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OUR CA RANKERS
SHUBHAM JAIN 350
ANUSHA KEDIA 345
KHUSHI KUMARI 339
SWASTIKA CHETANI 337
RAGHAV MUNDRA 336
AKSHAT JAIN 336
PRITEE AGRAWAL 331
AMAN AGARWAL 327
KRISHNA AGARWAL 325
SAHELI MUKHERJEE 324
KESHAV JAIN 324
RAHUL RANJAN 324
ABHAY GUPTA 323
ANCHAL JAIN 323
JAY AGARWAL 322
SIDHI JAIN 322
KUSHAGRA JAIN 321
SUMIT AGARWAL 321
RIDHI JAIN 319
RASHMI AGARWAL 318
SRISHTI BINDAL 318
ROHIT JAIN 318
NAHAR AGARWAL 317
AKANSHA AGARWAL 315
ANKUR KUMAR 315
SIDDHANT KASHNIWAL 312
PRATHAM CHAUDHARY 310
HARSH KEDIA 310
RAHUL JAIN 308
RITIK JAIN 308
AAYESHA AGARAWAL 307
RAUNAK BAGARIA 306
HONEY SHROFF 306
PRIYAL KEDIA 306
TANYA AGARWAL 305
UMANG JAIN 303
KUSHI KAUR MAGO 303
SABAL KUMAR 302
AYUSH JALAN 301
RACHIT AGARWAL 301
AIR 1
ABHINAV PRAKASH MISHRA, IPCC May-2019
OUR CMA RANKERS
UMESH AGARWALA 348
AMISHA CHOUDHARY 346
LATA BAJAJ 346
SANGITA SHARMA 342
SHUBHAM YADAV 342
CHIRAG HAZRA 342
ANUP GOYAL 338
RISHAB AGARWALA 336
VARUN AGARWAL 334
LIKHIT AGARWALA 332
KHUSHI DALMIA 328
TITHI KHAWAS 322
SANWLI KUMARI 322
ASHUTOSH BAJAJ 322
SUBHASH CHANDRA 320
SATYAM KUMAR 320
SNEHA SHAW 318
Chandan Chaudhary 316
PRATIK KUMAR BHAWSINGHKA 316
SACHIN KUMAR ROY 316
ANKIT GUPTA 312
SATWIKA SRIVASTAVA 312
BARUN AGARWAL 312
PRIYAL KEDIA 312
PRIYANSHU PAWAN 310
UJJWAL KUMAR GUPTA 310
SANJEET BARNWAL 310
RIYA RAJAK 310
DEVRAT DALMIA 308
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PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) Accrual concept implies accounting on cash basis.

   (b) The Sales book is kept to record both cash and credit sales.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) Finished goods are normally valued at cost or market price whichever is higher.

   (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

   (h) Partners can share profits or losses in their capital ratio, when there is no agreement.

   (i) Receipts and Payments Account highlights total income and expenditure.

   (j) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

   (k) Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment.

Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.

   (b) Define revenue receipts and give examples. How are these receipts treated? Explain.

   (c) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) Prepare Journal Entries for the following transactions in the books of Gamma Bros.

   (i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

   (ii) Wages paid for erection of Machinery ₹ 8,000.

(iii) Income tax liability of proprietor ₹ 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment.

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Cash book

4. (a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2017			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	

28	Withdrew cash from Bank for Office use	2,000
30	Paid rent by cheque	800

Rectification of errors

(b) The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

Bank Reconciliation Statement

5. The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2017. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2017 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2017 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2017 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April, 2017.

(ix) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2017.

Inventories

6. Closing stock is valued by XYZ Stores on generally accepted accounting principles.

   Stock taking for the year ended 31st March, 2017 was completed by 10th April, 2017, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2017.

   You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2017.

Concept and Accounting of Depreciation

7. The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

   You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

Bill of exchange

8. Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

   On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

   Prepare Journal Entries in the books of Mr. A

Consignment

9. (a) Mr. A of Assam sent on 18th February, 2017 a consignment of 1,000 DVD players to B of Bengal costing ₹ 100 each. Expenses of ₹ 1,500 were met by the

consignor. B spent ₹ 3,000 for clearance and selling expenses were ₹ 20 per DVD player.

B sold on 15th March, 2017, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2017, 300 DVD players @ ₹ 170 each.

B is entitled to a commission of ₹ 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2017.

You are required to prepare the consignment account and B's account in the books of A.

Sales of goods on approval or return basis

(b) X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2017	M/s ABC Co.	10,000	No information till 31.12.2017
12.12.2017	M/s DEF Co	15,000	Returned on 16.12.2017
15.12.2017	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2017
20.12.2017	M/s DEF Co	16,000	Goods Retained on 24.12.2017
25.12.2017	M/s ABC Co	11,000	Good Retained on 28.12.2017
30.12.2017	M/s GHI Co	13,000	No information till 31.12.2017

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2017.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

Joint venture

10. (a) Mr. H and Mr. S entered into a joint venture to buy and sell Computer monitors on 1st August, 2017.

On 1.8.2017 H sent a draft for ₹ 5,00,000 in favour of S and on 5.8.2017 S purchased 250 Monitors at a cost of ₹ 4,000 each. The monitors were sent to Mr. H by Truck under 'freight to pay' for ₹ 8,000 and were cleared by him on 12.08.2017.

H effected sales in the following manner:

Date	Nos. of units	Sale price per unit (₹)	Discount on sales price
13.08.2017	50	4,700	400 per unit
30.09.2017	100	5,000	10%
30.10.2017	100	4,600	5%

On 15.11.2017, Mr. H settled the account by sending a draft in favour of Mr. S. Profits being shared equally. S does not maintain any books. You are required to prepare in H's books:

(i) Joint venture with Mr. S Account; and

(ii) Memorandum Joint Venture Account.

Royalty

(b) A grants a mine on lease to B on 31.3.13 a royalty of ₹ 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March, 2014	6,000 tonnes
2015	6,400 tonnes
2016	8,000 tonnes
2017	10,000 tonnes

The minimum rent is fixed at ₹ 14,000 and short-workings recoupment is allowable throughout the period of lease.

You are required to calculate the amount of royalty payable for the years ended 31st March, 2014, 2015, 2016 and 2017.

Average Due Date

11. (a) Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2017	2 months	4,000
10th March, 2017	3 months	3,000
5th April, 2017	2 months	2,000
23rd April, 2017	1 months	3,750
10th May, 2017	2 months	5,000

Account current

(b) Mr. A owed ₹ 4,000 on 1st January, 2016 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2016 Mr. X sold goods to Mr. A	2,230
29 January, 2016 Mr. X bought goods from Mr. A	1,200
10 February, 2016 Mr. A paid cash to Mr. X	1,000
13 March, 2016 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2016.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

Final accounts and Rectification of entries

12 The following are the balances as at 31st March, 2017 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	Interest paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.

