Calculation of abnormal loss (50 boxes in transit):

   Abnormal Loss paid by transporter = ₹ 22,000.

   Abnormal Loss at Invoice price = ₹ 1,68,000 / 700 * 50 = ₹ 12,000

   Abnormal Loss at cost = 12,000/120*100 = ₹ 10,000

   Add: Proportionate expenses of Max chemical works (₹ 14,000/700X50) = ₹ 1,000

   ₹ 11,000

3. Calculation of closing Inventories (700-50-500 boxes = 150 box):

   Invoice price per box =1,68,000 / 700= ₹240

Max chemical works Basic Invoice price of consignment (150 x240)	36,000
Add: consigner expenses 14,000/700X 150	3000
Add: consignee expenses 9,750/650X150	2,250
Closing Inventory	41,250

Loading in closing Inventories = ₹28,000 / 700 x 150 = ₹6,000

Where ₹36,000 (150/700 of ₹ 1,68,000) is the basic invoice price of the goods sent on consignment remaining unsold.

Note :

1. In the above solution, abnormal loss has been shown at the full amount of cost ₹ 11,000 without considering the amount of ₹ 22,000 received from transporter. Otherwise, there would have been gain of ₹ 11,000 (Money received from transporter ₹ 22,000 less cost of boxes lost ₹ 11,000)

2. Consignment account given above has been prepared at the loaded price. The alternative way of preparing the consignment account at cost is also possible.

Question 4

(a) *Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.*

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Loan and interest repaid by her in the first year are as follows:

30th June, 2020	-	*₹ 15,000 principal+ ₹ 9,000 interest*
30th September, 2020	-	*₹ 15,000 principal+ ₹ 8,550 interest*
31st December, 2020	-	*₹ 15,000 principal+ ₹ 8,100 interest*
31st March, 2021	-	*₹ 15,000 principal+ ₹ 7,650 interest.*

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

(i) She withdrew ₹ 5,000 by cheque each month for her personal expenses.

(ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

(iii) Closing stock in hand as on 31st March, 2021: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date. **(10 Marks)**

(b) Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows: NPO

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

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Additional Information:

Particulars	*01.04.2020*	*31.03.2021*
Subscription due	*15,000*	*22,000*
Subscription received in advance	*12,000*	*7,000*
Stock of medicine	*1,00,000*	*1,50,000*
Amount due for medicine supply	*90,000*	*1,30,000*
Value of equipment	*2,10,000*	*3,00,000*
Value of building	*5,00,000*	*4'80 '000*
Cash Balance	*80,000*	*90,000*
Opening Balance of Capital Fund	*18,03,000*	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March, 2021.

(ii) Balance Sheet as on 31st March, 2021 ***(10 Marks)***

Answer

(a) In the books of M/s Designer wear

Trading and Profit & Loss Account (for the year ending 31.3.2021)

			₹			₹
To	Purchases		17,00,000	By	Sales	20,00,000
To	Gross profit		8,50,000	By	Closing stock	5,50,000
			25,50,000			25,50,000
To	Interest (9,000+8,550+8,100+7,650)		33,300	By	Gross profit	8,50,000
To	Telephone charges		50,000			
To	Travelling expenses		45,000			
To	Maintenance expenses		25,000			
To	Entertainment expenses		5,000			
To	Electricity exp	40,000				
	Add: outstanding	20,000	60,000			
To	Carriage outward		60,000			
To	Depreciation					
	Building 5%	30,000				
	Furniture 10%	1,000	31,000			
To	Misc. exp		15,000			

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To	Net profit	<u>5,25,700</u>			
		<u>8,50,000</u>			<u>8,50,000</u>

Balance Sheet as on 31st March, 2021

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	<u>30,000</u>	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	<u>5,25,700</u>	9,65,700	Less: dep	<u>1,000</u>	9,000
			Security deposit-Telephone		7,000
Bank Loan	3,00,000				
Less: repayment	<u>60,000</u>	2,40,000	Bank		89,700
outstanding electricity exp		<u>20,000</u>	Closing stock		<u>5,50,000</u>
		<u>12,25,700</u>			<u>12,25,700</u>

Working note:

Bank Account

	PARTICULARS	RS.		PARTICULARS	RS.
To	Capital	3,00,000	By	Building	6,00,000
To	Further capital	2,00,000	By	Furniture	10,000
To	Bank loan	3,00,000	By	Bank loan repaid	60,000
To	Sales	20,00,000	By	Interest	33,300
			By	Security deposit	7,000
			By	Drawings	60,000
			By	Purchase	17,00,000
			By	Telephone charges	50,000
			By	Travelling expenses	45,000
			By	Maintenance expenses	25,000
			By	Entertainment expenses	5,000
			By	Electricity	40,000

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			By	Carriage outward	60,000
			By	Misc. expenses	15,000
			By	Balance c/d	89,700
		28,00,000			28,00,000

(b) **In the books of AMA society**

Income and Expenditure Account for the year ending 31st March, 2021

	Expenditure	₹	₹		Income	₹	₹
To	Medicine		2,90,000	By	Subscription		5,12,000
To	Honorarium		1,00,000	By	donation		1,50,000
To	Salaries		2,80,000	By	Interest on investment		90,000
To	Sundry expenses		10,000	By	Charity show	1,25,000	
To	Depreciation				Less: Charity show expenses	(15,000)	1,10,000
	Equipment		60000				
	Building		20000				
To	Surplus		1,02,000				
			8,62,000				8,62,000

Balance Sheet of AMA society
as on 31st March, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Equipments	2,10,000	
Opening balance	18,03,000		Add: Purchases.	1,50,000	
Add: Surplus	1,02,000	19,05,000		3,60,000	
Adv subscription		7,000	Less: dep. (bal. fig)	(60,000)	3,00,000
Creditors (medicine)		1,30,000	Building	5,00,000	
			Less: dep. (bal. fig)	(20,000)	4,80,000
			Investment (₹ 90,000/9%)		10,00,000
			Closing outstanding subscription		22,000
			Closing stock(medicine)		1,50,000
			Cash		90,000
		20,42,000			20,42,000

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Working Note:

(i) Subscription for the year ended 31st March, 2021

Particulars	Amount
Subscription Received during the year	5,00,000
Less: Subscription outstanding as on 1" April, 2020	(15,000)
Add: Subscription outstanding as on 31" March, 2021	22,000
Add: Subscription received in advance as on 1" April, 2020	12,000
Less: Subscription received in advance as on 31°' March, 2021	(7,000)
Total	5,12,000

(ii) Medicines purchased during the year ended 31st March, 2021

Particulars	Amount
Opening due for medical supply	90,000
Less: Payment made during the year	(3,00,000)
Less: Closing due for medical supply	(1,30,000)
Medicines purchased during the year	3,40,000

(iii) Medicines consumed during the year ended 31st March, 2021

Particulars	Amount
Opening stock	1,00,000
Add: Purchase during the year	3,40,000
Less: Closing Stock	(1,50,000)
Medicines consumed during the year	2,90,000

(iv) Depreciation on Equipment

Particulars	Amount
Opening Balance	2,10,000
Add: Purchase during the year	1,50,000
Less: Closing Balance	(3,00,000)
Depreciation for the year	60,000

Question 5

(a) From the following information prepare the Purchase. Book of Mis. Shyam & Company:

(i) Purchased from Red & Company on credit:

SUBS. BOOKS

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10 pairs of black shoes.@ ₹ 800 per Pair.

5 pairs of brown shoes @ 900 per pair

Less: Trade Discount @ 10%

(ii) *Purchased Computer from M/s. Rahul. Enterprises on credit for ₹ 40,000.*

(iii) *Purchased from Blue & Company in cash:*

5 pairs of black shoes @ ₹ 700 per pair

15 pairs of brown shoes@ ₹ 100 per pair

Less: Trade Discount @ 15% **(5 Marks)**

(b) *Attempt any ONE of the following two sub-parts i.e. either (i) or (ii):* **(5 Marks)**

(i) *Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:*

2017	Nil
2018	₹ 900
2019	₹ 2,000
2020	₹ 3,600

PARTNER

Rama retired on 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis).

OR

(ii) *PQR Limited's Profit and Loss account for the year ended 31st March, 2021 includes the following information:*

(1)	Liability for Income Tax	₹ 40,000
(2)	Retained Profit	₹ 2,00,000
(3)	Proposed Dividend	₹ 20,000
(4)	Increase in Provision for Doubtful Debts	₹ 25,000
(5)	Bad Debts written off	₹ 20,000

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

(c) *It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:*

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(i) *Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.*

(ii) *Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.*

PARTNER

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended

-	*31st March, 2017*	*₹ 70,400*
-	*31st March, 2018*	*₹ 56,320*
-	*31st March, 2019*	*₹ 48,160*
-	*31st March, 2020·*	*₹ 17,408*

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor. ***(10 Marks)***

Answer

(a) **PURCHASES BOOK**

Date	Particulars	L.F.	Amount ₹
(i)	Red & Co.		
	10 pair of black shoes @ ₹ 800		8,000
	5 pair of Brown shoes @ ₹ 900		4,500
			12,500
	Less: 10% trade discount		(1,250)
			11,250

Note:

1. Purchases made in cash are entered in cash book not in purchase book.
2. Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

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(b) (i) Joint Life Policy Account

		₹			₹
10th June, 2017	To Bank Account	3,000	31st Dec., 2017	By Profit and Loss A/c	3,000
10th June, 2018	To Bank Account	3,000	31st Dec., 2018	By Profit and Loss A/c	2,100
				By Balance c/d	900
		3,000			3,000
1st January, 2019	To Balance b/d	900	31st Dec., 2019	By Profit and Loss A/c	1,900
10th June, 2019	To Bank Account	3,000		By Balance c/d	2,000
		3,900			3,900
1st January, 2020	To Balance b/d	2,000	31st Dec., 2020	By Profit and Loss A/c	1,400
10th June, 2020	To Bank Account	3,000		By Balance c/d	3,600
		5,000			5,000
1st January, 2021	To Balance b/d	3,600	15th April, 2021	By Bank	3,600
		3,600			3,600

(ii)

(a) Transfer to provisions - (i), (iv)

(b) Transfer to reserves - (ii)

(c) Neither related to provisions nor reserves - (iii), (v).

(c) Ram's Capital Account

Date 2020	Particulars	₹	Date 2020	Particulars	₹
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			1,02,722

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Ram's executor Account

Date 2020	Particulars	₹	Date 2020	Particulars	₹
31.3.2021	To Bank A/c (25,200.50+2,520)	27,720.50	1.10.2020	By Capital A/c	1,00,802.00
			31.3.2021	By Interest (1,00,802 x 2.5%)	2,520.00
	To Balance c/d	75,601.50			
		1,03,322.00			1,03,322
30.9.2021	To bank A/c (25,200.50+1,890)	27,090.50	1.4.2021	By Balance b/d	75,601.50
			30.9.2021	By Interest (75,601.50 x 2.5%)	1,890.00
31.3.2022	To bank A/c (25,200.50+1,260)	26,460.50	30.3.2022	By Interest (25,200.50 x 2) x 2.5%	1,260.00
31.3.2022	To balance c/d	25,200.50			
		78,751.50			78,751.50
30.9.2022	To bank A/c (25,200.50+630)	25,830.50	1.4.2022	By balance b/d	25,200.50
			30.9.22	By Interest (25,200.50 x 2.5%)	630.00
		25,830.50			25,830.50

Working notes

1.	**Ascertainment of Value of Goodwill**	
	2017	70,400
	2018	56,320
	2019	48,160
	2020	17,408
	Total Profit for 4 years	1,92,288
	Average Profit	48,072
	Goodwill - 3 years	
	Purchase of Average Profit	1,44,216
	Ram's Share of goodwill (9/16 of ₹1,44,216)	81,122

* Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16

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2. Calculation of amount of each instalment (without interest) = ₹1,00,802 / 4 = 25,200.50

Question 6

(a) *X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:*

- *₹ 9 per share (including premium) on application and allotment*
- *Balance on the First and Final Call* COMP

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries· for the above transactions in the books of X Limited.

(15 Marks)

(b) *What are the advantages of Subsidiary Books ?* ***(5 Marks)***

Answer

(a)

			Dr. ₹	*Cr.* ₹
1	Bank Account	Dr.	27,00,000	
	To Share Application & Allotment A/c			27,00,000
	(Being Application money on 3,00,000 shares at ₹ 9 per share received.)			
2	Share Application & Allotment A/c	Dr.	27,00,000	
	To Share Capital A/c (75,000 x ₹ 4)			3,00,000
	To Securities premium A/c (75,000 x ₹ 5)			3,75,000
	To Bank A/c (2,00,000 x ₹ 9)			18,00,000
	To Share First & Final Call A/c			2,25,000
	(Being application money transferred)			
3	Share First & Final Call A/c (75,000 x6)	Dr.	4,50,000	
	To Share Capital Account			4,50,000
	(Amount First & Final Call A/c due from members as per Directors, resolution no...... dated.....)			
4	Bank Account A/c	Dr.	2,21,625	

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	Calls in arrear A/c	Dr.	3,375	
	To Share First & Final Call Account			2,25,000
	(Being Receipt of the amounts due on first call.)			
5	Equity share capital A/c	Dr.	11,250	
	To Share forfeiture A/c			7,875
	To Calls in arrear A/c			3,375
	(Being 1,125 shares forfeited for non payment of final call.)			
6	Bank Account A/c (1,125 x ₹ 6)	Dr.	6,750	
	Share forfeiture A/c (1,125 x ₹ 4)		4,500	
	To Share Capital Account (1,125 x ₹ 10)			11,250
	(Being forfeited shares reissued at ₹ 4 discount)			
7	Share forfeiture A/c		3,375	
	To Capital reserve A/c			3,375
	(Being share forfeiture transferred to capital reserve*)			

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital@ ₹ 4/-	Money Transferred to Security Premium @₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
2,00000	-	18,00,000	-	-	-	-	-	18,00,000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,25,000	-
3,00,000	75,000	27,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625*	18,00,000

* ₹ 4,50,000 less ₹ 3,375.

2. **Number of shares allotted to Mr. Raj** = 1,500 x 75,000 / 1,00,000 = 1,125 shares

3. **Calculation of calls in arrear**

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	10,125
Excess Application & Allotment Money Adjusted with first		3,375

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and final call		
Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

(b) Advantages of Subsidiary Books

The use of subsidiary books affords the under mentioned advantages:

(i) ***Division of work***: Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

(ii) ***Specialization and efficiency***: When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

(iii) ***Saving of the time:*** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) ***Availability of information***: Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.

(v) ***Facility in checking***: When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer. Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are True or False:*

(i) *Any amount spent to minimize the working expenses is revenue expenditure.*

(ii) *Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.*

(iii) *The provision for bad debts is debited to sundry debtors account.*

(iv) *Non-participating preference shareholders enjoy voting rights.*

(v) *There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.*

(vi) *Discount column of the cash book is never balanced.* ***(6 x 2 = 12 Marks)***

(b) *The following are the details of the spare parts of an Oil Mill:* INVENTORY

1-1-2021	*Opening Inventory*	*Nil*
1-1-2021,	*Purchases*	*10 units @ ₹ 300 per unit*
15-1-2021	*Issued for consumption*	*5 units*
1-2-2021	*Purchases*	*20 units @ ₹ 400 per unit*
15-2-2021	*Issued for consumption*	*10 units*
20-2-2021	*Issued for consumption*	*10 units*

Find out the value of Inventory as on 31.3.2021,if the company follows Weighted Average Method. ***(4 Marks)***

(c) *Explain the followings:*

(i) *Accrual Basis of Accounting*

(ii) *Amortisation* THEORY

(iii) *Contingent Assets*

(iv) *Contingent Liabilities* ***(4 Marks)***

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Answer

(a) (i) **False**: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.

(ii) **True**: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.

(iii) **False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(iv) **False:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.

(v) **True**: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.

(vi) **True:** Discount column is totalled and transferred to the discount allowed or received account.

(b) **Oil Mill**

Calculation of the value of Inventory as on 31-3-2021

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		₹	₹		₹	₹		₹	₹
1-1-2021	Balance							Nil	
1-1-2021	10	300	3,000				10	300	3,000
15-1-2021				5	300	1,500	5	300	1,500
1-2-2021	20	400	8,000				25	380	9,500
15-2-2021				10	380	3,800	15	380	5,700
20-2-2021				10	380	3,800	5	380	1,900

Therefore, the value of Inventory as on 31-3-2021 = 5 units @ ₹380 = ₹1,900

(c) 1. **Accrual Basis of Accounting**

The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue.

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2. **Amortisation**

   The gradual and systematic writing off of an asset or an account over an appropriate period.