3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2017 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017, and a Balance Sheet as on that date. Also show the rectification entries.

Partnership Accounts

Profit and Loss Appropriation Account

13. (a) A, B and C entered into partnership on 1.1.2017 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively.

Profits for the year ending 31.12.2017 before providing for interest on partners capital was ₹ 1,59,000.

You re required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

(b) J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2017 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Retirement of partner

14 On 31st March, 2017, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000

Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2017, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹10,000.

(iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.

(vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2017.

Financial statements of Not for Profit Organizations

15. Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2018 is given below:

	₹		₹
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31s, March, 2018 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for ₹ 40,000.

Issue of Shares

16. Pihu Limited issued at par 2,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 2,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Pal.

You are required to prepare journal entries to record these transactions.

Forfeiture of Shares

17. Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

    You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

18. Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

    (a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.

    (b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

    (c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

    You are required to prepare necessary journal entries Journal Entries.

Basic accounting Ratios

19. From the information given below, calculate (i) Current Ratio and (ii) Debt to Equity Ratio:

    Net Profit of the year ₹ 80,000, Fixed Assets ₹ 2,00,000; Closing Inventory ₹ 10,000; Other Current Assets ₹ 1,00,000; Current Liabilities ₹ 30,000; Share Capital ₹ 1,70,000; 12% Debenture ₹ 60,000.

Short Notes

20. Write short notes on the following:

    (i) Fundamental Accounting Assumptions.

    (ii) Objectives of preparing Trial Balance.

    (iii) Accounting conventions.

    (iv) Machine Hour Rate method of calculating depreciation.

    (v) Trade bill vs. Accommodation bill.

SUGGESTED ANSWERS/HINTS

1. (a) **False -** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) **False -** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

(e) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **False -** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(h) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(i) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

(j) **False** - Debenture interest is payable before the payment of any dividend on shares.

(k) **False -** Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

2. (a) (i) **Distinction between Money measurement concept and matching concept**

As per **Money Measurement 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.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

(c) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a) **Journal Entries in the books of Gamma Bros.**

	Particulars	*Dr.*	*Cr.*
		Amount (₹)	*Amount (₹)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of business money)		

(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)		

(b) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

4. (a) **Triple Column Cash Book**

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2017			₹	₹	₹	*2017*			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	***After Trial Balance***	***After Final Accounts***
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	***Entry Made Wrongly***
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	***After Trial Balance***	***After Final Accounts***
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. **Bank Reconciliation Statement on 31st March, 2017**

				₹
Bank Balance as per Cash Book				27,570
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
	(iii)	Debit balance of ₹2,156 brought forward as credit balance on 20th March, 2017 in the Cash Book	4,312	
	(vi)	Cheque issued returned marked 'out of date'	1,725	16,287
				43,857
Less:	(ii)	Cash Book under cast on 15th March, 2017	350	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	100	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	200	
	(vii)	Insurance Premium paid directly by bank under standing instructions	756	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	1,530	
	(ix)	Bank recorded short cash deposit	45	2,981
Balance as per Bank Statement				40,876

6. **Statement showing the valuation of stock as on 31st March, 2017**

		₹
A	Value of Stock as on 10th October, 2017	1,67,500
B	*Add:* Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	*Less*: Purchases for the next period (net)	8,100
D	*Less*: Cost of Sales Returns	225
E	*Less*: Loss on revaluation of slow moving inventories	600
F	*Less*: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2017	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. **Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

1. To find out loss on Profit on settlement of truck

	₹
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000

Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

8. Journal Entries in the Books of Mr. A

Date		*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	B Dr.		10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B Dr.		240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12× 12%=240)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/c Dr.		8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c Dr.		8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			

December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To B		8,000
		(Being the amount received and written off on B's insolvency)		

9. (a) **In the books of A**

Consignment Account

Dr.			*Amount*				*Cr.* *Amount*
2017			₹	*2017*			₹
Feb. 18	To	Goods sent on consignment account	1,00,000	March 15	By	B's account (Sales) (600 × ₹ 160)	96,000
Feb. 18	To	Cash/Bank account (Expenses)	1,500	May 20	By	B's account (Sales) (300 × ₹ 170)	51,000
Feb. 18	To	B's account (Clearance charges)	3,000	June 30	By	Consignment Stock (Working note 2)	10,450
June 30	To	B's account:					
		Selling expenses (900 × ₹ 20)	18,000				
		Commission (Working note 1)	24,900				
June 30	To	Profit and loss account (profit on consignment transferred)	10,050				
			1,57,450				1,57,450

B's Account

Dr.							*Cr.*
			Amount				*Amount*
2017			₹	*2017*			₹
March 15	To	Consignment account (Sales)	96,000	Feb 18	By	Consignment account (Clearance charges)	3,000
May 20	To	Consignment account (Sales)	51,000	June 30	By	Consignment account:	
						Selling expenses	18,000
						Commission	24,900
				June 30	By	Cash/Bank account	1,01,100
			1,47,000				1,47,000

Working Notes:

1. **Calculation of total commission:**

Let total commission be *x*

$$x = 900 \times ₹\ 25 + \frac{1}{4}[(₹\ 96,000 + ₹\ 51,000) - x - (900 \times ₹\ 125)]$$

$$x = ₹\ 22,500 + \frac{1}{4}[₹\ 1,47,000 - x - ₹\ 1,12,500]$$

$$x = ₹\ 22,500 + \frac{1}{4}[₹\ 34,500 - x]$$

$$4x + x = ₹\ 90,000 + ₹\ 34,500$$

$$5x = ₹\ 1,24,500$$

$$x = ₹\ 24,900$$

2. **Valuation of consignment stock:**

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹\ 1,500 \times 100)}{1,000}$	150
Proportionate expenses paid by B $\frac{(₹3,000 \times 100)}{1,000}$	300
	10,450

(b) **In the books of 'X'**

Goods on sales or return, sold and returned day book

Date 2017	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2017*	*Sold ₹*	*Returned ₹*
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2017		*Amount ₹*	2017		*Amount ₹*
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			
		77,000			77,000

10. (a) **In the books of H**

Joint Venture with Mr. S Account

Dr. *Cr.*

Date			*Amount ₹*	*Date*			*Amount ₹*
01.08.17	To	Bank account	5,00,000	13.08.17	By	Bank account (sale proceeds)	2,15,000
12.08.17	To	Bank account (Freight)	8,000	30.09.17	By	Bank account (sale proceeds)	4,50,000
15.11.17	To	Profit and loss account (share of profit)	47,000	30.10.17	By	Bank account (sale proceeds)	4,37,000
15.11.17	To	Bank account (draft sent in settlement)	5,47,000				
			11,02,000				11,02,000