3. **Contingent Asset**

   An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

4. **Contingent Liability**

   An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

Question 2

(a) *From the following information, draw up a Trial Balance in the books of Shri M as on 31st March,2021:*

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	1,40,000	Purchases	36,000
Discount Allowed	1,200	Carriage Inward	8,700
Carriage Outwards	2,300	Sales	60,000
Return Inward	300	Return Outwards	700
Rent and Taxes	1,200	Plant and Machinery	80,700
Stock on 1st April 2020	15,500	Sundry Debtors	20,200
Sundry Creditors	12,000	Investments	3,600
Commission Received	1,800	Cash in Hand	100
Cash at bank	10,100	Motor Cycle	34,600
Stock on 31st March, 2021	20,500		

(5 Marks)

(b) *On 1st January, 2019 Kohinoor Transport Company purchased a Bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000.*

The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31st March, 2021 and gain or loss on the destroyed Bus. **(5 Marks)**

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(c) *According to the cash-book of G there was balance of ₹ 4,45,000 in his bank on 30th June, 2021 On investigation you find that :*

(i) Cheques amounting to 60,000 issued to creditors have not been presented for payment till the date

(ii) Cheques paid into bank amounting to 1,10,500 out of which cheques amounting to ₹ 55,000 only collected by bank up to 30th June 2021

(iii) A dividend of ₹ 4,000 and rent amounting to 60,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2020) paid by the bank ₹ 2,700 not entered in the cash book.

BRS

(v) The payment side of the cash book had been under cast by ₹ 500

(vi) Bank charges ₹ 150 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 20,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 6,000 had been discounted with the bank at a cost of ₹ 100 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank pass book. **(10 Marks)**

Answer

(a)

Trial Balance of Shri. M as on 31st March, 2021

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		1,40,000
Purchases	36,000	
Discount Allowed	1,200	
Carriage Inward	8,700	
Carriage Outwards	2,300	
Sales		60,000
Return Inward	300	
Return Outwards		700
Rent and taxes	1,200	
Plant and Machinery	80,700	

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Stock on 1st April,2020	15,500	
Sundry Debtors	20,200	
Sundry Creditors		12,000
Investments	3,600	
Commission Received		1,800
Cash in Hand	100	
Cash at Bank	10,100	
Motor Cycle	34,600	
	2,14,500	2,14,500

Note : Stock as on 31st March,2021 will not appear in trail balance.

(b) Calculation of Gain/Loss on Bus damaged by Fire

Particulars	₹
Original cost as on 1.1.2019	8,00,000
Less: Depreciation for 2018-19 (3 months)	(40,000)
WDV as on 31st March,2019	7,60,000
Less: Depreciation for 2019-20	(1,52,000)
WDV as on 31st March,2020	6,08,000
Less: Depreciation for 2020-21 (3 months)	(30,400)
WDV as on 1st July,2020	5,77,600
Less: Amount received from Insurance company	(6,00,000)
Gain on Bus damaged by Fire	22,400

Calculation of depreciation for the year ended 31st March,2021

	Machine I damaged on 1st July,2020 (8,00,000) .₹	**Machine II Purchased on 1st July,2020 (10,00,000) ₹**
Book value as on 1st April,2020	6,08,000	
Purchased on 1st July,2020		10,00,000
Depreciation @20% Machines	30,400 (for 3 months)	1,50,000 (for 9 months)

Total depreciation ₹ **1,80,400**

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(c) **In the Books of G**

Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	4,45,000	By Insurance premium A/c	2,700
To Dividend A/c	4,000	By Correction of errors	500
To Rent A/c	60,000	By Bank charges	150
To Bill receivable A/c	5,900	By Bill payable	20,000
		By Balance c/d	4,91,550
	5,14,900		5,14,900

Bank Reconciliation Statement as on 30th June, 2021

	₹
Adjusted balance as per cash book	4,91,550
Add: Cheques issued but not presented for payment till 30th June, 2021	60,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2021	(55,500)
Balance as per pass book	4,96,050

Question 3

(a) *On 12th May, 2020 A sold goods to B for 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills.*

BOE

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ₹ 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2020 B approached A offering ₹ 12,240 for retirement of his acceptance A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

(10 Marks)

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(b) *Mr. Grow and Mr. Green had the following mutual dealings. They desired to settle their account on the average due date:*

Purchases by Grow from Green:	**₹**
6th January, 2021	*60,000*
2nd February, 2021	*28,000*
31st March, 2021	*20,000*
Sales by Grow to Green:	
6th January, 2021	*66,000*
9th March, 2021	*24,000*
20th March, 2021	*5,000*

You are asked to ascertain the average due date taking base date as 6th January 2021.

(5 Marks)

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

(i) *From the following details, prepare an account current, as sent by A to B on 30th June, 2021 by means of products method charging interest @ 6% p.a:*

2021	Particulars	Rs.
January 1	Balance due from B	600
January 11	Sold due from B	520
January 18	B returned goods	125
February 11	B paid by cheque	400
February 14	B accepted a bill drawn by A for one month	300
April 29	Goods sold to B	615
May 15	Received cash from B	700

(ii) *A, B and C are partners in a firm. On 1st April 2019 their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.*

As per the provision of partnership deed: PARTNER

(1) *C was entitled for a salary of 5,000 p.a.*

(2) *All the partners were entitled to interest on capital at 5% p.a.*

(3) *Profits and losses were to be shared in the ratio of Capitals of the partners.*

Net Profit for the year ended 31st March, 2020 of ₹ 33,000 and 31st March,2021 of ₹ 45,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors. ***(5 Marks)***

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Answer

(a) Journal Entries in the books of Mr. A

2020			(₹)	(₹)
May,12	B's A/c	Dr.	36,470	
	To Sales account			36,470
	(Being goods sold to B on credit)			
May,12	Bills receivable (No. 1) A/c	Dr.	16,470	
	Bills receivable (No. 2) A/c	Dr.	20,000	
	To B's A/c			36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)			
	OR			
	Bills receivable A/c	Dr.	36,470	
	To B's A/c			36,470
	(Being acceptances received from B, one for ₹ 16,470 at one month and other for ₹ 20,000 at 3 months)			
June,5	Bills for Collection A/c	Dr.	36,470	
	To Bills receivable (No.1) A/c			16,470
	To Bills receivable (No.2) A/c			20,000
	(Being both the bills sent to bank for collection)			
	OR			
	Bills for Collection A/c	Dr.	36,470	
	To Bills receivables A/c			36,470
	(Being B's acceptances sent for collection on due dates)			
June,15	Bank A/c	Dr.	16,470	
	To Bills for Collection A/c			16,470
	(Being amount received on retirement of Bills receivable No. 1)			

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Aug,14	B's A/c	Dr.	20,020	
	To Bills for Collection a/c			20,000
	To Noting Charges or Bank Charges			20
	(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)			
Aug,16	B's A/c	Dr.	480	
	To Interest a/c			480
	(Being interest due)			
Aug,16	Bank/Cash A/c	Dr.	8,020	
	To B's A/c			8,020
	(Being cash received)			
Aug,16	Bills receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			12,480
	(Being Bills receivable (No. 3) drawn accepted by B)			
	OR			
	Alternatively combined entry may be given for the above two entries:			
	Bank/Cash a/c	Dr.	8,020	
	Bills receivable a/c	Dr.	12,480	
	To B's A/c			20,500
	(Being cash and new acceptance at 3 months received from B)			
Aug,16	Bills for Collection A/c	Dr.	12,480	
	To Bills receivable (No.3) A/c			12,480
	(Being Bills receivable (No.3) sent to bank for collection)			
	OR			
	Bills for collection A/c	Dr.	12,480	
	To Bills receivable A/c			12,480
	(Being new acceptance sent to bank for collection on due date)			

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Oct, 1	Bank A/c	Dr.	12,240	
	Rebate A/c	Dr.	240	
	To Bills for Collection			12,480
	(Being amount received on retirement of Bills receivable (No.3))			

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug,16	Bank/ Cash A/c	Dr.	8,020	
	Bills Receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			20,020
	To interest A/c			480
	(Being the ₹ 8,020 paid in cash and new bill (Bills receivable No. 3) accepted for 3 months)			

(b) Taking 6th January, 2021 as base date

Due date	Amount ₹	No. of days from the base date i.e. 6th Jan. 2021	Product
For Grow's payments 2021			
6th January	60,000	0	0
2nd February	28,000	27	7,56,000
31st March	20,000	84	16,80,000
Total	1,08,000		24,36,000
For Green's payment 2021			
6th January	66,000	0	0
9th March	24,000	62	14,88,000
20th March	5,000	73	3,65,000
Total	95,000		18,53,000

Excess of Grow's products over Green's = ₹ 24,36,000 – ₹ 18,53,000 = ₹ 5,83,000

= ₹ 1,08,000 – ₹ 95,000 = ₹ 13,000

Number of days from the base date to the date of settlement is ₹5,83,000 / ₹13,000 = 45 days (approx)

Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February.

On 20th February, 2021, Grow has to pay Green ₹ 13,000 to settle the account.

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(c) (i) B in Account Current with A

(Interest to 30th June 2021, @ 6% p.a.)

Date 2021	Particulars	Amount ₹	Days	Products	Date 2021	Particulars	Amount ₹	Days	Products
Jan.1	To Balance b/d	600	181	1,08,600	Jan.18	By Sales Returns	125	163	20,375
Jan. 11	To Sales A/c	520	170	88,400	Feb. 11	By Bank A/c	400	139	55,600
Apr. 29	To Sales A/c	615	62	38,130	Feb. 14	By B/R A/c (due date: March 17)	300	105	31,500
June 30	To Interest A/c	15.69							
					May 15	By Cash A/c	700	46	32,200
					June 30	By Balance of products			95,455
					"	By Balance c/d	225.69		
		1750.69		2,35,130			1750.69		2,35,130

Calculation of interest:

$$\text{Interest} = \frac{95,455}{365} \times \frac{6}{100} = ₹\ 15.69$$

OR

(ii)

Particulars	**A**	**B**	**C**	**Total Profit of firm**
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	78,000
II. Amount which should have been credited:				
C's Salary (2019-20,2020-21)			10,000	
Interest on Capital (2019-20,2020-21)	5,000	2,500	2,500	
Share of Profit	29,000	14,500	14,500	58,000
	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
B's Current A/c	9,000	

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To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital)		

Question 4

(a) *The Income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows.*

NPO

Expenditure	₹	Income	₹
To Salaries	47,500	By Subscription	75,000
To General Expenses	5,000	By Entrance Fees	2,500
To Audit Fee	2,500	By Contribution for Annual Dinner	10,000
To Secretary's honorarium	10,000	By Annual Sports Meet Receipts	7,500
To Stationary and Printing	4,500		
To Annual Dinner Expenses	15,000		
To Interest and bank charges	1,500		
To Depreciation	3,000		
To Surplus	6,000		
	95,000		95,000

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2020	6,000
Subscription received in advance on 31st December,2020	4,500
Subscription received in advance on 31st December, 2021	2,700
Subscription outstanding on 31st December,2021	7,500

Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000

The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹27,000. In the year 2020, the Club had raised a bank loan of ₹20,000.This was outstanding throughout the year 2021.On 31st December, 2021 in hand was ₹ 16,000.

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You are required to:

Prepare the Receipts and Payments Account for the year ended on December 31, 2021 and the Balance Sheet as on that date.

(b) *A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2021, following is the Balance Sheet of A and B.*

PARTNER

Balance Sheet as at 31st March, 2021

Liabilities		(₹)	Assets	(₹)
Capital accounts			Cash in hand	1,15,000
A	2,85,000		Cash at bank	1,10,000
B	1,55,000	4,40,000	Sundry Debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserve		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(i) *Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.*

(ii) *C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.*

(iii) *Stock and Furniture to be reduced by 10%.*

(iv) *A provision @ 5% for doubtful debts to be created on debtors.*

(v) *Land and building to be appreciated by 20%.*

(vi) *Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.*

Prepare Revaluation Account and Partners Capital Accounts. ***(10 Marks)***

Answer

(a) The Women Club

Receipts and Payments Account for the year ended 31st December, 2021

	Receipts	₹	₹		Payments	₹	₹
To	Balance b/d (balancing figure)		13,900	By	Salaries (W.N.2)		47,000

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To	Subscriptions (W.N.1)		71,700	By	General Expenses	5,000	
To	Entrance Fees		2,500		*Add*: Paid for 2022	600	5,600
To	Contribution for annual dinner		10,000	By	Audit fee (2021)		2,000
To	Annual sport meet receipt		7,500	By	Secy. Honorarium		10,000
				By	Stationery & Printing		4,500
				By	Annual Dinner Expenses		15,000
				By	Interest & Bank Charges		1,500
				By	Sports Equipment's		
					[27,000 –- (26,000 – 3,000)] (W.N.3)		4,000
				By	Balance c/d		16,000
			1,05,600				1,05,600
To	Balance b/d		16,000				

Balance Sheet of Women Club as on December 31, 2021

Liabilities	`	`	Assets	`	`
Subscription received			Freehold Ground		1,00,000
in advance		2,700	Sport Equipment:		
Audit Fee Outstanding		2,500	As per last		
Salaries Outstanding		4,500	Balance Sheet	26,000	
Bank Loan		20,000	Additions	4000	
Capital Fund:				30,000	
Balance as per previous			Less: Depreciation	(3,000)	27,000
Balance Sheet	1,15,400		Subscription Outstanding		7,500
Add: Surplus for 2021	6,000	1,21,400	Insurance Prepaid		600
			Cash in hand		16,000
		1,51,100			1,51,100

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Balance Sheet of Women Club as on 31st December, 2020

Liabilities	₹	Assets	₹
Subscriptions received in advance	4,500	Freehold Ground	1,00,000
Salaries outstanding	4,000	Sports Equipment	26,000
Audit fees unpaid	2,000	Subscriptions Outstanding	6,000
Bank Loan	20,000	Cash in hand	13,900
Capital Fund (balancing figure)	1,15,400		
	1,45,900		1,45,900

Working Note 1:

Calculation of Subscription received during the year ended 31st December, 2021

	₹
Subscription as per Income & Expenditure account	75,000
Add: Subscription outstanding at the end of 2020	6,000
Add: Subscription received in advance on 31.12.2021	2,700
	83,700
Less: Subscription received in advance on 31.12.2020	(4,500)
Less: Subscription outstanding on 31.12.2021	(7,500)
	71,700

Working Note 2:

Salaries as per income & expenditure	47,500
Add: Opening outstanding	4,000
Less: Closing outstanding	(4,500)
Total Salary paid	47,000

Working Note 3:

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

= 27,000 + 3,000 - 26,000 = ₹ 4,000

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(b) **Revaluation Account**

Particulars	Amount ₹	Particulars	Amount ₹
To Furniture	1,000	By Land and Building	50,000
To Stock	20,000		
To Provision for doubtful debts	8,000		
To Revaluation Profit	21,000		
A (21,000 x ¾) 15,750			
B (21,000 x ¼) 5,250			
	50,000		50,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To 'B's Current A/c (bal fig)	-	45,250	-	By Balance b/d	2,85,000	1,55,000	–
To Balance c/d	4,20,000	1,40,000	1,40,000	By General reserve	45,000	15,000	-
				By Revaluation Profit	15,750	5,250	
				By Bank A/c	-	-	1,40,000
				By C's Current A/c (Goodwill)	30,000	10,000	-
				By As Current A/c (bal fig)	44,250	-	-
	4,20,000	1,85,250	1,40,000		4,20,000	1,85,250	1,40,000

Working Notes:

1. Calculation of total Capital

   C's capital contribution of ₹ 1,40,000 consists of 1/5th of capital.

   Therefore, total capital of firm should be ₹ 1,40,000 x 5 = ₹ 7,00,000

   Hence, ₹ 5,60,000 (7,00,000 -1,40,000) will be shared by A and B in the ratio of 3:1 i.e., A's capital ₹ 4,20,000 and B's capital ₹ 1,40,000

2. Calculation of New Profit Sharing ratio

   A = ¾ x 4/5 = 12/20 = 3/5

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B = 1 /4 X 4/ 5 = 4/20 = 1/5

C = 1/5= 4/20 = 1/5 or 3 : 1 : 1

OR

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	$\frac{3}{5}$	$\frac{3}{4}$	$\frac{-3}{20}$	-
B	$\frac{1}{5}$	$\frac{1}{4}$	$\frac{-1}{20}$	-
C	$\frac{1}{5}$	-	-	$\frac{1}{5}$

3. Goodwill

C's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through C's Current Account because capitals of old partners are also adjusted on the basis of C's Capital.

Therefore, Journal entry for goodwill will be

C's Current A/c	Dr.	40,000	
To A's Capital A/c			30,000
To B's Capital A/c			10,000

Question 5

(a) Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

(i) Wages paid for construction of office building debited to wages account ₹ 20,000.

(ii) A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book. RECTI

(iii) An amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.

(iv) Goods (Cost being ₹ 5,000 and Sales price being ₹ 6,000) distributed as free samples amount prospective customers were not recorded anywhere.

(v) Goods worth ₹ 1,500 returned by Green have not been recorded anywhere.