Memorandum Joint Venture Account

Dr.						Cr.
		₹	₹			₹
To	S (250 × ₹ 4,000)		10,00,000	By	H - Sales (net):	
To	H (Freight)		8,000		50 monitors @ ₹ 4,300	2,15,000
To	Profit:				100 monitors @ ₹ 4,500	4,50,000
	H	47,000			100 monitors @ ₹ 4,370	4,37,000
	S	47,000	94,000			
			11,02,000			11,02,000

(b) Statement showing amount of royalty payable

Date	*Output (in tones)*	*Royalty @ ₹ 2 per tone*	*Minimum Rent*	*Short-workings allowable*	*Short-workings recouped*	*Amount payable*
2014	6,000	12,000	14,000	2,000		14,000
2015	6,400	12,800	14,000	1200		14,000
2016	8,000	16,000	14,000		2,000	14,000
2017	10,000	20,000	14,000		1200	18,800

11. (a) Calculation of Average Due Date

(Taking 4th May, 2017 as the base date)

Date of bill	*Term*	*Due date*	*Amount ₹*	*No. of days from the base date i.e. May 4, 2017*	*Product ₹*
2017		2017			
1st March	2 months	4th May	4,000	0	0
10th March	3 months	13th June	3,000	40	1,20,000
5th April	2 months	8th June	2,000	35	70,000
23rd April	1 month	26th May	3,750	22	82,500
10th May	2 months	13th July	5,000	70	3,50,000
			17,750		6,22,500

Average due date=Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$$= 4^{th} \text{ May, 2017} + \frac{₹\ 6{,}22{,}500}{17{,}750} = 4^{th} \text{ May, 2017} + 35 \text{ days} = 8^{th} \text{ June, 2017}$$

(b) Mr. A in Account Current with Mr. X

(Interest upto 15th March, 2016 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2016						*2016*					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{₹4{,}02{,}600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

12. Rectification Entries

	Particulars		*Dr.*	*Cr.*
			Amount	*Amount*
			₹	*₹*
(i)	Returns inward account	Dr.	2,575	
	Sales account	Dr.	1,725	
	To Purchases account			2,575
	To Returns outward account			1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	3,500	
	To Purchases account			3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	450	

	To Wages account			450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			
(iv)	Advertisement expenses account	Dr.	825	
	To Purchases account			825
	(Being free samples distributed for publicity out of purchases, now rectified)			

Trading and Profit and Loss Account of Mr. XYZ

for the year ended 31st March, 2017

Dr. *Cr.*

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			*Less*: Sales return	2,575	2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock		
To	Carriage inward		1,125		$\left(₹\,80,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		1,25,000
To	Wages		11,715				
To	Gross profit c/d		1,39,535				
			3,36,000				3,36,000
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of ₹ 1,20,000 6,000						
	Less: Existing provision 3,200		2,800				
To	Provision for discount on						

	debtors					
	2.5% of ₹ 1,14,000 2,850					
	Less: Existing provision 1,375	1,475				
To	Depreciation:					
	Plant and machinery 3,000					
	Furniture and fittings 1,025	4,025				
To	Office expenses	10,160				
To	Interest on loan	3,000				
To	Net profit					
	(Transferred to capital account)					
		83,800				
		1,39,985				1,39,985

Balance Sheet of Mr. XYZ as on 31st March, 2017

		Amount			Amount
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		*Less*: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less: Drawings	11,500	1,37,300	*Less*: Depreciation	1,025	9,225
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	*Less*: Provision for doubtful debts	6,000	
			Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			2,67,250

13. (a) Profit and Loss Appropriation Account

for the year ended 31st December, 2017

Dr. *Cr.*

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000

	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	<u>8,000</u>	34,000			
To	Partners' capital accounts:					
	[profit (₹ 1,59,000 – ₹ 34,000) transferred]					
	A $\left(\frac{5}{10} \text{ of ₹ } 1{,}25{,}000\right)$	62,500				
	Less: Transferred to C	<u>5,000</u>	57,500			
	B $\left(\frac{3}{10} \text{ of ₹ } 1{,}25{,}000\right)$		37,500			
	C $\left(\frac{2}{10} \text{ of ₹ } 1{,}25{,}000\right)$	25,000				
	Add: Transferred from A	<u>5,000</u>	<u>30,000</u>			
			<u>1,59,000</u>			<u>1,59,000</u>

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 1{,}50{,}000 \times 100}{20} = ₹\ 7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

14. (a) **Revaluation Account**

Date		Particulars	₹	Date		Particulars	₹
2017				2017			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred)					
		Mr. P (2/7) 2,000					
		Mr. Q (3/7) 3,000					
		Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(b) **Partners' Capital Accounts**

Dr.										Cr.
Particulars		*P* (₹)	*Q* (₹)	*R* (₹)	*Particulars*		*P* (₹)	*Q* (₹)	*R* (₹)
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(c) Cash and Bank Account

Particulars		₹	Particulars		₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c – surrender value of joint life policy	7,550	By	Balance b/d	20,550
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2017

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

15. **Smith Library Society**

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

Dr.					Cr.
Expenditure	₹	₹	*Income*		₹
To Electric charges		7,200	By Entrance fee (25% of ₹ 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000			10,000	1,90,000
Add: Outstanding	4,000	92,000	*Less*: Received in advance		
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities	8,000	
Furniture	5,000		(W.N.2)		
Books	46,000	66,000	*Add*: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Balance Sheet of Smith Library Society
as on 31st March, 2018

Liabilities	₹	₹	*Asset*	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		*Less*: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	(16,700)	7,98,800	*Less*: Depreciation	(5,000)	45,000
			Books	4,60,000	
Outstanding expenses:			*Less* Depreciation	(46,000)	4,14,000
Rent	4,000		Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in			Accrued interest	500	1,90,500
			Cash at bank		20,000

advance		10,000			
			Cash in hand		11,300
		8,15,800			8,15,800

Working Notes:

1. Depreciation

	₹	
Electrical fittings 10% of ₹ 1,50,000	15,000	
Furniture 10% of ₹ 50,000	5,000	
Books 10% of ₹ 4,60,000	46,000	

2. Interest on Securities

Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500	
Interest @ 5% p.a. on ₹ 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

16. **Book of Pihu Limited**

Journal

Date	*Particulars*		*L.F.*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Bank A/c	Dr.		5,00,000	
	To Equity Share Application A/c				5,00,000
	(Money received on applications for 2,00,000 shares @₹ 2.50 per share)				
	Equity Share Application A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share)				
	Bank A/c	Dr.		6,00,000	
	To Equity Share Allotment A/c				6,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being first call made due on 2,00,000				

	shares at ₹.2 per share))				
	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c	Dr.		4,50,000	 4,00,000 50,000
	(Being first call money received along with calls in advance on 20,000 shares at ₹2.50 per share)				
	Equity Share Final Call A/c To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹2.50 each)	Dr.		5,00,000	 5,00,000
	Bank A/c Calls in Advance /C Calls in Arrears A/c (Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)	Dr. Dr. Dr.		4,45,000 50,000 5,000	 5,00,000
	Interest on Calls in Advance A/c To shareholders A/c Being interest made due on calls in advance of ₹50,000 at the rate of 12% p.a.)	Dr.		1,500	 1,500
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		1,500	 1,500
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		83.34	 83.34
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.		5,083.34	 5,000 83.34

17. In the books of Company

Journal

Particulars		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

18. In the books of Riya Company Ltd.

Journal Entries

Date	***Particulars***		***Dr.*** ₹	***Cr.*** ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000

	(Being the application money received on 10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c Discount on issue of Debentures A/c To 14% Debentures A/c (Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)	Dr. Dr.	45,00,000 5,00,000	 50,00,000
(b)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	20,00,000	 20,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 14% Debentures A/c (Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)	Dr. Dr.	20,00,000 5,00,000	 25,00,000
(c)	Bank A/c To Bank Loan A/c (See Note) (Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)	Dr.	20,00,000	 20,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

19. (i) Current Ratio = $\dfrac{\text{Current Assets}}{\text{Current Liabilities}} = \dfrac{₹\,1,10,000}{₹\,30,000} = 11:3 \text{ or } 3.67:1$

Current Assets= Closing Inventory + Other Current Assets

= ₹ 10,000 + ₹ 1,00,000 = ₹ 1,10,000

(ii) Debt to Equity Ratio $= \dfrac{\text{Long term Debt}}{\text{Sharholders' Equity}}$

$$= \frac{\textit{Debentures}}{\textit{Share}\ \text{Capital} + \text{Profit}}$$

$$= \frac{₹\ 60,000}{₹\ 2,50,000} = 0.24:1$$

20. (i) **Fundamental Accounting Assumptions**: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.

3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) **Objectives of preparing Trial Balance**

The preparation of trial balance has the following objectives:

1 *Checking of the arithmetical accuracy of the accounting entries:* Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. *Basis for preparation of financial statements:* Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. *Summarized ledger:* Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The

position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours $\times$ ₹ 20 = ₹ 40,000.

(v) **Distinction between Trade bill and Accommodation bill**

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

QUESTIONS

True and false

1. State with reasons, whether the following statements are true or false:

   (i) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

   (ii) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

   (iii) Consignment account is of the nature of real account.

   (iv) The balance in petty cash book represents an asset.

   (v) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

   (vi) In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

   (vii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   (viii) Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.

Theoretical Framework

2. (a) State the advantages of setting Accounting Standards.

   (b) Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) Pass a journal entry in each of the following cases.

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or revenue expenditure

   (b) Classify each of the following transactions into capital or revenue transactions:

   -- Complete repaint of existing building.

-- Installation of a new central heating system.

-- Repainting of a delivery van.

-- Providing drainage for a new piece of water-extraction equipment.

-- Legal fees on the acquisition of land.

-- Carriage costs on a replacement part for a piece of machinery.

Cash book

4. (a) Prepare a Triple Column Cash Book for the month of April 2018 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	4,500
1	Cash at bank	18,000
2	Paid into bank	1,500
5	Bought furniture and issued cheque	2,250
8	Purchased goods for cash	750
12	Received cash from Mr. K	1,470
	Discount allowed to him	30
14	Cash sales	7,500
16	Paid to Mr. P by cheque	2,175
	Discount received	75
19	Paid into Bank	750
23	Withdrawn from Bank for Private expenses	900
24	Received cheque from Mr. B	2,145
	Allowed him discount	30
26	Deposited Mr. B's cheque into Bank	
28	Withdrew cash from Bank for Office use	3,000
30	Paid rent by cheque	1,200

Classification of errors

(b) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth ₹ 4,500 from M not recored in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2018:

(i) Balance as per Pass Book is ₹ 10,000.

(ii) Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

(iii) Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.

(iv) Withdrawal column of the Pass Book undercast by ₹ 100.

(v) The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

(vi) The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Hari (another customer of the bank).

Inventories

6. Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

(i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was ₹ 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.

(b) The total of a page had been undercast by ₹ 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.

(iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled ₹ 4,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018.

Concept and accounting of Depreciation

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2015.

On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

Bill of exchange

8. Prepare Journal entries for the following transactions in K. Katrak's books.

(i) Katrak's acceptance to Basu for ₹ 2,500 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 50 for interest.

(ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹ 20 noting charges. Bill withdrawn against cheque.

(iii) D. Dalal retires a bill for ₹ 2,000 drawn on him by Katrak for ₹ 10 discount.

(iv) Katrak's acceptance to Patel for ₹ 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.

Consignment

9. (a) On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000. The direct expenses of the consignor amounted to ₹ 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of ₹ 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. Mr. Jack's direct expenses were ₹ 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for ₹ 1,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill.

Joint venture

10. (a) A and B, who are sharebrokers are to enter into Joint Venture to underwrite 5,00,000 equity shares of ₹ 10 each of X Ltd. who agrees to allot as fully paid 4,000 shares in the company in consideration of the underwriting arrangement. In connection with the venture, the following expenses are incurred by:

A : Printing and Stationery (₹ 5,000); Postage (₹ 1,000); Advertisement (₹ 3,000)

B : Postage (₹ 750); Solicitor's (₹ 3,500); Entertainment expenses (₹ 4,000)

The public subscription was for ₹ 4,80,000 shares only and the underwriters had to take up the balance shares. Therefore, they approached the Bank, which on the security of the shares, advanced the required sum on 1st July, @ 15% simple interest p.a. The underwriters paid for the shares on the same day and were also allotted the 4,000 shares by X Ltd. The underwriters through the Bank sold their total holding in the market in two equal lots and realized 90% of the face value of the first lot on 30th September and 85% for the second lot on 31st October. The sale proceeds were used first to discharge the principal value. However, interest was paid at the time of final settlement. Shares transfer fees of ₹ 1,000 was met from the Joint Venture Bank Account.

You are required to prepare a Memorandum Joint Venture Account, the account of A as appearing in B's Books and the account of B as appearing in A's Books and also the settlement of account between the parties.

Royalty

(b) Kumar grants a mine on lease to Hello on 31.3.14 a royalty of ₹ 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March, 2015	7,500 tonnes
2016	8,000 tonnes
2017	10,000 tonnes
2018	12,500 tonnes

The minimum rent is fixed at ₹ 17,500 and short-workings recoupment is allowable throughout the period of lease. You are required to calculate the amount of royalty payable for the years ended 31stMarch, 2015, 2016, 2017 and 2018.

Average Due Date

11. (a) Mehnaaz accepted the following bills drawn by Shehnaaz.

On 8th March, 2018 ₹ 4,000 for 4 months.

On 16th March, 2018 ₹ 5,000 for 3 months.

On 7th April, 2018 ₹ 6,000 for 5 months.

On 17th May, 2018 ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to save ₹ 157 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 157.