(5 Marks)

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(b) *On 31st March, 2021 the Trial Balance of Mr. Black was as follows:*

Particulars	Debit (₹)	Particulars	Credit (₹)
Stock on 1/4/2020		Sundry Creditors	1,50,000
Raw Materials	2,10,000	Bills Payables	75,000
Work-in-Progress	95,000	Sale of scrap	25,000
Finished Goods	1,55,000	Commission received	4,500
Sundry Debtors	2,40,000	Provision for doubtful debts	16,500
Carriages on Purchase	15,000	Capital account	10,00,000
Bills Receivables	1,50,000	Sales	16,72,000
Wages	1,30,000	Bank overdraft	85,000
Salaries	1,00,000		
Telephone and Postage	10,000		
Repairs to office furniture	3,500		
Cash at Bank	1,70,000		
Office Furniture	1,00,000		
Repairs to Plant	11,000		
Purchases	8,50,000		
Plan and Machinery	7,00,000		
Rent	60,000		
Lighting	13,500		
General Expenses	15,000		
	30,28,000		30,28,000

FA

The following additional information is available:

Stocks on 31st March,2021 were:

Raw material	₹ 1,62,000
Finished goods	₹ 1,81,000
Work-in-progress	₹ 78,000

MFG

Salaries and wages unpaid for the year ended 31st March,2021 were respectively, ₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and office furniture by 7½%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

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Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March,2021. ***(15 Marks)***

Answer

(a) **Journal**

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Building A/c	Dr.	20,000	
	To Wages A/c			20,000
	(Correction of wrong debit in the wages A/c of the construction of office building)			
(2)	Ramesh	Dr.	2,400	
	To Purchases A/c			1,200
	To Sales A/c			1,200
	(Correction of wrong entry in the Purchases Book of a credit sale of goods to Ramesh)			
(3)	Mahesh Chand	Dr.	2,000	
	To Bad Debts Recovered A/c			2,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(4)	Advertisement expenses or Sales Promotion or Free Samples A/c	Dr.	5,000	
	To Purchases A/c			5,000
	(Entry of the goods distributed as free samples omitted from records)			
(5)	Returns Inwards /Sales Return A/c	Dr.	1,500	
	To Green			1,500
	(Entry of goods returned by Green omitted from records)			

(b) **In the books of Mr. Black**

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	78,000

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To Opening Stock of Raw Materials	2,10,000		By Sale of Scrap	25,000
Add: Purchases	8,50,000		By Cost of goods Manufactured (Transferred to Trading Account)	11,90,000
Less: Closing Stock	1,62,000	8,98,000		
To Opening Stock of WIP		95,000		
To Wages	1,30,000			
Add: Outstanding Wages	20,000	1,50,000		
To Carriage on Purchases		15,000		
To Repairs to Plant		11,000		
To Rent (3/4)		45,000		
To Lighting (2/3)		9,000		
To Depreciation of Plant		70,000		
		12,93,000		12,93,000

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	1,55,000	By Sales	16,72,000
To Cost of goods transferred from Manufacturing A/c	11,90,000	By Closing Stock	1,81,000
To Gross Profit c/d	5,08,000		
	18,53,000		18,53,000

Profit and Loss Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Salaries	1,00,000		By Gross Profit b/d	5,08,000
Add: Outstanding	9,000	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Depreciation of furniture		7,500		
To Rent (1/4)		15,000		

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To Lighting (1/3)		4,500		
To General Expenses		15,000		
To Provision for doubtful Debts: Required (1% of ₹1,67,200)	16,720			
Less: Existing Provision	16,500	220		
To Net Profit		3,47,780		
		5,12,500		5,12,500

Question 6

(a) *Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:*

(i)	*On Application*	*₹ 1 per share*
(ii)	*On Allotment*	*₹ 2 per share*
(iii)	*On First call*	*₹ 3 per share*
(iv)	*On Second and final Call*	*₹ 4 per share*

COMP

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. Al the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Fashion Garments Ltd. ***(15 Marks)***

(b) *Discuss the following:*

(i) What do you mean by principal books of accounts?

(ii) What are the rules of posting of journal entries into the Leger? ***(5 Marks)***

Answer

(a) In the books of Fashion Garments Ltd.

Journal Entries

Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c	Dr.		10,000	
To Equity Share Application A/c				10,000

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(Money received on applications for 10,000 shares @ ₹ 1 per share)				
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)	Dr.		10,000	 10,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ ₹ 2 per share)	Dr.		20,000	 20,000
Bank A/c To Equity Share Allotment A/c (Allotment money received on 9,900 shares) **OR** Bank A/c Calls in arrears A/c To Equity Share Allotment A/c (Allotment Amount received except 100 shares)	Dr. Dr. Dr.		19,800 19,800 200	 19,800 20,000
Equity Share Capital A/c To Share Forfeiture A/c To Equity Shares Allotment A/c (100 Shares of Ram forfeited) **OR** Equity Share Capital A/c To Shares Forfeiture A/c To Calls in arrears A/c (100 shares forfeited due to non-payment of allotment money)	Dr. Dr.		300 300	 100 200 100 200
Equity Share First Call A/c To Equity Share Capital A/c (First call made due on 9,900 shares at ₹ 3 per share)	Dr.		29,700	 29,700
Bank A/c To Equity Share First Call A/c (First call money received on 9,750 shares at ₹ 3 per share) **OR**	Dr.		29,250	 29,250

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Bank A/c	Dr.		29,250	
Calls in arrears A/c	Dr.		450	
To Equity Share First Call A/c				29,700
(First Call money received except 150 shares)				
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c				450
To Equity Share First Call A/c				450
(150 Shares of Shyam forfeited)				
OR				
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c				450
To Calls in arrears A/c				450
(150 shares forfeited due to non - payment of First call money)				
Equity Share Second and Final Call A/c	Dr.		39,000	
To Equity Share Capital A/c				39,000
(Second and Final call made due on 9,750 shares at ₹ 4 per share)				
Bank A/c	Dr.		38,800	
To Equity Share Second and Final Call A/c				38,800
(Second and Final call money received on 9,700 shares at ₹ 4 per share)				
OR				
Bank A/c	Dr.		38,800	
Calls in arrears A/c	Dr.		200	39,000
To Equity Shares Second and Final call A/c				
(Second and Final call money received except 50 shares)				
Equity Share Capital A/c	Dr.		500	
To Share Forfeiture A/c				300
To Equity Share Second and Final Call A/c				200
(50 Shares of Mohan forfeited)				
OR				
Equity Share Capital A/c				
To Shares Forfeiture A/c	Dr.		500	
To Calls in arrears A/c				300
(50 shares forfeited due to non-payment of Second and final call money)				200
Bank A/c	Dr.		2,700	

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Share Forfeiture A/c To Equity Share Capital A/c (300 shares reissued at ₹ 9 per share)	Dr.		300	3,000
Share Forfeiture A/c To Capital Reserve A/c (W.N.1) (Profit on re-issue transferred to Capital Reserve)	Dr.		550	550

Working Note-1: Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Ram forfeited	₹ 100
Surplus out of 150 shares of Shyam forfeited	₹ 450
Surplus out of 50 shares of Mohan forfeited	₹ 300
	₹ 850
Less: Loss on re-issue of shares	₹ 300
Transferred to Capital Reserve	₹ 550

(b) (i) Ledger is known as principal books of accounts as it provides full information regarding all the transactions pertaining to any individual account.

Ledger contains all set of accounts (viz. personal, real and nominal accounts)

(ii) Rules regarding posting of entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are True or False:*

- (i) *A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability.* ·
- (ii) *At the end of the accounting year, all the nominal accounts of the ledger book are balanced.*
- (iii) *The specific due date excludes the addition of grace days to arrive at the due date.*
- (iv) *Any amount spent for replacement of worn out part of a machine is capital expenditure.*
- (v) *Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.*
- (vi) *If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.* ***(6 x 2 = 12 Marks)***

(b) *Briefly explain the following Concepts of Accounting:*

- (i) *Money Measurement Concept*
- (ii) *Periodicity Concept.* ***(4 Marks)***

(c) *One of your clients Mr. X asked you to finalize his account for the year ended 31st March,2022. As a basis for audit, Mr. X furnished you with the following statement:*

	Dr.	**Cr.**
X's Capital		*4,668*
X's Drawings	*1,692*	
Leasehold Premises	*2,250*	
Sales		*8,250*
Due from customers		*1,590*
Purchases	*3,777*	
Purchase Return	*792*	

TRIAL BAL.

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Loan from Bank		*768*
Trade Expense	*2,100*	
Trade Payable	*1,584*	
Bills Payable	*300*	
Salaries and Wages	*1,800*	
Cash at Bank	*678*	
Opening Inventory		*792*
Rent and Rates	*1,389*	
Sales Return		*294*
	16,362	*16,362*

The closing inventory was ₹1,722. Mr. X claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any. ***(4 Marks)***

Answer

(a) (i) **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

(ii) **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

(iii) **True:** Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.

(iv) **False:** Amount spent for replacement of any worn- out part of a machine is revenue expense since it is part of its maintenance cost.

(v) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

(vi) **False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle and/or Errors of Omission, which can be rectified without opening a suspense account.

(b) Money Measurement concept: As per this concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

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Periodicity concept: According to this concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

(c) Corrected Trial Balance of Mr. X as on 31st March, 2022

Particulars	Dr. Amount ₹	Cr. Amount ₹
X's Capital		4,668
X's Drawings	1,692	
Leasehold premises	2,250	
Sales		8,250
Due from customers	1,590	
Purchases	3,777	
Purchases returns		792
Loan from Bank		768
Trade expenses	2,100	
Trade Payable		1,584
Bills payable		300
Salaries and Wages	1,800	
Cash at Bank	678	
Inventory (1.4.2021)	792	
Rent and rates	1,389	
Sales return	294	
	16,362	16,362

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

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Question 2

(a) *The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April,2020. The Books of Accounts*

Depreciation is written offof the Factory are closed on 31st March every year and @ 10% per annum under the Diminishing Balance Method. On 1st September,2020 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September,2020 a machine which had cost ₹ 21,87,000 on 1st April,2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April,2019 was scrapped on 1st September,2020 and it realized nothing.

DEPRE

Prepare Machinery Account for the year ended 31st March,2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes. ***(10 Marks)***

(b) *Zed Enterprises furnishes the following information for the year ended 31st March,2021.*

Particulars	***Amount (₹)***
Value of Stock as on 1st April,2020	*28,00,000*
Purchases during the year	*1,38,40,000*
Manufacturing Expenses during the year	*28,00,000*
Sales during the year	*2,08,80,000*

STOCK

The following further information is also provided:

(i) *At the time of valuing stock on 31st March,2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March,2021 for ₹ 6,40,000.*

(ii) *Except for the above transaction, the rate of gross profit during the year was 1/3rd on cost.*

Ascertain the value of Stock as on 31st March,2021. ***(5 Marks)***

(c) *From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2021·*

Particulars	***Amount (₹)***
Bank balance as per Pass Book	*25,00,000*
Bills discounted dishonored not recorded in Cash Book	*12,50,000*
Cheque received entered twice in Cash Book	*25,000*
Bank charges entered twice in Cash Book	*5,000*
Insurance premium paid directly by Bank under-standing instruction	*1,50,000*
Cheque issued but not presented to Bank for payment	*12,50,000*

BRS

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Cheque received, but not sent to Bank	*28,00,000*
Cheque deposited in Bank, but no entry passed in the Cash Book	*12,50,000*
Credit side of the Bank column cast short	*5,000*

(5 Marks)

Answer

(a) Plant and Machinery Account for the year ended 31st March,2021

		₹			₹
01-04-20	To Balance b/d	95,00,000	01-09-20	By Bank (Sales)	3,75,000
01-09-20	To Bank (14,00,000 + 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping the machine	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation (Note iii)	6,60,471
				By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i) Calculation of loss on sale of machine on 01-09-2020		₹
Cost on 1-4-2018		21,87,000
Less: Depreciation @ 10% on ₹ 21,87,000		(2,18,700)
W.D.V. on 31-03-2019		19,68,300
Less: Depreciation @ 10% on ₹ 19,68,300		(1,96,830)
W.D.V. on 31-03-2020		17,71,470
Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months		(73,811)
		16,97,659
Less: Sale proceeds on 01-09-2020		(3,75,000)
Loss		13,22,659

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(ii)	Calculation of loss on scrapped machine		
	Cost on 1-4-2019		21,85,000
	Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
	W.D.V. on 31-3-2020		19,66,500
	Less: Depreciation @ 10% on ₹19,66,500 for 5 months		(81,938)
	Loss		18,84,562
(iii)	Depreciation		
	Balance of machinery account on 1-4-2020		95,00,000
	Less: W.D.V of machinery sold	17,71,470	
	W.D.V. of machinery scrapped	19,66,500	(37,37,970)
	Balance of other machinery after sale and scrap on 1-4-2020		57,62,030
	Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
	Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
			6,60,471

Note: The figures are rounded off to nearest rupee.

(b) Statement of Valuation of Stock as on 31st March, 2021

		₹
Value of stock as on 1st April, 2020		28,00,000
Add: Purchases during the year		1,38,40,000
Add: Manufacturing expenses during the above period		28,00,000
		1,94,40,000
Less: Cost of sales during the period:		
Sales	2,08,80,000	
Less: Gross profit	51,40,000	1,57,40,000
Value of stock as on 31.3.2021		37,00,000

Working Note:

	₹
Calculation of gross profit:	
Gross profit on normal sales 25/100 x (2,08,80,000 -6,40,000)	50,60,000
Gross profit on the particular (abnormal) item 6,40,000 - (8,00,000 – 2,40,000)	80,000
	51,40,000

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The value of closing stock on 31st March, 2021 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2021.

Alternatively the solution can be presented in the following manner:

Dr Trading account for the year ended 31st March, 2021 Cr

	Normal	Abnormal	Total		Normal	Abnormal	Total
To Opening Stock	22,40,000	5,60,000	28,00,000	By Sales	2,02,40,000	6,40,000	2,08,80,000
	13,8,40,000	0	1,38,40,000	By Closing Stock	37,00,000	0	37,00,000
To Purchases	28,00,000	0	28,00,000				
To Manufacturing Expenses	50,60,000	80,000	51,40,000				
To Gross Profit (Working Note)*							
Total	2,39,40,000	6,40,000	2,45,80,000		2,39,40,000	6,40,000	2,45,80,000

(c) Bank Reconciliation Statement as on 31st March,2021

	₹	₹
Bank balance as per Pass book		25,00,000
Add: Bills dishonoured not recorded in the cash book	12,50,000	
Cheque received entered twice in the cash book	25,000	
Insurance premium paid directly not recorded in the cash book	1,50,000	
Cheque received but not sent to the bank	28,00,000	
Credit side of the bank column cast short	5,000	42,30,000
		67,30,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	12,50,000	
Bank charges recorded twice in the cash book	5,000	
Cheque issued but not presented to the bank	12,50,000	(25,05,000)
Bank balance as per Cash book		42,25,000

Question 3

(a) *M of Mumbai sent on consignment, goods valued ₹ 4,00,000 to A of Agra on 1st March,2020. He incurred the expenditure of ₹48,000 on freight and insurance. M's accounting year closes on 31st December. A was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. A took delivery of the consignment by incurring expenses of ₹ 12,000 for the goods consigned.*

CONSIGN

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On 31/12/2020, A informed on phone that he had sold all the goods for ₹ 6,00,000 by incurring selling expenses of ₹ 8,000. He further informed that only ₹ 5,92,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale.

On 5/1/2021, M received the cheque for the amount due from A and incurred bank charges of ₹1,040 for collecting the cheque. The amount was credited by the bank on 9/1/2021.

Write up the consignment account finding out the profit/loss on the consignment and A's account in the books of M. ***(10 Marks)***

(b) *P sends out goods on approval to few customers and includes the same in the Sales Account. On 31.3.2021, the Trade receivables balance stood at ₹ 3,00,000 which included ₹ 21,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price and were sent to Mr. A ₹12,000 and Mr. B ₹ 9,000.* SOA

Mr. A sent intimation of acceptance on 30th April and Mr. B returned the goods on 10th April,2021.

Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March,2021. Also show the entries to be made during April,2021. Value of closing inventories as on 31st March,2021 was ₹ 1,80,000. ***(5 Marks)***

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

(i) *The following particulars are sent by Mr. A to Mr. K:*

Date	**Particulars**	**Amount (₹)**
15/7/2021	Balance due from Mr. K	6,000
20/8/2021	Sold goods to Mr. K	10,000
25/8/2021	Goods returned by Mr. K	1,600
15/9/2021	Cheque paid by Mr. K	6,400
20/10/2021	Cash received from Mr. K	4,000

Prepare an Account Current as sent by Mr. A to Mr. K as on 31st October,2021 by means of product method charging interest @ 8% per annum. Round off the amounts to the nearest rupee. ***(5 Marks)***

(ii) *Mr. X gives the following particulars in respect of business carried on by him:*

Particulars	**Amount (₹)**
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%

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Remuneration per annum from alternative employment of proprietor if he was not engaged in business	*36,000*

The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years. ***(5 Marks)***

Answer

(a) **In the books of Mr. M**

Consignment to Agra Account

2020			₹	2020		₹
March 1	To Goods sent on consignment A/c		4,00,000	Dec. 31	By A's A/cs	6,00,000
	To Cash A/c (freight and insurance)		48,000			
Dec. 31	To A's A/c:					
	Clearance expenses	12,000				
	Selling expenses	8,000				
	Commission @ 5% on ₹ 6,00,000 =	30,000				
	Del-credere commission @ 3% on ₹ 6,00,000 =	18,000	68,000			
Dec. 31	To Provision for expenses (bank charges)		1,040			
	To Profit and loss A/c (profit on consignment)		82,960			
			6,00,000			6,00,000

A's Account

2020		₹	2020			₹
Dec. 31	To Consignment A/c	6,00,000	Dec. 31	By Consignment A/c-		
				Clearance expenses	12,000	
				Selling expenses	8,000	
				Commission	30,000	
				Del-credere commission	18,000	68,000
				By Balance c/d		5,32,000
		6,00,000				6,00,000

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(b) **In the Books of P**

Journal Entries

Date	Particulars		L.F.	₹	₹
2021	Sales A/c	Dr.		21,000	
Mar, 31	To Trade receivables A/c*				21,000
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				
	*To Mr. A ₹ 12,000 and To Mr. B ₹ 9,000 can be given				
Mar,31	Inventories with Customers on Sale or Return A/c	Dr.		16,800	
	To Trading A/c				16,800
	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April,30	Trade receivables A/c or Mr. A A/c	Dr.		12,000	
	To Sales A/c				12,000
	(Being goods costing ₹ 9,600 sent to Mr. A on sale or return basis has been accepted by him)				

Balance Sheet of P as on 31st March, 2021 (Extracts)

Assets	₹	₹
Trade receivables (₹3,00,000 - ₹ 21,000)		2,79,000
Inventories-in-trade	1,80,000	
Add: Inventories with customers on Sale or Return 100/125 x ₹ 21,000 = ₹ 16,800	16,800	1,96,800
		4,75,800

(c) (i) **K in Account Current with A**

(Interest to 31st October 2021, @ 8% p.a.)

Date 2021	Particulars	Amount ₹	Days	Products	Date 2021	Particulars	Amount ₹	Days	Products
15.7.21	To Balance b/d	6,000	109	6,54,000	25.8.21	By Sales Returns	1,600	67	1,07,200
20.8.21	To Sales A/c	10,000	72	7,20,000	15.9.21	By Bank A/c	6,400	46	2,94,400

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31.10.21	To Interest A/c	203	-	-	20.10.21	By Cash A/c	4,000	11	44,000
					31.10.21	By Balance of products	-	-	9,28,400
						By Balance c/d	4,203	-	-
		16,203		13,74,000			16,203		13,74,000

Calculation of interest:

Interest = $\frac{9,28,400}{365} \times \frac{8}{100}$ = ₹ 203

OR

(ii) Computation of Goodwill of Mr. X

Average maintainable profits:		₹
Trading profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		7,56,000
Less: Loss during	2020	(36,000)
Total		7,20,000
Average Profits (₹ 7,20,000 / 4)		1,80,000
Less: Remuneration for the proprietor		(36,000)
Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of ₹ 9,00,000)		(99,000)
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit		2,70,000

Alternative:

		₹
Total profit (` 2,40,000 + ₹ 2,16,000 + ₹ 3,00,000 - ₹ 36,000)	=	₹ 7,20,000
Normal Profit (11% on capital employed of ₹ 9,00,000)	=	(99,000)
Remuneration for the proprietor	=	(36,000)
		(1,35,000)
Average Profits (₹ 7,20,000 / 4)		1,80,000
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit	=	2,70,000

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Question 4

(a) *The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2021:*

NPO

Receipt and Payment Account of Mumbai Club

Receipts	***Amount (₹)***	***Payments***	***Amount (₹)***
Cash in hand	*20,000*	*Ground man's Fee*	*75,000*
Balance at Bank as per Pass Book:		*Purchase of Equipment's*	*1,55,000*
Saving Account	*1,93,000*	*Rent of Ground*	*25,000*
Current Account	*60,000*	*Club night expenses*	*38,000*
Bank Interest	*5,000*	*Printing and Office Expenses*	*30,000*
Donations and Subscriptions	*2,50,000*	*Repairs to Equipment*	*50,000*
Entrance fees	*18,000*	*Honorarium to Secretary (2019-20)*	*40,000*
Contribution to Club night	*10,000*	*Balance at Bank as per Pass Book:*	
Sale of Equipment	*8,000*	*Saving Account*	*2,04,000*
Bar Room receipts	*20,000*	*Current Account*	*20,000*
Proceeds from club night	*78,000*	*Cash in hand*	*25,000*
	6,62,000		*6,62,000*

You are given the following additional information (All figures are in ₹)

	01.04.20	*31.03.21*
Subscription due	*15,000*	*10,000*
Amount due for printing etc.	*10,000*	*8,000*
Cheques unpresented being payment for repairs	*30,000*	*25,000*
Interest not yet entered in the Pass book	*-*	*2,000*
Estimated value of machinery and equipment	*80,000*	*1,75,000*

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March,2021 and the Balance Sheet as at that date. ***(10 Marks)***

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(b) *X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March,2021 was as follows:* PARTNER

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capitals:		*Building*	*2,50,000*
X	*1,75,000*	*Machinery*	*3,37,500*
Y	*2,50,000*	*Debtors*	*3,25,000*
Z	*4,00,000*	*Stock*	*4,00,000*
General Reserve	*3,00,000*	*Bank*	*62,500*
Trade Creditors	*2,50;000*		
Total	*13,75,000*	*Total*	*13,75,000*

Z retired from business on 1st April,2021 on the following terms:

(i) Building to be appreciated by 25%.

(ii) X and Y to bring in additional capital of ₹ 5,00,000 each.

(iii) Machinery to be depreciated by 10%.

(iv) Stock is revalued at ₹ 3,72,250.

(v) Provision for Doubtful Debts to be created at 4%.

(vi) Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.

(vii) Goodwill was not to be raised in the Books of Accounts.

(viii) Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill. ***(10 Marks)***

Answer

(a) Income and Expenditure Account of Mumbai Club

for the year ending 31st March, 2021

Expenditure		₹	Income	₹
To Groundsman's fee		75,000	By Donations and Subscription (W.N.2)	2,45,000
To Rent of Ground		25,000		
To Club night' Expenses	38,000		By Receipts from bar room	20,000
Less: Contribution	(10,000)	28,000*		

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To Printing & Office Expenses (W.N. 3)		28,000	By Proceeds of club night	78,000*
To Repairs to Equipment (W.N.4)		45,000	By Interest (5,000+2,000)	7,000
To Depreciation on Machinery (W.N. 5)		52,000		
To Honorarium to Secretary		60,000		
To Bonus to Groundsman		20,000		
To Excess of Income over Expenditure		17,000		
		3,50,000		3,50,000

* Alternatively, the profits from club night can be shown as the net amount of ₹ 50,000 (₹ 78,000 - ₹ 28,000) on the credit side of Income and Expenditure Account.

Balance Sheet of Mumbai Club as on 31st March,2021

Liabilities		₹	Assets	₹
Outstanding Expenses:				
Groundsman Bonus		20,000	Cash in hand	25,000
Printing		8,000	Cash in Saving A/c	2,04,000
Honorarium (40,000+20,000)		60,000	Subscription Receivable	10,000
Bank Overdraft (25,000-20,000)		5,000	Interest Due	2,000
Capital Fund: Opening	2,88,000		Machinery & Equipment's	1,75,000
Add: Surplus for the year	17,000			
Add: Entrance Fees	18,000	3,23,000		
		4,16,000		4,16,000

Balance Sheet as on 1st April,2020

Liabilities	₹	Assets	₹
Outstanding Expenses		Cash in hand	20,000
Printing	10,000	Cash in Saving A/c	1,93,000

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Honorarium to Secretary	40,000	Cash in Current A/c	30,000
Capital Fund (Balancing Figure)	2,88,000		
		Subscription Receivable	15,000
		Machinery & Equipment's	80,000
	3,38,000		3,38,000

Calculation of Donations and Subscriptions ₹

Donations and Subscriptions as per Receipt and Payments A/c	2,50,000
Add: Outstanding as on 31.03.21	10,000
Less: Outstanding as on 01.04.20	15,000
	2,45,000

Printing and Office Expenses ₹

Printing and Office Expenses as per Receipt and Payments A/c	30,000
Add: Outstanding as on 31.03.21	8,000
Less: Outstanding as on 01.04.20	10,000
	28,000

Repairs to Equipment ₹

Repairs as per Receipt and Payments A/c	50,000
Add: Outstanding as on 31.03.21	25,000
Less: Outstanding as on 01.04.20	30,000
	45,000

Depreciation on Machinery and equipment ₹

Balance as on 01.04.20	80,000
Add: Purchases during the year	1,55,000
Less: Sale of Equipment	8,000
Less: Balance as on 31.03.21	1,75,000
	52,000

(b) **In The Books of X, Y and Z**

Revaluation A/c

Particulars	₹	Particulars	₹
To Provision for Doubtful Debts	13,000	By Building	62,500

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To Machinery	33,750	By Loss on revaluation		
To Stock	27,750	X	2,000	
		Y	4,000	
		Z	6,000	12,000
	74,500			74,500

Partners' Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Loss on Revaluation	2,000	4,000	6,000	By Balance b/d	1,75,000	2,50,000	4,00,000
To Bank	-	-	9,04,000	By General Reserve	50,000	1,00,000	1,50,000
To Z's Capital	1,20,000	2,40,000	-	By X and Y's Capital	-	-	3,60,000
To Balance c/d	6,03,000	6,06,000	-	By Bank	5,00,000	5,00,000	-
	7,25,000	8,50,000	9,10,000		7,25,000	8,50,000	9,10,000

Bank A/c

Particulars	₹	Particulars	₹
To Balance b/d	62,500	By Z's Capital	9,04,000
To X's Capital	5,00,000	By Balance c/d	1,58,500
To Y's Capital	5,00,000		
	10,62,500		10,62,500

Valuation of Goodwill:

Total Profit of past 3 years = ₹ 2,75,000 + ₹ 2,50,000 + ₹ 1,95,000 = ₹ 7,20,000

Average profit = ₹ 7,20,000 / 3 = ₹ 2,40,000

Goodwill (3 years purchase) = ₹ 2,40,000 x 3 = ₹ 7,20,000

Z's share = (3/6)th = ₹ 7,20,000 X 1/2 = ₹ 3,60,000

Journal entry for adjustment of goodwill

X's capital A/c	Dr.	1,20,000	
Y's capital A/c	Dr.	2,40,000	
To Z's capital A/c			3,60,000

(Being Goodwill adjusted through Partners Capital account as per gaining ratio)

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Question 5

The following is the trial balance of Mr. B for the year ended 31st March,2021:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad	
Plant and Machinery	1,05,000	and doubtful debts	7,000
Investments	87,500	Sales	29,75,000
Cash in Hand	70,000	Bank Overdraft	80,500
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

MFG

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Additional Information:

(i) Stock of finished goods at the end of the year was ₹ 3,50,000.

(ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.

(iii) Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.

(iv Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March,2021 and Balance Sheet as at that date. **(*20* Marks)**

Answer

In the books of Mr. B

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods transferred to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	17,500	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent and Rates		70,000		
To Depreciation on Machinery		10,500		
		28,28,000		28,28,000

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000	
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	35,000	29,40,000
		By Closing Stock		3,50,000
To Gross Profit c/d	1,99,500			
	32,90,000			32,90,000

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Profit and Loss Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Carriage Outward		24,500	By Gross Profit b/d	1,99,500
To Discount Allowed		10,500	By Accrued Commission*	43,750
To Commission Paid		17,500	By Accrued Interest	52,500
To Dividend Paid		14,000		
To General Expenses		14,000		
To Advertisement		17,500		
To Salaries	70,000			
Add: Outstanding	7,000	77,000		
To Interest Paid	24,500			
Less: Prepaid	5,250	19,250		
To Provision for Bad & Doubtful Debts	7,000			
Add: Bad Debts	14,000			
Less: Old Provision for Doubtful Debts	7,000	14,000		
To Depreciation on Building		3,500		
To Net Profit c/d		84,000		
		2,95,750		2,95,750

*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.

Balance Sheet as on 31st March, 2021

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	84,000		Less: Depreciation	10,500	94,500
	4,34,000		Land & Building	3,50,000	
Less: Drawings	70,000	3,64,000	Less: Depreciation	3,500	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	

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			Less: Provision for Bad & Doubtful Debts	7,000	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		14,10,500			14,10,500

**If Accrued Commission is treated as expenses in that case Net Loss of ₹ 3,500 will be deducted from Capital Account and Closing Capital figure will be ₹ 2,76,500 and Accrued Commission ₹ 43,750 will appear under liability side of Balance Sheet.

Question 6

(a) *A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).*

(15 Marks)

(b) *What is petty cash book? Write it's any two advantages.* ***(5 Marks)***

COMP

Answer

(a)

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr.		40,000	
	To Equity Share Application A/c			40,000
	(Money received on applications for 20,000 shares @ ₹ 2 per share)			
	Equity Share Application A/c Dr.		40,000	

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2	To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital)			40,000
3	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)	Dr.	80,000	60,000 20,000
4	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	80,000	80,000
5	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
6	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)	Dr.	46,000	40,000 6,000
7	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 20,000 shares at ₹ 3 each)	Dr.	60,000	60,000
8	Bank A/c Dr. Calls in Advance A/c Dr. Calls in Arrears A/c Dr. To Equity Share Final Call A/c (Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)	Dr. Dr. Dr.	53,100 6,000 900	60,000
9	Interest on Calls in Advance A/c To Shareholders A/c	Dr.	240	240

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	(Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)		
10	Shareholders A/c Dr. To Bank A/c (Being payment of interest made to shareholder)	240	240
11	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	15	15
12	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)	615	600 15
13	Shareholders A/c Dr. To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	10	10
14	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 100 share for calls in arrears and interest thereupon)	310	300 10

Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240

Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15

Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10

Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,

Note: For entry no 9&10, 11&12,13&14 combined entry can also be passed.

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(b)
- In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work.
- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
- Later, on an analysis, the respective account may be debited.
- Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

Advantages of Petty cash book are:

(i) Saving of time of the chief cashier

(ii) Saving in labour in writing up the cash book and posting into the ledger

(iii) Control over small payments

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are True or False:*

(i) *The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.*

(ii) *Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.*

(iii) *The provision for discount on creditors is often not provided in keeping with the principle of conservatism.*

(iv) *If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.*

(v) *Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.*

(vi) *A fixed charge generally covers all the assets of the company including future one.*

(6 x 2 = 12 Marks)

(b) *Differentiate between Provisions and Contingent Liabilities.* ***(4 Marks)***

(c) *A purchased a machinery for ₹ 1,30,000 on 1st April, 2019 and paid ₹ 20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for 50,000 and sold old machinery for ₹ 1,00,000. The machine purchased on 1st October, 2021 was installed on 1st January, 2022.*

Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022. ***(4 Marks)***

DEPRE

Answer

(a) **(i)** **False**: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

(ii) **True:** Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

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(iii) **True:** According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

(iv) **False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be errors of principle, compensating errors, errors of complete omission which can be rectified without opening a suspense account.

(v) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

(vi) **False:** A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

(b) The distinction between Provision and Contingent Liability is as follows:

	Provision	**Contingent liability**
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability.

(c)

In the books of A

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount(₹)
01.04.2019	To Bank	1,50,000	31.03.2020	By Depreciation	30,000

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	(1,30,000+20,000)		31.03.2020	By Balance c/d	1,20,000
		1,50,000			1,50,000
01.04.2020	To Balance b/d	1,20,000	31.03.2021	By Depreciation	30,000
			31.03.2021	By Balance c/d	90,000
		1,20,000			1,20,000
01.04.2021	To Balance b/d	90,000	01.10.2021	By Bank A/c	1,00,000
01.10.2021	To Bank	50,000	01.10.2021	By Depreciation	6,750
01.10.2021	To Profit on Sale	16,750	31.03.2022	By Depreciation	1,875
			31.03.2022	By Balance c/d	48,125
		1,56,750			1,56,750

Alternative: Calculation of Book Value of Machines

	Machine 1 (in ₹)	Machine 2 (in ₹)
Date of Purchase	01.04.2019	01.10.2021
Original Cost	1,50,000	
Depreciation for (2019-20) (SLM)	(30,000)	
WDV on 31.03.2020	1,20,000	
Depreciation for (2020-21) (SLM)	(30,000)	
WDV on 31.03.2021	90,000	
Depreciation for (2021-22) (WDV)	(6,750)	
WDV (original cost of Machine 2) on 1.10.2021	83,250	50,000
Sale Proceeds	(1,00,000)	
Profit on Sale	16,750	
Depreciation for 2021-22 (WDV @ 15%) (3 months)	-	(1,875)
WDV on 31.03.2022	-	48,125

Question 2

(a) *The cash book of Mr. Karan shows ₹2,60,400 as the balance of bank as on 31st December, 2021 but you find that it does not agree with the balance as per the bank pass book. On analysis, you found the following discrepancies:*

BRS

(i) *On 15th December, 2021 the payment side of the cash book was overcast by ₹10,000.*

(ii) *A Cheque for ₹1,18,000 issued on 6th December, 2021 was not taken in the bank Column.*

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(iii) On 20th December, 2021 the debit balance of ₹ 8,460 as on the previous day, was brought forward as credit balance in the cash book.

(iv) Of the total cheques amounting to ₹ 12,370 drawn in the last week of December 2021, cheques aggregating ₹ 9,360 were encashed in December, 2021.

(v) Dividends of ₹ 35,000 collected by the bank and fire insurance premium of ₹ 7,900 paid by the bank were not recorded in the cash book.

(vi) A Cheque issued to a creditor of ₹ 1,75,000 was recorded twice in the cash book.

(vii) Bill for collection amounting to ₹ 53,000 credited by the bank on 21st December, 2021 but no advice was received by Mr. Karan till 31st December, 2021.

(viii) A Customer, who received a cash discount of 3% on his account of ₹ 60,000 paid a cheque on 10th December, 2021. The cashier erroneously entered the gross amount in the bank column of the cash book.

You are required to prepare the bank reconciliation statement as on 31st December, 2021.

(10 Marks)

(b) Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them.

(i) Minor Repairs made to the building amounting to ₹ 1,850 were debited to the Building Account.

(ii) An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.

(iii) Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.

(iv) Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.

(v) College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.

(vi) Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.

(vii) Goods amounting to ₹ 6,200 had been returned by a customer and were taken into inventory, but no entry was made in the books.

(viii) ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.

(ix) Salary paid to a clerk ₹ 12,000 has been debited to his personal account.

(x) A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book. **(10 Marks)**

RECTI

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Answer

(a) Bank Reconciliation Statement of Mr. Karan as on 31st Dec., 2021

Particulars		**Details** ₹	**Amount** ₹
Balance as per the Cash Book			2,60,400
Add: Wrong Casting in Cash book as on 15th December,2021		10,000	
Mistake in bringing forward ₹ 8,460 debit balance as credit balance on 20th Dec., 2021		16,920	
Cheques issued but not presented:			
Issued	12,370		
Encashed	9,360	3,010	
Dividends directly collected by bank but not yet entered in the Cash Book		35,000	
Cheque recorded twice in the Cash Book		1,75,000	
Bill for Collection credited in Bank not entered in Cash Book		53,000	2,92,930
			5,53,330
Less: Cheques issued but not entered in the Bank column		1,18,000	
Fire Insurance Premium paid by the bank directly not yet recorded in the Cash Book		7,900	
Discount allowed wrongly entered in Cash Book		1,800	(1,27,700)
Balance as per the Pass Book			4,25,630

Note: The above answer has been given considering that the books are not closed on 31st December, 2021. Alternatively, **If the books are to be closed on 31st December, then adjusted cash book will be prepared as given below:**

Adjusted Cash Book

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	2,60,400	By cheques not entered	1,18,000
To wrong casting	10,000	By Fire Insurance Premium	7,900

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To error for wrong posting	16,920	By discount wrongly entered	1,800
To dividends collected by bank	35,000	By balance c/d	3,69,620
To cheques recorded twice	1,75,000		
	4,97,320		4,97,320

Bank Reconciliation Statement

Particulars	₹
Balance as per the Cash Book (corrected)	3,69,620
Add: Cheques issued but not yet presented	3,010
Bill for collection credited by Bank	53,000
Balance as per the Pass Book	4,25,630

(b) **In the books of Hare Rama & Sons**

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Repairs A/c Dr.		1,850	
	To Building A/c			1,850
	(Correction of wrong debit to building A/c for repairs made)			
(ii)	Shyam Lal A/c Dr.		3,000	
	To Bad Debts Recovered A/c			3,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(iii)	Furniture A/c Dr.		20,000	
	To Purchases A/c			20,000
	(Correction of wrong debit to Purchases A/c for furniture purchased)			
(iv)	Purchases A/c Dr.		8,000	
	To Ram Singh A/c			8,000
	(Purchases of goods from Ram Singh remained unrecorded)			
(v)	Drawings A/c Dr.		15,000	
	To Audit Fees A/c			15,000
	(Correction of wrong debit to Audit Fees A/c for college fees of proprietor's son)			

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(vi)	Pinki Rani A/c Dr. To Meet Kumar A/c (Correction of wrong credit to Pinki Rani. instead of Meet Kumar.)		4,500	4,500
(vii)	Returns Inwards / Sales Return A/c Dr. To Customer/Debtors A/c (Entry of goods returned by customer and taken in inventory omitted from records)		6,200	6,200
(viii)	Furniture A/c Dr. To Wages A/c (Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified)		1,500	1,500
(ix)	Salaries A/c Dr. To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)		12,000	12,000
(x)	Purchases A/c Dr. Sales A/c Dr. To Raghav A/c (Correction of wrong entry in the sales Book for purchases of goods from Raghav)		20,000 20,000	40,000

Question 3

(a) *T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹ 1,72,800. T 'immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paisa in a rupee.*

BOE

Give the journal entries in the books of T and J. ***(15 Marks)***

(b) *Attempt any ONE of the following two sub-parts i.e. either (i) or (ii).*

(i) *The following are the transactions that took place between G and H during the period from 1st October, 2021 to 31st March, 2022:*

2021		*Amount (₹)*
Oct. 1	*Balance due to G by H*	*4,500*
Oct. 18	*Goods sold by G to H*	*3,750*

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Nov. 16	*Goods sold by H to G (invoice dated November, 26)*	*6,000*
Dec. 7	*Goods sold by H to G (invoice dated December, 17)*	*5,250*
2022		
Jan. 3	*Promissory note given by G to H; at three months*	*7,500*
Feb. 4	*Cash paid by G to H*	*1,500*
Mar. 21	*Goods sold by G to H*	*6,450*
Mar. 28	*Goods sold by H to G (invoice dated April, 8)*	*4,050*

Draw up an account current up to March 31st, 2022 to be rendered by G to H, charging interest at 10% per annum.

Interest is to be calculated to the nearest rupee. ***(5 Marks)***

Or

(ii) A trader allows his customers, credit for one week only, beyond which he charges interest @ 12% per annum. D, a customer buys goods as follows:

Date of Transaction	***Amount (₹)***
January 2, 2022	*60,000*
January 28, 2022	*55,000*
February 17, 2022	*70,000*
March 4, 2022	*42,000*

D settles his account on 31st March, 2022. Calculate the amount of interest payable by D, using average due date method. Assume 9th January, 2022 as the base date.

(5 Marks)

Answer

(a) **In the books of T**

Journal Entries

Date 2022	**Particulars**		**Debit Amount ₹**	**Credit Amount ₹**
1-Apr	Bills receivable A/c	Dr.	1,80,000	
	To J's A/c			1,80,000
	(Being acceptance received from J for mutual accommodation)			

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1-Apr	Bank A/c	Dr.	1,72,800	
	Discount A/c	Dr.	7,200	
	To Bills receivable A/c			1,80,000
	(Being bill discounted with bank)			
1-Apr	J's A/c	Dr.	60,000	
	To Bank A/c			57,600
	To Discount A/c			2,400
	(Being ₹ 57,600 sent to J)			
4-Jul	J's A/c	Dr.	2,52,000	
	To Bills payable A/c			2,52,000
	(Being Acceptance given)			
4-Jul	Bank A/c	Dr.	40,440	
	Discount A/c $\left[\frac{1,20,000+40,440}{2,40,660} \times 11,340\right]$	Dr.	7,560	
	To J's A/c			48,000
	(Being proceeds of second bill received from J)			
7-Oct	Bills payable A/c	Dr.	2,52,000	
	To J's A/c			2,52,000
	(Being bill dishonoured due to insolvency)			
7-Oct	J's A/c (1,20,000+48,000)	Dr.	1,68,000	
	To Bank A/c			84,000
	To Deficiency A/c *			84,000
	(Being insolvent, only 50% amount paid to J)			

In the books of J
Journal Entries

Date 2022	Particulars		Debit Amount ₹	Credit Amount ₹
1-Apr	T A/c	Dr.	1,80,000	
	To Bills Payable A/c			1,80,000
	(Being bill of exchange accepted and send to Mr. T)			

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1-Apr	Bank A/c	Dr.	57,600	
	Discount Charges A/c	Dr.	2,400	
	To T A/c			60,000
	(Being the amount received from T on account of the bill receivable)			
4-Jul	Bills Receivable A/c	Dr.	2,52,000	
	To T A/c			2,52,000
	(Being the bills accepted by T)			
4-Jul	Bank A/c	Dr.	2,40,660	
	Discount Charges A/c	Dr.	11,340	
	To Bills Receivable A/c			2,52,000
	(Being T's acceptance discounted with bank)			
4-Jul	Bills Payable A/c	Dr.	1,80,000	
	Bank A/c			1,80,000
	(Being the amount met on the due date)			
4-Jul	T A/c	Dr.	48,000	
	To Bank A/c			40,440
	To Discount A/c			7,560
	(Being the amount received and discount debited to T account)			
	$\left[\frac{1,20,000+40,440}{2,40,660} \times 11,340\right]$ = 7,560			
7-Oct	T A/c	Dr.	2,52,000	
	To Bank A/c			2,52,000
	(Being T's acceptance dishonoured due to T's bankruptcy)			
7-Octl	Bank A/c	Dr.	84,000	
	Bad Debts A/c*	Dr.	84,000	
	To T A/c			1,68,000
	(Being the amount received from T and the balance being written off as bad debts)			

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(b) (i) H in Account Current with G

(Interest to 31st March,2022@10%p.a.) [Product Method]

Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Product
2021	2021			₹	₹	2021	2021			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	4,500	8,19,000	Nov 16	Nov 26	By Purchases	125	6,000	7,50,000
Oct 18,	Oct 18	To Sales	164	3,750	6,15,000	Dec 7	Dec. 17	By Purchases	104	5,250	5,46,000
2022	2022					2022	2022				
Jan 3	Apr 6	To Bills payable	(6)	7,500	(45,000)	Mar 28	Apr 8	By Purchases	(8)	4,050	(32,400)
Feb 4	Feb 4	To Cash	55	1,500	82,500	Mar 31	Mar 31	By Balance of product			2,72,400
Mar 21	Mar. 21	To Sales	10	6,450	64,500			By Balance c/d		8,475	
Mar 31	Mar 31	To Interest		75	-						
				23,775	15,36,000					23,775	15,36,000

(Interest for the period = $\frac{2,72,400 \ X \ 10 \ X \ 1}{100 \ X \ 365}$ = ₹ **74.63** or rounded off to ₹ **75**)

Alternative:

(b) (i) H in Account Current with G

(Interest to 31st March,2022@10%p.a.) [Interest Method]

Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Interest	Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Interest
2021	2021			₹	₹	2021	2021			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	4,500	224.38	Nov 16	Nov 26	By Purchases	125	6,000	205.48
Oct 18,	Oct 18	To Sales	164	3,750	168.49	Dec 7	Dec. 17	By Purchases	104	5,250	149.59
2022	2022					2022	2022				
Jan 3	Apr 6	To Bills payable	(6)	7,500	(12.33)	Mar 28	Apr 8	By Purchases	(8)	4,050	(8.88)
Feb 4	Feb 4	To Cash	55	1,500	22.60	Mar 31	Mar 31	By Balance of product			
Mar 21	Mar. 21	To Sales	10	6,450	17.67			By Balance c/d		8474.62	74.62
Mar 31	Mar 31	To Interest		74.62	-						
				23,774.62	420.81					23,774.62	420.81

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OR

(ii) Assuming 9th January, 2022 to be the base date:

Date of Sale	***Due date of payment***	***Amount***	***No. of days from base date***	***Product***
		₹		₹
2nd Jan	9th Jan	60,000	0	0
28th Jan	4th Feb	55,000	26	14,30,000
17th Feb	24th Feb	70,000	46	32,20,000
4th March	11th Mar	42,000	61	25,62,000
		2,27,000		72,12,000

Average due date $= \text{Base date} + \dfrac{\text{Total Product}}{\text{Total Amount}}$

= 9th January,2022 + 72,12,000/2,27,000

= 9th January,2022 + 32 days = 10th February,2022

Thus, average due date = 10th February, 2022

No. of days from 10th February, 2022 to 31st March, 2022 = 49 days.

Interest payable by D on ₹ 2,27,000 for 49 days @ 12% per annum

= 2,27,000 X12/100 X 49/365 = ₹ 3,656.88 or ₹ 3,657

Question 4

(a) *X and Y are in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as at 31st March, 2022 is as follows:* PARTNER

Liabilities	***Amount (₹)***	***Assets***	***Amount (₹)***
Capital Accounts:		*Building*	*60,000*
X	*60,000*	*Plant*	*45,000*
Y	*1,40,000*	*Furniture*	*23,500*
General Reserve	*40,000*	*Debtors*	*38,400*
Creditors	*42,600*	*Bills receivable*	*12,500*
Bills payable	*15,400*	*Stock*	*42,600*
Salary payable	*2,000*	*Bank*	*78,000*
	3,00,000		*3,00,000*

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1,00,000 as his share of capital. Goodwill was valued at

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₹ 1,20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows:

(i) Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bills Receivable ₹ 12,000.

(ii) Out of total Debtors, ₹ 2400 is bad and 5% provision is to be provided for bad and doubtful debts.

(iii) Building is to be appreciated by 75%.

(iv) Actual liability towards salary payable is ₹ 1200 only.

You are required to show the following accounts in the books Of the firm:

(1) Revaluation Account

(2) Partner's Capital Accounts

(3) Balance sheet of the Firm after Admission of Z. **(10 Marks)**

(b) The Income and Expenditure Account of the Young Boys Club for the rear 2022 is as follows:

NPO

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	3,750	By Subscription	8,500
To General Expenses	1,500	By Entrance Fees	250
To Audit fee	250	By Contribution for	
To Secretary's Honorarium	1,000	Annual Dinner	1,000
To Stationery and Printing	450	By Annual Sports	
To Annual Dinner expenses	1,500	meet receipts	750
To Interest and Bank Charges	150		
To Depreciation	400		
To Surplus	1,500		
	10,500		10,500

This Account has been prepared after the following adjustments:

	Amount (₹)
Subscription outstanding on 31st December, 2021	700
Subscription received in advance on 31st December, 2021	550
Subscription received in advance on 31st December, 2022	370
Subscription outstanding on 31st December, 2022	750

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Salaries outstanding at the beginning and at the end of 2022 were respectively ₹ 600 and ₹ 150. General Expense include insurance prepaid to the extent of ₹ 150. Audit fee for 2022 is still unpaid. During 2022 audit fee for 2021 was paid amounting to ₹ 200.

The club owned a freehold lease of ground valued at ₹ 20,000. The club had sports equipment on 1 at January, 2022 valued at ₹ 2600. At the end of the year, after depreciation, the balance of equipment amounted to, 3,600. In 2021, the club raised a bank loan of ₹ 5,000, This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹ 1600.