Account current

(b) From the following particulars prepare an Account Current to be rendered by A to B at 31st December, reckoning interest @ 10% p.a.

2017		₹	2017		₹
July 1	Balance owing from B	600	Sept. 01	B accepted A's Bill at 3 months date	250
July 17	Goods sold to B	50	Oct.22	Goods bought from B	30
Aug. 1	Cash received from B	650	Nov. 12	Goods sold to B	20
Aug. 19	Goods sold to B	700	Dec. 14	Cash received from B	80
Aug. 30	Goods sold to B	40			
Sept. 1	Cash received from B	350			

Final accounts and Rectification of entries

12. The following is the trial balance of Hari as at 31st December, 2017:

	Dr.	*Cr.*
	₹	₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000

Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	
	5,11,330	5,11,330

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 3,000 due from Ram and included among the creditors ₹ 1,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Hari amounting to ₹ 600 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 400 had been omitted from the books.

(8) Stock on 31.12.2017 was ₹ 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017.

Partnership: Calculation of goodwill

13. Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2017 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2017 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Partnership: Admission and Retirement

14 Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2018 is as under:

Liabilities		**₹**	**Assets**	**₹**
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

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

Required:

Prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2018.

Financial statements of Not for Profit Organizations

15. The following information of M/s. TT Club are related for the year ended 31st March, 2018:

(1)

Balances	As on 01-04-2017 (₹)	As on 31-3-2018 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

Issue of Shares

16. On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:

₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

Forfeiture of Shares

17. Mr. P who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at ₹ 60 per share paid-up as ₹ 70 per share.

    You are required to prepare the Journal Entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

18. A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

    You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

Basic accounting Ratios

19. Working capital of a company is ₹ 6,00,000. Its Current Ratio is 2.5:1. You are required to calculate value of (i) Current Liabilities, (ii) Current Assets, and (iii) Liquid Ratio/Quick Ratio/Acid Test Ratio, assuming inventories of ₹ 4,00,000.

Short Notes

20. Write short notes on any three of the following:

    (i) Double entry system.

    (ii) Importance of bank reconciliation to an industrial unit.

    (iii) Bill of exchange and the various parties to it.

    (iv) Joint venture account.

    (v) Journal.

SUGGESTED ANSWERS/HINTS

1. (i) *False*: Net income is determined by preparing income and expenditure in case of persons practicing vacation.

   (ii) *True*: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

   (iii) *False*: Consignment account is a nominal-cum-personal account.

   (iv) *True*: The balance represents the cash physically in existence and is therefore an asset.

   (v) *True*: Because it depicts that one aspect of the double entry has been completed.

   (vi) *True*: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

   (vii) *True*: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

   (viii) *True*: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.

2. (a) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

   (b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

   On the other hand, mercantile system of accounting is a system of classifying and summarizing trandsactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

   Mercantile system of accounting is generally accepted accounting system by business entities

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by mohan by taking over a running business).

(ii)

Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000

(iii)

Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	
To Rahim			₹ 600

(b) Complete repaint: revenue.

-- Installation of new heating system: capital.

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Legal fees on acquisition of land: capital

-- Carriage costs on replacement part: revenue.

4. (a) Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2017			₹	₹	₹	2017			₹	₹	₹
April 1	To	Balance b/d		4,500	18,000	April 2	By	Bank (C)		1,500	
April 2	To	Cash (C)			1,500	April 5	By	Furniture A/c			2,250
April 12	To	Mr. K	30	1,470		April 8	By	Purchase A/c		750	
April 14	To	Sales A/c		7,500		April 16	By	Mr. P	75		2,175
April 19	To	Cash (C)			750	April 19	By	Bank (C)		750	
April 24	To	Mr.B (Note 2)	30	2,145		April 23	By	Drawings A/c			900
April 26	To	Cash (C)			2,145	April 26	By	Bank (C)		2,145	

April 28	To	Bank (C)		3,000		April 28	By	Cash (C)			3,000
						April 30	By	Rent A/c			1,200
			—	___	___	April 30	By	Balance c/d	___	13,470	12,870
			60	18,615	22,395				75	18,615	22,395
May 1	To	Balance b/d		13,470	12,870						

Note:

(1) Discount allowed and discount received ₹ 60 and ₹ 75 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

5. Bank Reconciliation Statement as at 31.03.2018

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

6. Valuation of Physical Stock as at March 31, 2018

		₹
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		

			₹	₹
	₹ (70,000 – 3,000 + 4,000)		71,000	
(3)	Cost of sales return ₹ (1,000 – 200)		800	72,000
				1,52,000
Less:(1)	Overcasting of a page total ₹ (6,000 – 5,000)		1,000	
(2)	Goods sold and dispatched during January – March, 2018			
	₹ (90,000 – 5,000 + 4,000)	89,000		
	Less: Profit margin $\left(89{,}000 \times \frac{25}{125}\right)$	17,800	71,200	72,200
Value of stock as on 31st March, 2018				79,800

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 4,000 goods delivered in March 2018 for which invoice was received in April, 2018, would be treated as purchases of the accounting year 2017-2018 and thus excluded. Similarly, goods dispatched in March, 2018 but invoiced in April, 2018 would be excluded and treated as sale of the year 2017-2018.

7. In the books of M/s. Green Channel Co.

Machinery Account

		₹			₹
1.1.2015	To Bank A/c	1,60,000	31.12.2015	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)		31.12.2015	By Balance c/d	2,56,000
1.7.2015	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	
		2,80,000			2,80,000
1.1.2016	To Balance b/d	2,56,000	31.12.2016	By Depreciation A/c	28,000
				(₹ 20,000 + ₹ 8,000)	
			31.12.2016	By Balance c/d	2,28,000
				(₹ 1,60,000 + ₹ 68,000)	
		2,56,000			2,56,000
1.1.2017	To Balance b/d	2,28,000	1.7.2017	By Bank A/c	1,00,000
30.9.2017	To Bank A/c	30,000		By Profit and Loss A/c	50,000
				(Loss on Sale – W.N. 1)	
			31.12.2017	By Depreciation A/c	18,750
				(₹ 10,000 + ₹ 8,000 + ₹ 750)	
				By Balance c/d	89,250

				(₹ 60,000 + ₹ 29,250)	
		2,58,000			2,58,000
1.1.2018	To Balance b/d	89,250	31.12.2018	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	*Machine II*	*Machine III*
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **Books of K. Katrak**

Journal Entries

			Dr. ₹	Cr. ₹
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of ₹ 1,000 and a new bill for ₹1,550 including ₹ 50 as interest)			

(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to M. Mehta dishonoured, ₹ 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

9.

In the books of Mr. Jill

Consignment Account

Date		***Particulars***	***₹***	***Date***		***Particulars***	***₹***
2018				**2018**			
Jan. 1	To	Goods sent on Consignment A/c (Invoice price)	1,50,000	Jan. 1	By	Goods sent on Consignment A/c (Loading) ₹ (1,50,000 – 1,00,000)	50,000
	To	Bank A/c – Consignor's Expenses	10,000	Mar.31	By	Jack – Sales	1,20,000
					By	Stock on Consignment A/c	
Mar.31	To	Jack – Expenses	3,000			1/5×₹(1,50,000+10,000+3,000)	32,600
		– Commission* (0.05 × ₹ 1,20,000)	6,000				
Mar.31	To	Stock Reserve A/c (₹ 50,000 × 1/5)	10,000				

	To	Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600				
			2,02,600				2,02,600

*Invoice price of goods sold: = 4/5 of ₹ 1,50,000 = ₹ 1,20,000.

The goods were sold for ₹ 1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Jack.

Jack's Account

	Particulars	₹		Particulars	₹	₹
To	Consignment A/c – Sales	1,20,000	By	Consignment A/c:		
				Expenses	3,000	
				Commission	6,000	9,000
			By	Bills Receivable A/c		1,00,000
			By	Bank A/c (Balancing figure)		11,000
		1,20,000				1,20,000

10. (a) Memorandum Joint Venture Account

		₹			₹	₹
To	A (Expenses):		By	Bank A/c:		
	Printing and Stationery	5,000.00		(Sale proceeds of shares):		
	Postage	1,000.00		September 30	1,08,000	
	Advertisement	3,000.00		October 31	1,02,000	2,10,000.00
To	B (Expenses):		By	Loss transferred to:		
	Postage	750.00		A		8,450.00
	Solicitor's fees	3,500.00		B		8,450.00
	Entertainment	4,000.00				
To	Bank A/c (Loan for purchase)	2,00,000.00				
To	Bank A/c (Interest on Bank loan)	8,650.00				
To	Bank A/c					

	(Shares transfer fees)	1,000.00				________
		2,26,900.00				2,26,900.00

Working Notes:

			₹
(i)	Sale proceeds: On 30th September 12,000 shares at ₹ 9 per share		1,08,000
	On 31st October 12,000 shares at ₹ 8.50 per share		1,02,000
			2,10,000
	Total liability: (5,00,000- 4,80,000 +4,000) = 24,000		
	Two equal lot = 24,000/2= 12,000 each		
(ii)	Interest on Bank Loan:		
	On ₹ 2,00,000 for 3 months @ 15% p.a.		7,500
	On ₹ 92,000 (i.e. ₹ 2,00,000 – ₹ 1,08,000) for 1 month @ 15% p.a.		1,150
			8,650
(iii)	Joint Venture Bank Account		
	Sale proceeds of shares		2,10,000
	Less: Loan	2,00,000	
	Interest and Shares transfer fee	9,650	2,09,650
	Balance given to A		350

Joint Venture with B Account in the Books of A

Dr. *Cr.*

	Particulars	₹		*Particulars*	₹
To	Bank A/c (Expenses)	9,000	By	Profit and Loss (Share of loss)	8,450
			By	Joint Venture Bank A/c	350
			By	Bank A/c (Balance received from B)	200
		9,000			9,000

Joint Venture with A Account in the Books of B

Dr. *Cr.*

	Particulars	₹		Particulars	₹
To	Bank A/c (Expenses)	8,250	By	Profit and Loss (Share of loss)	8,450
To	Bank A/c (Balance paid to A)	200			
		8,450			8,450

(b) **Statement showing amount of royalty payable**

Date	Output (in tones)	Royalty @ ₹ 2 per tone	Minimum Rent	Short-workings allowable	Short-workings recouped	Amount payable
2015	7,500	15,000	17,500	2,500		17,500
2016	8,000	16,000	17,500	1,500		17,500
2017	10,000	20,000	17,500		2,500	17,500
2018	12,500	25,000	17,500		1,500	23,500

11. (a) **Taking 19.6.2018 as a Base date**

Transaction Date	Due Date	Amount	Amount	
8.3.2018	11.7.2018	4,000	22	88,000
16.3.2018	19.6.2018	5,000	0	0
7.4.2018	10.9.2018	6,000	83	4,98,000
17.5.2018	20.8.2018	5,000	62	3,10,000
		20,000		8,96,000

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2018 + ₹ 8,96,000/₹20,000

= 19.6.2018 + 44.8 days (or 45 days approximately)

= 3.8.2018

Mehnaaz wants to save interest of ₹ 157. The yearly interest is ₹ 20,000 × 18%

= ₹ 3,600.

Assume that days corresponding to interest of ₹ 157 are Y.

Then, 3,600 × Y/365 = ₹ 157

or Y = 157 × 365/3,600 = 15.9 days or 16 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 157 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2018 (3.8.2018 – 16 days).

(b) **B in Account Current with A**
(Interest from Due Date to Dec.31, 2017 @ 10% p.a.)

Dr. *Cr.*

Date		*Particulars*	*Due Date*	*Amount (₹)*	*Days*	*Product*	*Date*		*Particulars*	*Due Date*	*Amount (₹)*	*Days*	*Product*
July 1	To	Balance b/d	July 1	600	184	1,10,400	Aug. 1	By	Cash A/c	Aug. 1	650	152	98,800
July 17	To	Sales A/c	July 17	50	167	8,350	Sept. 1	By	Cash A/c	Sept. 1	350	121	42,350
Aug. 19	To	Sales A/c	Aug 19	700	134	93,800	Sept. 1	By	Bills Receivable A/c	Dec. 4	250	27	6,750
Aug.30	To	Sales A/c	Aug. 30	40	123	4,920	Oct. 22	By	Purchases A/c	Oct. 22	30	70	2,100
Nov.12	To	Sales A/c	Nov. 12	20	49	980	Dec. 14	By	Cash A/c	Dec. 14	80	17	1,360
Dec.31	To	Interest A/c ₹ (67,090 × 0.1 / 365)		18.38			Dec. 31	By	Balance c/d		68.38		67,090
				1428.38		2,18,450					1428.38		2,18,450

12. **Trading and Profit and Loss Account of Mr. Hari**
for the year ended 31st December, 2017

	₹	₹		₹	₹
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		*Less:* Returns	8,600	3,81,000
Add: Omitted invoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	5,800				
	3,16,300				
Less: Drawings	600	3,15,700			
To Carriage		19,600			
To Gross profit c/d		77,500			
		4,59,600			4,59,600

To Rent and taxes		4,700	By Gross profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and stationary	14,400				
Less: Prepaid (1/4)	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			
To Postage & telegram expenses		2,330			
To Travelling expenses		870			
To Provision for bad debts [W.N.(ii)]		1,150			
To Provision for discount on debtors [W.N.(iii)]		437			
To Depreciation on furniture & fittings		500			
To Net profit		34,503			
		81,940			81,940

Balance Sheet of Hari as at 31st December, 2017

Liabilities	₹	₹	*Assets*	₹	₹
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		*Less:* Depreciation	500	4,500
	1,11,193		Sundry debtors (W.N.1)	23,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 30,000			& doubtful debts (W.N.2)	1,150	
Goods 600	30,600	80,593		21,850	
Bank loan		20,000	*Less:* Provision for		
Bank interest due		1,700	discount (W.N.2)	437	21,413
Sundry creditors (W.N.3)		14,200	Stock		78,600
			Prepaid expenses:		
			Printing & stationary		3,600

		Bank balance	8,000
		Cash balance	380
	1,16,493		1,16,493

Working Notes:

(1) Sundry debtors

Balance as per trial balance	24,000
Less: Due to Ram	1,000
	23,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 23,000	1,150

Provision for discount:

2% on ₹ 21,850 (23,000 -1,150)	437

(3) Sundry creditors

Balance as per trial balance	14,800
Less: Set off in respect of Ram	1,000
	13,800
Add: Purchase invoice omitted	400
	14,200

13.