You are required to prepare:

(i) Receipts and Payments Account for 2022

(ii) Balance Sheet as on 31st December, 2022

(iii) Balance Sheet as on 31st December, 2021. ***(10 Marks)***

Answer

(a) **In the books of X, Y and Z**
Revaluation Account

Particulars	₹	Particulars	₹
To Plant	5,000	By Building	45,000
To Bad Debts	2,400	By Salary Payable	800
To Provision for Doubtful Debts	1,800		
To Stock	600		
To Furniture	3,500		
To Bills receivable	500		
To Profit on revaluation			
X	12,800		
Y	19,200		
	45,800		45,800

Partners' Capital A/c's

Particulars	X	Y	Z	Particulars	X	Y	Z
To X and Y (Goodwill adjustment)	-	-	24,000	By Balance b/d	60,000	1,40,000	-
To Balance c/d	98,400	1,97,600	76,000	By Bank	-	-	1,00,000
				By Z	9,600	14,400	-

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				By General Reserve	16,000	24,000	-
				By Revaluation	12,800	19,200	-
	98,400	1,97,600	1,00,000		98,400	1,97,600	1,00,000

Balance Sheet as on 1st April, 2022 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,05,000
X	98,400	Plant	40,000
Y	1,97,600	Furniture	20,000
Z	76,000	Debtors*	34,200
Creditors	42,600	Bills Receivable	12,000
Bills Payable	15,400	Stock	42,000
Salary Payable	1,200	Bank	1,78,000
	4,31,200		4,31,200

* Debtors: (38,400 – 2,400 – 1,800) = ₹ 34,200

(b) The Young Boys Club

Receipts and Payments Account for the year ended 31st December, 2022

Receipts	₹	Payments		₹
To Balance b/d (balancing figure)	1,580	By Salaries (WN-2)		3,900
To Subscriptions (WN-1)	8,270	By General Expenses	1500	
To Entrance Fees	250	*Add*: Paid for 2023	150	1,650
To Contribution for annual dinner	1,000	By Audit fee (2021)		200
To Annual sport meet receipt	750	By Secy. Honorarium		1,000
		By Stationery & Printing		450
		By Annual Dinner Expenses		1,500
		By Interest & Bank Charges		150
		By Sports Equipment (WN -3)		1,400

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		By Balance c/d	1,600
	11,850		11,850
To Balance b/d	1,600		

Working Note 1

Subscription A/c

To Subscription O/s 2021	700	By Balance b/d (b/f)	8,270
To Subscription in Advance 2022	370	By Subscription O/s 2022	750
		By Subscription in Advance 2021	550
To Income & Expenditure a/c	8,500		
Total	9,570	Total	9,570

Working Note 2

Salaries A/c

To Bank (b/f)	3,900	By Income & Expenditure a/c	3,750
To Salaries O/s 2022	450	By Salaries O/s 2021	600
	4,350		4,350

Working Note 3

Sports Equipment A/c

To Balance b/d	2,600	By Depreciation	400
To Cash / Bank (b/f)	1,400	By Balance c/d	3,600
Total	4,000	Total	4,000

Balance Sheet of Young Boys Club as on December 31, 2022

Liabilities	₹	₹	Assets	₹	₹
Subscription received in advance		370	Freehold Ground		20,000
Audit Fee Outstanding		250	Sport Equipment:		
Salaries Outstanding		450	As per last Balance Sheet	2,600	
Bank Loan		5,000	Additions	1,400	
Capital Fund:				4,000	
Balance as per previous			*Less*: Depreciation	(400)	3,600

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Balance Sheet	18,530		Subscription Outstanding		750
Add: Surplus for 2022	1,500		Insurance Prepaid		150
		20,030	Cash in hand		1,600
		26,100			26,100

Balance Sheet of Young Boys Club as on 31st December, 2021

Liabilities	₹	Assets	₹
Subscriptions received in advance	550	Freehold Ground	20,000
Salaries outstanding	600	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	700
Bank Loan	5,000	Cash in hand	1,580
Capital Fund (balancing figure)	18,530		
	24,880		24,880

Question 5

(a) *Prepare a Triple Column Cash Book from the following transactions of M/s Raj Agencies and bring down the balance for the start of next month:*

CASH BOOK

2022			*₹*
March	*1*	*Cash in hand*	*30,000*
	1	*Cash at bank*	*1,20,000*
	2	*Paid into bank*	*10,000*
	5	*Bought furniture and issued cheque*	*15,000*
	8	*Purchased goods for cash*	*5,000*
	12	*Received cash from Mohan*	*9,800*
		Discount allowed to him	*200*
	14	*Cash sales*	*50,000*
	16	*Paid to Lata by cheque*	*14,500*
		Discount received	*500*
	19	*Paid into Bank*	*5,000*
	23	*Withdrawn from Bank for Private expenses*	*6,000*
	24	*Received cheque from Gupta*	*14,300*
		Allowed him discount	*200*
	26	*Deposited Gupta's cheque into Bank*	
	28	*Withdrew cash from Bank for Office use*	*20,000*
	30	*Paid rent by cheque*	*8,000*

(5 Marks)

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(b) *R and S are partners in a firm with a capital of 14,00,000 and 12,00,000 respectively. During the year ended on 31st March, 2022 firm earned a profit of ₹ 6,50,000. Assuming that the normal rate of return is 20%. Calculate the amount of Goodwill of the firm by using*

(i) Capitalization method

(ii) Super Profit method, if the goodwill is valued at 6 years purchase of super profits.

(5 Marks)

(c) *The balance sheet of S on 1st April, 2021 was as follows:*

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	4,25,000
	29,25,000		29,25,000

FA

During 2021-22, his profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following:

(i) Commission paid to selling agent ₹ 65,000

(ii) Discount received from creditors ₹ 75,000

(iii) Purchased a vehicle of ₹ 50,000 on 31st March, 2022

(iv) Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%

(v) A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2022

But while preparing the Profit and Loss Account he had forgotten to provide for

(1) prepaid expenses ₹ 15,000 and

(2) outstanding commission ₹ 35,000.

His current assets and liabilities on 31st March, 2022 were: Inventories ₹ 6,50,000. Trade Receivables 13,00,000 (before provision for doubtful debts), cash at Bank 5,50,000 and Trade Payables ₹ 1,46,000.

During the year he introduced further capital of ₹ 3,00,000 into the business.

You are required to prepare the balance sheet as at March 31, 2022. **(10 Marks)**

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Answer

(a) **M/s Raj Agencies**

Dr. **Cash Book** Cr.

Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹
2022						2022					
Mar 1	To Balance b/d			30,000	1,20,000	Mar 2	By Bank	C		10,000	
Mar 2	To Cash	C			10,000	Mar 5	By Furniture				15,000
Mar 12	To Mohan		200	9,800		Mar 8	By Goods / Purchase			5,000	
Mar 14	To Sales			50,000		Mar 16	By Lata		500		14,500
Mar 19	To Cash	C			5,000	Mar 19	By Bank	C		5,000	
Mar 24	To Gupta		200	14,300		Mar 23	By Drawings				6,000
Mar 26	To Cash	C			14,300	Mar 26	By Bank	C		14,300	
Mar 28	To Bank	C		20,000		Mar 28	By Cash	C			20,000
						Mar 30	By Rent				8,000
						Mar 31	By Balance c/d			89,800	85,800
			400	1,24,100	1,49,300				500	1,24,100	1,49,300

(b) (i) Capitalization Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = ₹\ 6{,}50{,}000 \text{ X } 100/20 = ₹\ 32{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 32,50,000 – ₹ 26,00,000 [i.e., ₹ 14,00,000 (R) + ₹ 12,00,000 (S)]

Goodwill = ₹ 6,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x Normal rate of return i.e. ₹ 26,00,000 x 20/100

= ₹ 5,20,000

Average Profit = ₹ 6,50,000

Super Profit = Average profit – Normal Profit

= ₹ 6,50,000 – ₹ 5,20,000 = ₹ 1,30,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,30,000 x 6 = ₹ 7,80,000

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(c) **Balance Sheet of S as on 31st March, 2022**

Liabilities		₹	Assets	₹
Capital	22,00,000		Cash at Bank	5,50,000
Add: Net Profit (WN.1)	6,50,000		Trade receivables (WN. 2)	12,61,000
	28,50,000		Vehicles (WN. 3)	2,70,000
Add: Introduction of capital	3,00,000		Furniture & Fixtures (WN. 4)	5,85,000
		31,50,000	Inventories	6,50,000
Outstanding commission		35,000	Prepaid expenses	15,000
Trade payables		1,46,000		
		33,31,000		33,31,000

Working Note 1

Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding Commission	35,000	By Balance b/d	6,70,000
To Net profit	6,50,000	By Prepaid expenses	15,000
	6,85,000		6,85,000

Working Note 2

Trade Receivables

Particulars	₹	Particulars	₹
To Balance b/d	13,00,000	By Provision for Doubtful Debts	39,000
		By Balance c/d (b/f)	12,61,000
	13,00,000		13,00,000

Working Note 3

Vehicles A/c

Particulars	₹	Particulars	₹
To Balance b/d	2,75,000	By Depreciation	55,000
To Bank a/c	50,000	By Balance c/d (b/f)	2,70,000
	3,25,000		3,25,000

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Working Note 4

Furniture & Fixtures A/c

Particulars	₹	Particulars	₹
To Balance b/d	6,50,000	By Depreciation	65,000
		By Balance c/d (b/f)	5,85,000
	6,50,000		6,50,000

Question 6

(a) *PQR Limited issued 2,00,000 equity shares of, 10 each payable as ₹ 3 per share on application & ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from Mr. J, holding 5,000 shares who failed to pay ·the allotment and call money and Mr. K, holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.* COMP

Pass necessary journal entries in the books of PQR Limited. Also prepare Balance Sheet and notes to accounts of the company. ***(15 Marks)***

(b) *"The cost of Property, Plant and Equipment comprises of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise". Give any five examples of such 'directly attributable costs'.* ***(5 Marks)*** DEPRE THEORY

Answer

(a) **In the books of PQR. Ltd.**

Journal

Entry no.	Particulars		₹	₹
1	Bank A/c To Equity Share Application A/c (Being application money on 2,00,000 shares @ ₹ 3 per share received)	Dr	6,00,000	 6,00,000
2	Equity Share Application A/c To Equity Share Capital A/c (Being transfer of application money to Equity Share Capital on 2,00,000 shares @ ₹ 3 per share as per Director's Resolution no… dated…)	Dr	6,00,000	 6,00,000

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3	Equity Share Allotment A/c	Dr	10,00,000	
	To Equity Share Capital A/c			6,00,000
	To Securities Premium A/c			4,00,000
	(Being amount due from shareholders in respect of allotment on 2,00,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Director's Resolution no……dated……)			
4	Bank A/c	Dr	9,75,000	
	To Equity Share Allotment A/c			9,75,000
	(Being amount received against allotment on 1,95,000 shares @ ₹ 5 per share including premium @ ₹ 2 per share)			
	OR			
	Bank A/c	Dr	9,75,000	
	Calls in Arrears A/c	Dr	25,000	
	To Equity Share Allotment A/c			10,00,000
	(Being amount received against allotment on 2,00,000 share @ ₹ 5 per share including premium @ ₹ 2 per share, Mr. J holding 5,000 shares failed to pay allotment money)			
5	Equity Share Call A/c	Dr	8,00,000	
	To Equity Share Capital A/c			8,00,00
	(Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share as per Director's resolution no……dated…….)			
6	Bank A/c	Dr	7,40,000	
	To Equity Share Call A/c			7,40,000
	(Being amount received against the call on 1,85,000 shares @ ₹ 4 per share)			
	OR			
	Bank A/c	Dr	7,40,000	
	Calls in Arrears A/c	Dr	60,000	8,00,000
	To Equity Share Call A/c			
	(Being amount received against the call on 1,85,000 shares @ ₹ 4 per share, J holding 5,000 shares and K holding 10,000 shares failed to pay call money)			

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7	Equity Share Capital A/c (15,000 x ₹ 10)	Dr	1,50,000	
	Securities Premium A/c (5000 x ₹ 2)	Dr	10,000	
	To Equity Share Allotment A/c (5000 x ₹ 5)			25,000
	To Equity Share Call A/c (15,000 x ₹ 4)			60,000
	To Forfeited Shares A/c			75,000
	(Being forfeiture of 15,000 equity shares for non-payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No.....dated ....)			
	OR			
	Equity Share Capital A/c (15,000 x ₹ 10)	Dr	1,50,000	
	Securities Premium A/c (5000 x ₹ 2)	Dr	10,000	
	To Calls in Arrears A/c (₹ 25,000 + ₹ 60,000)			85,000
	To Forfeited Shares A/c			75,000
	(Being forfeiture of 15,000 equity shares for non-payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No......dated.......)			
8	Bank A/c	Dr	90,000	
	Forfeited Shares A/c		10,000	
	To Equity Share Capital A/c			1,00,000
	(Being re-issue of 10,000 shares @ ₹ 9 each as per Board's Resolution No......dated......)			
9	Forfeited Shares A/c	Dr	35,000	
	To Capital Reserve A/c			35,000
	(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of PQR as at......

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital	1	19,80,000
Reserves and Surplus	2	4,25,000
Total		24,05,000

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ASSETS		
Current assets		
Cash and Cash Equivalents	3	24,05,000
Total		24,05,000

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	Issued share capital		
	2,00,000 Equity shares of ₹ 10 each	20,00,000	
	Subscribed, called up and paid up share capital		
	1,95,000 Equity shares of ₹ 10 each	19,50,000	
	Add: Forfeited shares	30,000	19,80,000
2.	Reserves and Surplus		
	Securities Premium	3,90,000	
	Capital Reserve	35,000	4,25,000
3.	Cash and Cash Equivalents		
	Amount received on Share Application	6,00,000	
	Amount Received on Share Allotment	9,75,000	
	Amount Received on Share Call	7,40,000	
	Amount Received on Re-issue of Shares	90,000	24,05,000

Working Note:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of J	₹ 3	Amount forfeited per share of K	₹ 6
Less: Loss on re-issue per share	(₹ 1)	*Less*: Loss on re-issue per share	(₹ 1)
Surplus	₹ 2	Surplus	₹ 5
Transferred to Capital Reserve: J's share (5,000 x ₹ 2)		₹ 10,000	
K's Share (5,000 x ₹ 5)		₹ 25,000	
Total		₹ 35,000	

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(2) Balance of Security Premium

Total Premium amount receivable on allotment	=	4,00,000
Less: Amount reversed on forfeiture	=	(10,000)
Balance remaining	=	3,90,000

(b) Cost of Property, Plant and Equipment comprise of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

Examples of directly attributable costs are:

(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.

(b) cost of site preparation

(c) initial delivery and handling costs

(d) installation and assembly costs

(e) cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) professional fees e.g., engineers hired for helping in installation of a machine

(g) transportation cost

(h) trial run expenses

Thus, all the expenses which are necessary for asset to bring it in condition and location for desired use will become part of cost of the asset.

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

(a) *State with reasons, whether the following statements are True or False:*

(i) *As per concept of conservatism the accountant should provide for all possible losses but should not anticipate income.*

(ii) *Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure.*

(iii) *Under or over - casting of a subsidiary book is an example of error of commission.*

(iv) *If Del-credere commission is paid to consignee, the loss of bad debts is to be borne by the consignor.*

(v) *Perpetual debentures are payable at the time of liquidation of the company.*

(vi) *Overhead is defined as the total cost of direct material, direct wages and direct expenses.* ***(6 x 2 = 12 Marks)***

(b) *Briefly explain the following terms:*

(i) *Materiality*

(ii) *Conservatism*

(iii) *Extraordinary item*

(iv) *Floating Charge* ***(4 x 1 = 12 Marks)***

(c) *Enter the following transactions in Sales Book of Gurgaon Engineers, Gurgaon for January 2022:*

SUBS BOOKS

2022 January	
5	Sold to Praneet Electricals 10 pieces of microwaves@ ₹8,500/- each less trade discount 15%
10	Sold to Ajanta plaza 8 pieces of Mixer grinders@ ₹ 12,500/- each less trade discount 10%.

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20	*Sold to Naveen traders, 15 pieces of juicers@ ₹ 5,500/- each less trade discount 5%*

(4 Marks)

Answer

(a) **(i)** **True:** Conservatism states that the accountant should not anticipate any future income, however they should provide for all possible losses.

(ii) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense and hence it is to be capitalised. Such expenses are amortised over a period of time.

(iii) **True:** If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission." Thus, under or over casting of subsidiary books is an example of error of commission.

(iv) **False:** To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.

(v) **True:** Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.

(vi) **False:** Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages and expenses cannot be directly linked to unit produced.

(b) **(i)** Materiality refers to all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.

(ii) Conservatism states that the accountant should not anticipate any future income however they should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.

(iii) Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

(iv) Floating charge is a general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

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(c) **In the Books of Gurgaon Engineers**

Sales Book

Date	Particulars	Gross Amount (₹)	Trade Discount (₹)	Net Price (₹)
2022				
Jan. 5	Praneet Electricals 10 pieces of Microwaves			
	@ ₹ 8,500 each			
	Less: 15% discount	85,000	12,750	72,250
10	Ajanta Plaza 8 pieces of			
	Mixer Grinders @ ₹ 12,500 each,			
	Less: 10% trade discount	1,00,000	10,000	90,000
20	Naveen Traders 15 pieces of			
	Juicers @ ₹ 5,500 each,			
	Less: 5% trade discount	82,500	4,125	78,375
		2,67,500	26,875	2,40,625

Question 2

(a) *The following balances appear in the books of Dheeraj Enterprises:*

	₹
Machinery account as on 01.04.2021	*12,00,000*
Provision for depreciation account as on 01.04.2021	*4,65,000*

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹ 2,00,000 was sold for ₹ 1,10,000 and on the same date another Machinery was purchased for ₹ 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022. DEPRE

(10 Marks)

(b) *From the following information prepare a Bank Reconciliation Statement as on 31st March 2022 for A Ltd.* BRS

		₹
	Bank overdraft as per cash book as 31st March, 2022	*15,50,750*

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1.	*Cheques deposited on 15th February, 2022 credited on 5th April, 2022*	*12,50,000*
2.	*Interest debited by bank on 31st March, 2022 but not entered in Cash Book*	*1,75,500*
3.	*Cheques issued before 31st March, 2022 but not yet presented*	*7,75,000*
4.	*On 10th March, 2022 bank credited to A Ltd. in error*	*1,50,000*
5.	*Draft deposited in bank but not credited till 31st March, 2022*	*12,75,000*
6.	*Bills for collection credited by bank but no advice received by the company*	*9,45,000*
7.	*Bank charges charged by bank but not entered in cash book*	*2,85,000*
8.	*Transport subsidy received from the state government directly by the bank not advised to the company*	*17,50,000*

(5 Marks)

(c) The Profit and Loss account of Ram showed a net profit of ₹ 5,75,000 after considering the closing stock of ₹ 2,55,000 on 31st March 2022. Subsequently the following information was obtained from scrutiny of the books.