Valuation of Goodwill:		₹
(1)	*Average Capital Employed*	
	Total Assets *less* Trade payables as on 31.12.2017	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2017	(1,00,000)
		6,00,000
(2)	*Super Profit :*	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	*Value of Goodwill*	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

14. **Revaluation Account**

	₹		₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P 30,400	
		Q 18,240	
		R 12,160	60,800
	63,800		63,800

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	₹		₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of NEHA Co.

as at 1st April, 2018

Liabilities	₹	*Assets*	₹
Capital Accounts:		Land	10,000
P 80,000		Buildings	1,90,000
Q 80,000		Plant and Machinery	1,04,000

R 40,000	2,00,000	Furniture	43,000
Long Term Debts	3,00,000	Inventories	1,30,000
Trade payables	1,70,000	Trade receivables 1,39,000	
Q's Loan Account	22,760	*Less:* Provision for Doubtful Debts (27,800)	1,11,200
		Balance at Bank	1,04,560
	6,92,760		6,92,760

15. Subscription for the year ended 31.3.2018

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	₹	*Assets*	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

16. Pehal Ltd.

Journal

2017			*Dr.* ₹	*Cr.* ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000

	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

17. **Journal entries**

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹ 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x ₹ 20)			50,000
To Preference Share First Call A/c (2,500 x ₹ 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (2,000 x ₹60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x ₹10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 75,000/2500 = ₹ 30

Loss on re-issue =₹ 70 – ₹ 60 = ₹ 10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 2000 = ₹ 40,000.

18. In the books of A Limited

Date	Particulars		₹ '000	₹ '000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)			

19. Current Ratio = 2.5 : 1 (Given)

Let Current Liabilities = x

Then, Current Assets= 2.5 x

Working Capital = Current Assets - Current Liabilities

₹ 6,00,000 = 2.5x = x

₹ 6,00,000 = 1.5x

Therefore,

(i) Current Liabilities (x) = $\frac{Rs.6,00,000}{1.5}$ = ₹ 4,00,000

(ii) Current Assets = ₹ 4,00,000 x 2.5 = ₹ 10,00,000

(iii) Liquid Ratio/Acid Test Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹\,6,00,000}{4,00,000} = 1.5:1$

Quick Assets = Current Assets – Inventories

= ₹ 10,00,000 – ₹ 4,00,000 = ₹ 6,00,000

20. (i) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(iv) A joint venture account is a nominal account prepared by the co-venturers involved in the joint ventures. The objective of preparing a joint venture account is to ascertain the profit or loss arising out of the joint venture business. The joint venture account is debited with the value of goods or stores bought or used on account of joint venture. It is also debited with expenses incurred. The credit will be to the trading account or cash account or to the party which has supplied the goods or incurred the expenses. When the sale proceeds are received, the party receiving it will debit bank account (or sundry debtors) and credit the joint venture account. The other party will debit the party which has received the sale proceeds and credit the joint venture account.

Thus, joint venture account will reflect profit or loss, which must be transferred to the profit and loss account and the other party's account in agreed proportions.

(v) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

QUESTIONS

True and false

1. State with reasons, whether the following statements are true or false:

   (i) The results and position disclosed by final accounts are not exact.

   (ii) The rationale behind the opening of a suspense account is to tally the trial balance.

   (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (iv) Accounting can be viewed as an information system which has its input processing methods and output.

   (v) The value of human resources is generally shown as assets in the Balance Sheet.

   (vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (vii) The debit notes issued are used to prepare Sales Return Book.

   (viii) In Account Current, Red Ink Interest is treated as negative interest.

   (ix) A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

Theoretical Framework

2. (a) Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.

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

Journal Entries

3. (a) M/s Suman & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

   (i) A purchase of ₹ 5,600 from M/s Minu & Co. was recorded in the accounts of M/s Mintu & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.

   (ii) A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.

   (iii) Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of of ₹ 90 to M/s Bantu Bros. has been omitted.

(iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Capital or revenue expenditure

(b) Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire.

Cash book

4. (a) From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	*Debit Note No.*	*Particulars*
04.01.2018	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2018		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2018	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2018		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Rectification of errors

(b) Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹10,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹15,000 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of ₹20,000 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹2,000;

(4) Bad Debts aggregating ₹45,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2018 amounting to ₹25,000 was not posted.

Bank Reconciliation Statement

5. On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examination of the two records showed the following errors:

   (i) The debit side of the Cash Book was undercast by ₹ 400.

   (ii) A cheque for ₹ 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.

   (iii) A cheque for ₹ 172 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 127 but was shown correctly in the Bank Statement.

   (iv) A cheque for ₹ 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

   (v) The Bank had debited a cheque for ₹ 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr. Kar's Account.

   (vi) A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.

   (vii) Cheques totalling ₹ 1,300 drawn on November was not presented for payment.

   (viii) Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.

   (ix) Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

   You are required to prepare a Bank Reconciliation Statement on 30th November, 2018.

Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2018.

   (i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

   (ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

   (iii) Sales Return ₹ 1,000.

   (iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2018.

Concept and Accounting of Depreciation

7. A lease is purchased on 1st April, 2014 for 4 years at a cost of ₹ 2,00,000. It is proposed to depreciate the lease by the annuity method charging 5 percent interest. A reference to the annuity table shows that to depreciate ₹ 1 by annuity method over 4 years charging 5% interest, one must write off a sum of ₹ 0.282012 [To write off ₹ 2,00,000 one has to write off every year ₹ 5,6402.40 i.e. 0.282012 × 2,00,000].

You are required to show the Lease Account for four years (2014-15 to 2017-18) and also the relevant entries posted to the profit and loss account.

Bill of Exchange

8. Rita owed ₹1,00,000 to Siriman. On 1st October, 2018, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2018. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman.