STOCK

(i) Purchases for the year included ₹ 10,500 paid for electrical fittings of the shop.

(ii) Ram gave goods worth of ₹ 25,000 as free samples for which no entry was made.

(iii) Invoices for goods amounting to ₹ 1,85,000 have been entered on 29th March 2022 but were not included in the stock.

(iv) Sales amounting to ₹ 2,05,000 were dispatched on 27th March but were included in sales of April, 2022.

(v) Goods costing ₹ 55,000 were sent on sale or return basis in March, 2022 at a margin of profit of 33½ % on cost. Approval was given in April, 2022 but these were considered as sales in March, 2022.

Calculate. the value of stock as on 31st March, 2022 and the adjusted net profit for the year ended on that date. ***(5 Marks)***

Answer

(a) Dr. Machinery Account (at original Cost) Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.2021	To Balance b/d	12,00,000	01.10.2021	By Disposed Machinery A/c	2,00,000
01.10.2021	To Bank A/c	4,80,000	31.03.2022	By Balance c/d	14,80,000
		16,80,000			16,80,000

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Dr. Provision for Depreciation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.10.2021	To Disposed Machinery A/c	61,490	01.04.2021	By Balance b/d	4,65,000
31.03.2022	To Balance c/d	4,93,720	1.10.2021	By Depreciation	7,290
			31.03.2022	By Depreciation A/c	82,920
		5,55,210			5,55,210

Dr. Disposed Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.10.2021	To Machinery A/c	2,00,000	01.10.2021	By Provision for Depreciation A/c	61,490
				By Bank A/c	1,10,000
				By Profit and Loss A/c	28,510
		2,00,000			2,00,000

Working Notes:

1. **Calculation of Profit/Loss on Sale of Machinery**

Particulars	₹
A. Original Cost	2,00,000
B. *Less*: Depreciation @ 10% WDV p.a. for 3½ years	
Year — Cost/WDV — Depreciation@10%	
1 — 2,00,000 — 20,000	
2. — 1,80,000 — 18,000	
3 — 1,62,000 — 16,200	
4 — 1,45,800 — 7,290 (6 Months)	61,490
C. Book Value as on date of Sale (A – B)	1,38,510
D. Less: Sale proceeds	1,10,000
E. Loss on Sale (C – D)	28,510

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2. **WDV of Remaining Machine**

Cost of Machinery on 01.04.2021		12,00,000
Less: Cost of machinery sold		2,00,000
		10,00,000
Less: Depreciation		
Provision for depreciation	4,65,000	
Less: Depn. on machinery sold	54,200	4,10,800
WDV of remaining machine		5,89,200

3. **Calculation of Depreciation for Current Year on Machines**

Particulars	₹
A. On WDV of Old Machines of ₹ 5,89,200 for 1 year (10% WDV)	58,920
B. On New Machine of ₹ 4,80,000 for ½ year	24,000
	82,920
C. Depreciation on machinery sold (Rs.1,45,800@10% for 6 months	7,290
	90,210

(b) **M/s. A Ltd.**

Bank Reconciliation Statement as on 31st March, 2022

Particulars	**Details** ₹	**Amount** ₹
Overdraft as per Cash Book		15,50,750
Add: Cheque deposited but not credited	12,50,000	
Interest charged by the bank	1,75,500	
Draft deposited in bank but not yet credited	12,75,000	
Bank Charges not entered in cash book	2,85,000	29,85,500
		45,36,250
Less: Cheque issued but not yet presented	(7,75,000)	
Transport subsidy not yet recorded in the Cash Book	(17,50,000)	
Bills for collection credited in the bank not yet entered in the cash book	(9,45,000)	
Wrong credit by the bank	(1,50,000)	(36,20,000)
Overdraft as per bank statement		9,16,250

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Alternatively, the above solution can also be done through Adjusted Cash Book.

Cash Book (Bank Column)

Particulars		Amount ₹	Particulars		Amount ₹
To	Bill Receivable	9,45,000	By	Balance b/d	15,50,750
To	Transport subsidy received	17,50,000	By	Interest debited by Bank	1,75,500
			By	Bank Charges	2,85,000
			By	Balance c/d	6,83,750
		26,95,000			26,95,000

M/s. A Ltd.

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Details ₹	Amount ₹
Balance as per Cash Book		6,83,750
Add : Cheque issued but not yet presented	7,75,000	
Wrong credit by the bank	1,50,000	9,25,000
		16,08,750
Less: Cheque deposited but not credited	(12,50,000)	
Draft deposited in bank but not yet credited	(12,75,000)	(25,25,000)
Overdraft as per bank statement		(9,16,250)

(c) Profit and Loss Adjustment Account

Particulars	₹	Particulars	₹
To Advertisement (samples)	25,000	By Net profit	5,75,000
To Sales (goods approved in April to be taken as April sales: (55,000 + 18,333)	73,333	By Electric fittings	10,500
To Adjusted net profit	9,57,167	By Samples	25,000
		By Stock (purchases of March not included in stock)	1,85,000
		By Sales (goods sold in March wrongly taken as April sales)	2,05,000

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		By Stock (goods sent on approval basis not included in stock)	55,000
	10,55,500		10,55,500

Calculation of value of inventory on 31st March, 2022

	₹
Stock on 31st March, 2022 (given)	2,55,000
Add: Purchases of March, 2022 not included in the stock	1,85,000
Goods lying with customers on approval basis	55,000
Value of inventory as on 31.03.2022	4,95,000

Note: Figures are rounded off to the nearest Rupee.

Question 3

(a) *Akbar & Sons of Surat consigned 500 toys to Amar & Sons of Ahmadabad at a cost of ₹ 800 each. Consignor paid freight ₹ 8,000 and insurance ₹ 2,500. During transit, 30 toys were totally damaged. Amar & Sons took delivery of remaining toys and paid ₹ 14,100 as local taxes. Amar & Sons sent a bank draft to Akbar & Sons for ₹ 80,000 as advance payment and later sent an account sale showing that 400 toys had been sold at ₹ 1,500 each. Amar & Sons incurred expenses on godown rent amounting to ₹ 3,500. Amar & Sons was entitled to commission of 6%. One of the credit customers could not pay for 10 toys and nothing was recovered from insurers due to a defect in the policy.* CONSIGN

You are required to prepare Consignment Account and Amar & Sons Account in the books of Akbar & Sons.* **(10 Marks)**

** It was wrongly printed as "of" in place of "and" in the question paper.*

(b) *Journalise the following transactions in the books of Karthik:*

(i) *Karthik accepted a bill of Balu for ₹ 3,500 discharged by a cash payment of ₹ 1,500 and a new bill for the balance plus ₹ 75 for interest.* BOE

(ii) *Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid t 50 as noting charges. Bill was withdrawn against cheque.*

(iii) *Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.*

(iv) *Karthik's acceptance to Prem for ₹ 6,500 discharged by Prem. Ashok's acceptance to Karthik for a similar amount.* **(5 Marks)**

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

(i) *Seeta and Geeta are two partners in the firm, have drawn the following amounts from the firm during the year ended 31st March 2023:*

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Date	Amount	Drawn By
01.04.2022	*53,000*	*Seeta*
14.09.2022	*20,000*	*Geeta*
20.11.2022	*35,000*	*Seeta*
16.01.2023	*25,000*	*Seeta*
31.03.2023	*22,000*	*Geeta*

Interest is charged @12% p.a. on all drawings. Calculate interest chargeable from each partner by using average due date system.

For calculation of average due date consider 1st April, 2022 as base date and 1 year = 365 days. ***(5 Marks)***

(ii) *Meera Enterprises sold goods on 'sales or return basis' to few customers. All such transactions are booked as actual sales. On 31st March 2022 the trade receivable balance stood at ₹ 1,10,000 which included ₹ 10,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price to Mr. Arun.* SOA

Mr. Arun sent intimation of acceptance for ₹ 6,000 goods on 15th April 2022 and balance goods returned.

Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March, 2022. Also show the entries to be made during April, 2022. Value of closing inventories as on 31st March, 2022 was ₹ 70,000. ***(5 Marks)***

Answer

(a) **In the books of Akbar & Sons**

Dr. **Consignment to Amar & Sons Account** Cr

Particulars		**₹**	**Particulars**	**₹**
To Goods sent on Consignment A/c (500 x ₹ 800)		4,00,000	By Amar & Sons - sale Proceeds (400 x ₹ 1,500)	6,00,000
To Bank(expenses)			By Abnormal loss Ac (W.N. 1)	24,630
Freight	8,000			
Insurance	2,500	10,500		
To Amar & Sons-expenses			By Inventories on consignment (W.N. 2)	59,570
Local taxes	14,100			
Godown rent	3,500			
Commission (6%)	36,000			
Bad debt (10x1,500)	15,000	68,600		

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To P&L Account-transfer of profit	2,05,100		
	6,84,200		6,84,200

Dr. **Amar & Sons account**

Particulars	₹	**Particulars**	
To Consignment to Amar & Sons A/c	6,00,000	By bank (bank draft as advance)	80,000
		By consignment to Amar & Sons Local taxes 14,100 Godown rent 3,500 Commission (6%) 36,000 Bad debt (10 x 1,500) 15,000	68,600
		By balance amount remitted	4,51,400
	6,00,000		6,00,000

Working Notes:

(1) Computation of the abnormal loss- 30 toys ₹

a.	Cost of 30 toys	30 x 800	24,000
b.	Freight charges- 30 toys	8000/500 x 30	480
c.	Insurance- 30 toys	2500/500 x 30	150
	Abnormal loss		24,630

(2) Computation of the Closing stock- (500-30-400) ₹

a.	Cost of 70 toys	70 x 800	56,000
b.	Freight charges- 70 toys	8,000/500 x 70	1,120
c.	Insurance- 70 toys	2,500/500 x 70	350
d.	Local tax-70 toys	14,100/470 x 70	2,100
	Closing stock		59,570

Note: The answer given above is after considering the typo error in the question paper. Hence, the consignee Account i.e. Amar & Sons Account forms part of the solution.

(b) **Books of Karthik**

Journal Entries

		₹	₹
(i)	Bills Payable Account Dr.	3,500	

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	Interest Account Dr.	75	
	To Cash A/c		1,500
	To Bills Payable Account		2,075
	(Bills Payable to Balu discharged by cash payment of ₹1,500 and a new bill for ₹ 2,075 including ₹ 75 as interest)		
(ii)	(a) Gopal Account Dr.	4,550	
	To Mohan Account		4,550
	(Gopal's acceptance for ₹ 4,500 endorsed to Mohan dishonoured, ₹ 50 paid by Mohan as noting charges)		
	(b) Mohan Account Dr.	4,550	
	To Bank Account		4,550
	(Payment to Mohan on withdrawal of bill earlier received from Mr. Gopal)		
(iii)	Bank Account Dr.	2,475	
	Discount Account Dr.	25	
	To Bills Receivable Account		2,500
	(Payment received from Doshi against his acceptance for ₹ 2,500. Allowed him a discount of ₹25)		
(iv)	Bills Payable Account Dr.	6,500	
	To Bills Receivable Account		6,500
	(Bills Receivable from Ashok endorsed to Prem in settlement of bills payable issued to him earlier)		

(c) (i) Calculation of Interest chargeable from Partners

Taking 1st April,2022 as Base Date

	Dates	Amount (₹)	Days from 1st April,2022	Products (₹)
Seeta	1.4.2022	53,000	0	0
	20.11.2022	35,000	233	81,55,000
	16.1.2023	25,000	290	72,50,000
		1,13,000		1,54,05,000

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Average Due Date = $\frac{1,54,05,000}{1,13,000}$ days from 1st April. i.e. 136 days = 15th Aug,2022

Interest is chargeable for Seeta from 15th Aug to March 31 i.e. 228 days

₹ 1,13,000 x 12% x 228/365 = ₹ 8,470.35* (may be rounded off to Rs.8,470)

	Dates	(₹)	Days from 1st April,2022	Products (₹)
Geeta	14.9.2022	20,000	166	33,20,000
	31.3.2023	22,000	364	80,08,000
		42,000		1,13,28,000

Average Due Date = $\frac{1,13,28,000}{42,000}$ days from 1st April = 270 days.

= 27th Dec.

Interest is chargeable for Geeta from 27th December to 31st March i.e. for 94 days.

₹ 42,000 x $\frac{12}{100}$ x $\frac{94}{365}$ = ₹ 1,298

*Alternatively, 137 days can also be taken while calculating interest of Seeta. In that case, Interest chargeable from Seeta for 227 days i.e. from 16th August to 31st March will be ₹ 8,433.2.

OR

(ii) In the Books of Meera Enterprises

Journal Entries

Date	Particulars	L.F.	₹	₹
2022 March 31	Sales A/c Dr.		10,000	
	To Trade receivables A/c			10,000
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)			
March 31	Inventories with Customers on Sale or Return A/c Dr.		8,000	
	To Trading A/c (Note)			8,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)			

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April,30	Trade receivables A/c Dr. To Sales A/c (Being goods sent to Mr. Arun on sale or return basis has been accepted by him)		6,000	6,000

Balance Sheet of Meera Enterprises as on 31st March, 2022 (Extracts)

Liabilities	₹	Assets	₹	₹
		Trade receivables (₹1,10,000 - ₹ 10,000)		1,00,000
		Inventories-in-trade	70,000	
		Add: Inventories with customers on Sale or Return	8,000	78,000
				1,78,000

Note:

Cost of goods lying with customers = 100/125 x ₹ 10,000 = ₹ 8,000

Question 4

(a) *Following is the Receipts and Payments account of Pune Medical Aid Society for the year ended 31-12-2022.*

NPO

Receipts and Payments Account for the year ended 31-12-2022

Receipts	*Amount ₹*	*Payments*	*Amount ₹*
To Opening cash in hand	*12,000*	*By Medicine supply*	*35,000*
To Subscription	*65,000*	*By Honorarium to Doctors*	*15,000*
To Donations	*25,000*	*By Salaries*	*36,000*
To Interest on Investment (10%)	*10,000*	*By Sundry expenses.*	*950*
To Charity show collection	*16,500*	*By Purchase of Medical equipment*	*25,000*
		By Charity show expenses	*2,750*
		By Closing Cash in hand	*13,800*
	1,28,500		*1,28,500*

The following is the additional information provided.

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	01-01-2022	31-12-2022
	Amount ₹	*Amount ₹*
Subscription due	*2,500*	*3,100*
Subscription received in advance	*1,800*	*1,400*
Stock of medicine	*12,500*	*17,250*
Amount due for medicine supply	*12,000*	*16,500*
Value of equipment	*21,500*	*37,200*
Value of building	*65,000*	*61,750*

You are required to prepare Income and Expenditure account, and Balance sheet as on 31-12-2022. ***(15 Marks)***

(b) X and Y were partners in a firm, sharing profit and losses in the ratio of 3: 2. They admit Z for 1/6th share in profits and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2022 were 1,80,00,000.

Calculate share of profit for each partner when: PARTNER

(i) Guarantee is given by firm

(ii) Guarantee is given by X and Y* equally.* ***(5 Marks)***

** It was wrongly printed as A and B in the question paper.*

Answer

(a) Income and Expenditure Account of Pune Medical Aid Society

for the year ended 31st December, 2022

Expenditure		**₹**	**Income**		**₹**
To Medicine consumed		34,750	By Subscription		66,000
To Honorarium to doctors		15,000	By Donation		25,000
To Salaries		36,000	By Interest on investments		10,000
To Sundry expenses		950	By Profit on charity show:		
To Depreciation on			Show collections	16,500	
Equipment	9,300		*Less*: Show expenses	(2,750)	13,750
Building	3,250	12,550			

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To Surplus-excess of Income over Expenditure		15,500			
		1,14,750			1,14,750

Balance Sheet of Pune Medical Aid Society as on 31st December, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Building	65,000	
Opening balance	1,99,700		*Less*: Depreciation	(3,250)	61,750
Add: Surplus	15,500	2,15,200	Equipment	21,500	
Subscription received in advance		1,400	*Add*: Purchase	25,000	
Amount due for medicine supply		16,500		46,500	
			Less: Depreciation	(9,300)	37,200
			Stock of medicine		17,250
			Investments		1,00,000
			Subscription receivable		3,100
			Cash in hand		13,800
		2,33,100			2,33,100

Working Notes:

1.

Subscription for the year ended 31st December, 2022:		₹
Subscription received during the year		65,000
Less: Subscription receivable on 1.1.2022	2,500	
Less: Subscription received in advance on 31.12.2022	1,400	(3,900)
		61,100
Add: Subscription receivable on 31.12.2022	3,100	
Add: Subscription received in advance on 1.1.2022	1,800	4,900
		66,000

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2. Purchase of medicine:		
Payment for medicine supply		35,000
Less: Amounts due for medicine supply on 1.1.2022		(12,000)
		23,000
Add: Amounts due for medicine supply on 31.12.2022		16,500
		39,500
3. Medicine consumed:		
Stock of medicine on 1.1.2022		12,500
Add: Purchase of medicine during the year		39,500
		52,000
Less: Stock of medicine on 31.12.2022		(17,250)
		34,750
4. Depreciation on equipment:		
Value of equipment on 1.1.2022		21,500
Add: Purchase of equipment during the year		25,000
		46,500
Less: Value of equipment on 31.12.2022		(37,200)
Depreciation on equipment for the year		9,300

Balance Sheet of Pune Aid Society as on 1st January, 2022

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	1,99,700	Building	65,000
Subscription received in advance	1,800	Equipment	21,500
Amount due for medicine supply	12,000	Stock of medicine	12,500
		Investments (₹ 10,000 x 100/10)	1,00,000
		Subscription receivable	2,500
		Cash in hand	12,000
	2,13,500		2,13,500

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(b) (i) **If Guarantee is given by firm**

Profit and Loss Appropriation Account for the year ending on 31st March, 2022

Particulars	₹	Particulars	₹
To X's Capital A/c	78,00,000	By Profit and Loss, A/c	1,80,00,000
(3/5 of ₹ 1,30,00,000)	52,00,000		
To Y's Capital A/c			
(2/5 of ₹ 1,30,00,000)			
To Z's Capital A/c			
(1/6 of ₹ 1,80,00,000 or ₹ 50,000,000 whichever is more	50,00,000		
	1,80,00,000		1,80,00,000

(ii) **If Guarantee is given by X and Y equally**

Profit and Loss Appropriation Account for the year ending on 31st March, 2022

Particulars		₹	Particulars	₹
To X's Capital A/c (3/6 of ₹ 1,80,00,000)	90,00,000		By Profit and Loss, A/c (net profits)	1,80,00,000
Less: Deficiency borne for Z (1/2 of 20,00,000)	(10,00,000)	80,00,000		
To Y's Capital A/c (2/6 of ₹ 1,80,00,000)	60,00,000			
Less: Deficiency borne for Z (1/2 of 20,00,000)	(10,00,000)	50,00,000		
To Z's Capital A/c (1/6 of ₹ 1,80,00,000)	30,00,000			
Add: Deficiency				

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Recovery from X	10,00,000			
Add: Deficiency Recovery from Y	10,00,000	50,00,000		
		1,80,00,000		1,80,00,000

Question 5

PARTNER

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	*Credit*
	Amount ₹	*Amount ₹*
Capital Accounts		
A		*2,25,000*
B		*1,12,500*
C		*1,35,000*
Current Account		
A	*36,000*	
B	*54,000*	
C	*54,000*	
Land and Building	*1,80,000*	
Furniture and Fixtures	*33,750*	
Stock	*2,81,250*	
Debtors	*45,000*	
Bank Account	*90,000*	
Profit for the year before charging interest		*2,34,000*
Creditors		*67,500*
Total	*7,74,000*	*7,74,000*

Goodwill may be recorded separately, instead of through Revaluation Account. C died on 30th June, 2022. The Partnership deed provided that:

(a) *Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.*

(b) *On the death of partner*

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(i) *Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10%p.a. and a fair remuneration for each of the partners.*

(ii) *Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and*

(c) *Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:*

(i) *Profit for three years, before charging partners' interest were:*

2019	*2,52,000*
2020	*2,83,500*
2021	*2,70,000*

(ii) *The independent valuation on the date of death revealed:*

PARTNER

Land and Building	*₹ 2,25,000*
Furniture and Fixtures	*₹ 22,500*

(iii) *For valuation of goodwill a fair remuneration for each of the partners would be ₹ 56,250 per annum and that the capital employed in the business to be taken as ₹ 5,85,000 throughout.*

It was agreed between the partners that:

(1) *Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.*

(2) *The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.*

(3) *A and B would share profits equally from the date of death of C.*

(4) *Depreciation on revised value of assets would be ignored.*

You are required to prepare:

(A) *Partners' Capital Account and Current Account; and*

(B) *Balance Sheet of the firm as on 31st December, 2022.*

Working should be done correct to the nearest rupee. **(20 Marks)**

Answer

Partner's Capital Accounts

Particular	A	B	C	Particular	A	B	C
To C's capital A/c (goodwill) (W.N. 1)	11,475	22,950		By balance b/d	2,25,000	1,12,500	1,35,000

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To C's current A/c			9,180	By A & B Capital A/c (goodwill) (W.N. 1)			34,425
To C's executor A/c			1,60,245				
To balance c/d	2,13,525	89,550	____		____	____	____
	2,25,000	1,12,500	1,69,425		2,25,000	1,12,500	1,69,425

Partner's Current Accounts

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	36,000	54,000	54,000	By Interest on capital	27,000	13,500	8,100
To balance c/d	83,528	39,787		By Profit & Loss A/c (W.N. 3)	79,028	70,162	26,595
				By Revaluation Profit (W.N. 4)	13,500	10,125	10,125
	____	____	____	By C's Capital	____	____	9,180
	1,19,528	93,787	54,000		1,19,528	93,787	54,000

Balance sheet as on 31st December,2022

Liabilities		₹	Assets		₹
Capital A/c	A	2,13,525	Land & building	1,80,000	
	B	89,550	Add : revaluation	45,000	2,25,000
Current A/c	A	83,528	Fixture & furniture	33,750	
	B	39,787	Less: revaluation	11,250	22,500
C's executor A/c		1,60,245	Stock		2,81,250
C's interest on executors Amount		9,615	Debtors		45,000
Creditors		67,500	Bank		90,000
		6,63,750			6,63,750

Working Notes:

1. **Calculation of goodwill** ₹

Average profit of last 3 years up to 30.6.2022

2019 (6 months)	1,26,000
2020	2,83,500
2021	2,70,000
2022 (6 months)	1,17,000
	7,96,500
Years	3

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Average profit	2,65,500
Less: 10% of capital employed	(58,500)
Less: remuneration of partners (56,250 x 3)	(1,68,750)
Average adjusted profit	38,250
Goodwill for 3 years	1,14,750
C's Share of Goodwill (3/10x 1,14,750)	34,425

2. **Calculation of gaining ratio**

Name of Partner	New ratio		Old ratio	Gaining Ratio
A	1/2	-	4/10	1/10
B	1/2	-	3/10	2/10

A's capital A/c	Dr.	11,475	
B's capital A/c	Dr	22,950	
To C's capital A/c			34,425

Profit & Loss Appropriation Account

Particulars	1.4.22 to 30.6.22	1.7.22 to 31.12.22	Particulars	1.4.22 to 30.6.22	1.7.22 to 31.12.22
To interest on capital (6 months):			By Net profit	1,17,000	1,17,000
A 2,25,000 x 6%	13,500	13,500			
B 1,12,500 x 6%	6,750	6,750			
C 1,35,000 x 6%	8,100	-			
To Interest on executor amount (1,60,245 x 6%)	-	9,615			
To partners current A/c:					
A	35,460	43,568			
B	26,595	43,567			
C	26,595	-			
	1,17,000	1,17,000		1,17,000	1,17,000

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3. **Calculation of Revaluation Profit**

Revaluation Account

Particulars	Amount	Particulars	Amount
To Furniture and Fixtures	11,250	By Land & building	45,000
To Profit A (4/10) = 13,500	33,750		
B (3/10) = 10,125			
C (3/10) = 10,125			
	45,000		45,000

Question 6

(a) *BP Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:*

On Application	-	*₹ 3 per share*
On Allotment	-	*₹ 5 per share (including premium)*
On First and Final Call	-	*₹ 4 per share*

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

Category	*No. of shares Applied*	*No. of shares Allotted*
I	*1,60,000*	*80,000*
II	*1,20,000*	*40,000*

Excess money received with applications was adjusted towards sums due on Allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of BP Ltd, Open call in arrears account whenever required. ***(15 Marks)***

(b) *What are the importance of Journal?* ***(5 Marks)***

Answer

(a) **Journal of BP Limited**

Particulars		Dr. (₹)	Cr. (₹)
Bank A/c (Note 1 – Column 3)	Dr.	10,80,000	
To Equity Share Application A/c			10,80,000

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(Being application money received on 3,60,000 shares @ ₹ 3 per share)		
Equity Share Application A/c Dr.	10,80,000	
To Equity Share Capital A/c		3,60,000
To Equity Share Allotment A/c (Note 1 Column 5)		4,40,000
To Bank A/c (Note 1 – Column 6)		2,80,000
(Being application money on 2,80,000 shares transferred to Equity Share Capital Account; on 1,60,000 shares adjusted with allotment and on 80,000 shares refunded as per Board's Resolution No.....dated...)		
Equity Share Allotment A/c Dr.	6,00,000	
To Equity Share Capital A/c		3,60,000
To Securities Premium a/c		2,40,000
(Being allotment money due on 1,20,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No....dated....)		
Bank A/c (Note 1 – Column 8) Dr.	1,60,000	
To Equity Share Allotment A/c		1,60,000
(Being balance allotment money received)		
Equity Share First and Final Call A/c Dr.	4,80,000	
To Equity Share Capital A/c		4,80,000
(Being final call money due on 1,20,000 shares @ ₹ 4 per share as per Board's Resolution No.....dated....)		
Bank A/c Dr.	4,78,640	
Calls in Arrears A/c Dr.	1,360	
To Equity Share First and Final Call A/c		4,80,000
(Being final call money on 1,19,660 shares @ ₹4 each received)		
Equity Share Capital A/c Dr.	3,400	
To Calls in Arrears A/c		1,360
To Forfeited Shares A/c		2,040
Being forfeiture of 340 equity shares for non- payment of call money as per Board's Resolution No.....dated ....)		
Bank A/c Dr.	4,420	
To Equity Shares Capital A/c		3,400

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To Securities Premium A/c Being re-issue of 340 shares @ ₹13 each as per Board's Resolution No.....dated....)			1,020
Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr	2,040	2,040

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 - 4 + 5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Rejected	80,000	Nil	2,40,000	Nil	Nil	2,40,000	Nil	Nil
(i)	1,60,000	80,000	4,80,000	2,40,000	2,40,000	Nil	4,00,000	1,60,000
(ii)	1,20,000	40,000	3,60,000	1,20,000	2,00,000	40,000	2,00,000	Nil
TOTAL	3,60,000	1,20,000	10,80,000	3,60,000	4,40,000	2,80,000	6,00,000	1,60,000

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) x ₹ 3

(ii) Amount Required on Application (4) = No. of shares allotted (2) x ₹ 3

(b) IMPORTANCE OF JOURNAL:

1. **Chronological Order:** As transactions are recorded on chronological order, one can get complete information about the business transactions on time basis.
2. **Narration:** Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry. One can know the correctness of the entry through these narrations.
3. **Basis of Posting:** Journal forms the basis for posting the entries in the ledger. This eases the accountant in their work and reduces the chances of error.

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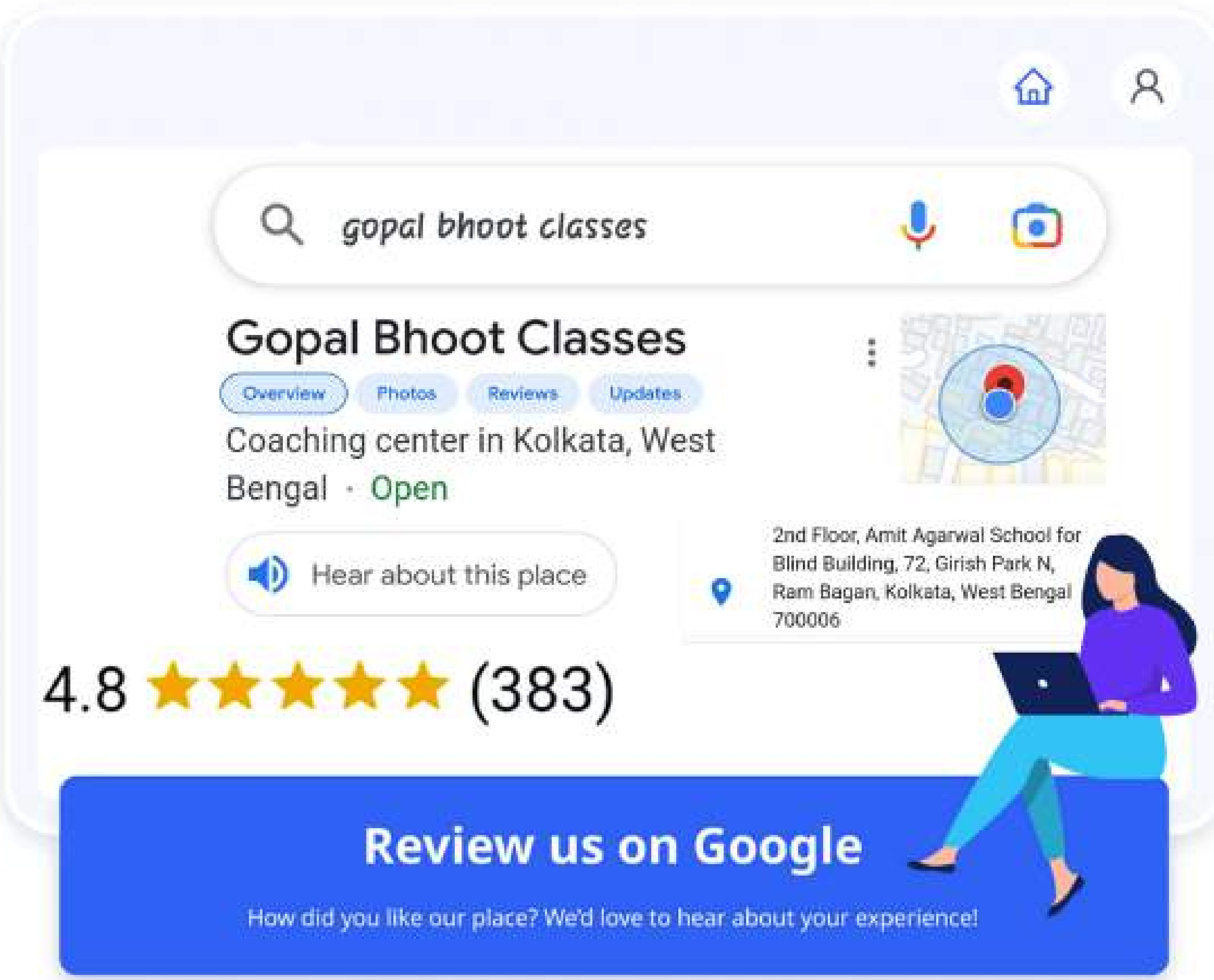
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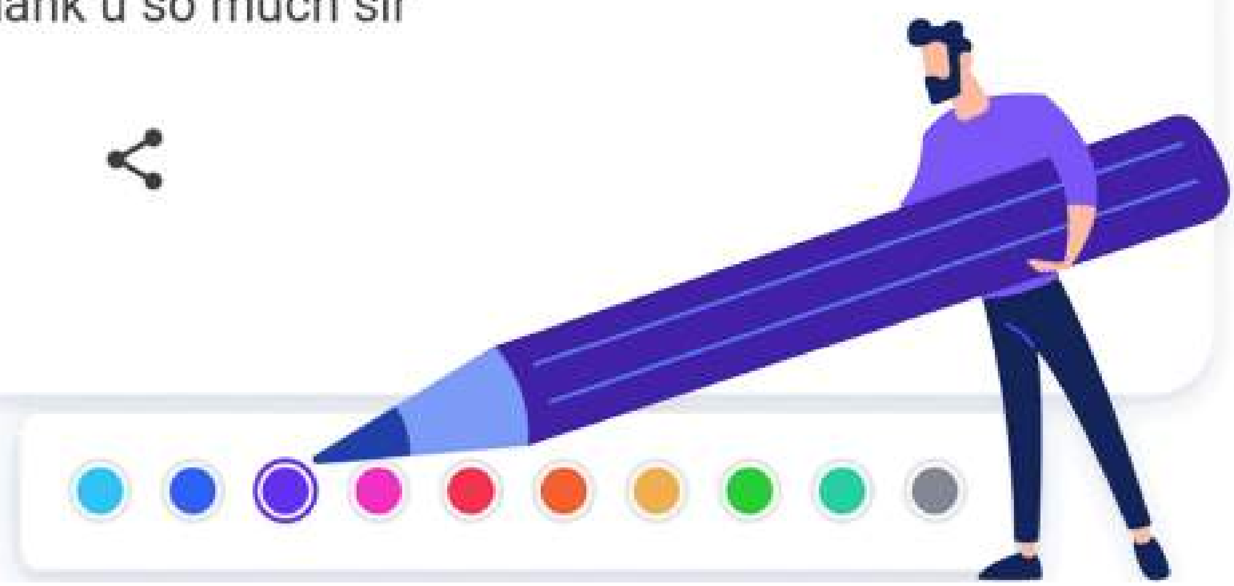

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