Consignment

9. (a) Mr. Green of New Delhi purchased, 10,000 pieces of sarees at ₹ 100 per saree. Out of these 6,000 sarees were sent on consignment to Mr. White of Calcutta at the selling price of ₹ 120 per saree. The consignor paid ₹ 3,000 for packing and freight. Mr. White sold 5,000 sarees at ₹ 125 per saree and incurred ₹ 1,000 for selling expenses and remitted ₹ 5,00,000 to New Delhi on account. Mr. White is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Green and Mr. Green's account in the books of agent Mr. White.

Joint venture

(b) A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth ₹ 60,000 to B incurring expenses amounting to

₹ 2,000 for freight and insurance. During transit goods costing ₹ 5,000 became damaged and a sum of ₹ 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance stock lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the joint venture share of profit, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totaled ₹ 1,000. B had earlier remitted an advance of ₹ 10,000. B duly paid the balance due to A by Draft.

You are required to prepare in A's books :

(i) Joint Venture Account.

(ii) B's Account

Sale of Goods on Approval or Return Basis

10. (a) On 31st December, 2018 goods sold at a sale price of ₹ 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Royalty

(b) Write short notes on:

Minimum Rent.

Recoupment of short-workings.

Average Due Date

11. (a) Ram purchases goods on credit. His due dates for payments were as under:

Transaction Date	*₹*	*Due Date*
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 10

Calculate Average due date.

Account current

(b) The following are the transactions that took place between G and H during the period from 1st October, 2017 to 31st March, 2018:

2017		*₹*
Oct.1	*Balance due to G by H*	*3,000*
Oct 18	*Goods sold by G to H*	*2,500*
Nov. 16	*Goods sold by H to G (invoice dated November, 26)*	*4,000*
Dec.7	*Goods sold by H to G (invoice dated December, 17)*	*3,500*
2018		*₹*
Jan. 3	*Promissory note given by G to H, at three months*	*5,000*
Feb. 4	*Cash paid by G to H*	*1,000*
Mar. 21	*Goods sold by G to H*	*4,300*
Mar.28	*Goods sold by H to G (invoice dated April, 8)*	*2,700*

Draw up an Account Current up to March 31st, 2018 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

Final accounts and Rectification of entries

12. The following is the Trial Balance of T on 31st March, 2018 :

	Dr. ₹	*Cr.* ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2018)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-

Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2018)	17,000	-
Investments 12% (01.8.2017)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2018 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

(i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2018, but the goods were included in stock.

(iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2018.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2018.

Partnership Accounts: Calculation of goodwill

13. The profits and losses for the previous years are: 2015 Profit ₹ 10,000, 2016 Loss ₹ 17,000, 2017 Profit ₹ 50,000, 2018 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

Admission of a new partner

14. A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	12,900	Building		26,000

Bill Payable	4,100	Furniture		5,800
Bank Overdraft	9,000	Stock-in-Trade		21,400
Capital Account:		Debtors	35,000	
A 44,000		Less: Provision	200	34,800
B 36,000	80,000	Investment		2,500
		Cash		15,500
	1,06,000			1,06,000

'C' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.

(v) It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'.

Financial statements of Not for Profit Organizations

15. The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d		450	By Expenses *(including Payment for sports material ₹ 2,700)*	6,300
To Annual Income from Subscription	4,590			

	Add: Outstanding of last year received this year	180		By	Loss on Sale of Furniture (cost price ₹ 450)	180
		4,770		By	Balance c/d	90,450
	Less: Prepaid of last year	90	4,680			
To	Other fees		1,800			
To	Donation for Building		90,000			
			96,930			96,930

Additional information:

Trustwell club had balances as on 1.4.2017 : -

Furniture ₹ 1,800; Investment at 5% ₹ 27,000;

Sports material ₹ 6,660;

Balance as on 31.3.2018 : Subscription Receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

Issue of Shares

16. Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Forfeiture of Shares

17. Kumar who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Lal at ₹ 65 per share paid-up as ₹ 75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

18. Suvidha Ltd. purchased machinery worth ₹1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 10% discount; and (iii) Debentures are issued at 10% premium

Basic accounting Ratios

19. (a) From the following information, calculate (i) Net Assets Turnover (ii) Fixed Assets Turnover and (iii) Working Capital Turnover Ratios :

(₹)	(₹)
Preference Shares Capital 4,00,000	Plant and Machinery 8,00,000
Equity Share Capital 6,00,000	Land and Building 5,00,000
General Reserve 1,00,000	Motor Car 2,00,000
Profit and Loss Account 3,00,000	Furniture 1,00,000
15% Debentures 2,00,000	Stock 1,80,000
14% Loan 2,00,000	Debtors 1,10,000
Creditors 1,40,000	Bank 80,000
Bills Payable 50,000	Cash 30,000
Outstanding Expenses 10,000	
Sales for the year 2018 were ₹ 30,00,000	

(b) Calculate current assets of a company from the following information: Stock turnover ratio = 4 times Stock at the end is ₹ 20,000 more than the stock in the beginning. Sales ₹ 3,00,000 and gross profit ratio is 20% of sales. Current liabilities = ₹ 40,000 Quick ratio = .75

Short Notes

20. Write short notes on:
    (i) Noting Charges.
    (ii) Fundamental Accounting Assumptions.
    (iii) Retirement of bills of exchange.
    (iv) Over-riding Commission.

SUGGESTED ANSWERS/HINTS

1. (i) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

   (ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

   (iii) **True:** In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

   (iv) **True:** Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.

   (v) **False:** The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.

   (vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (vii) **False:** The debit notes issued are used to prepare purchases return book.

   (viii) **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 Account Current. This Red Ink Interest is treated as negative interest.

   (ix) **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

2. (a) Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management.

   Different accounting policies are frequently encountered in the areas like valuation of inventory and investments etc.

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

- 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.
- 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 long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

3. (a) **Journal Proper of Suman & Co.**

Rectification Entries

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	M/s Mintu & Co. A/c	6,500	
	To M/s Minu & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated….as ₹ 6,500 in M/s Mintu & Co.'s Account in place of M/s Minu & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900
	(Rectification of sale entry for ₹ 9,800 dated ….as ₹ 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Bantu Bros. A/c		90

	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated….).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated…. is being rectified).		

Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications are not done.

(b) (i) Capital expenditure

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

4. (a) **Purchase Returns Book**

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2018				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

(b) **JOURNAL**

	Particulars		***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account	Dr.		10,000	
	To Suspense Account				20,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		30,000	
	To Mr. Philip				30,000
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				

(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		25,000	
	To Suspense Account				25,000
	(The total of Discount allowed during September, 2018 not posted from the Cash Book; error now rectified)				

5. Bank Reconciliation Statement as on 30th November, 2018

Particulars			₹	₹
Bank Overdraft as per Bank Statement				3,200
Add:	(i)	Debit side of the Cash Book was undercast	400	
	(ii)	Cheque issued but debited by the Bank to another customer's account by mistake	1,600	
	(vi)	Dividend directly collected by the Bank but not entered in the Cash Book	100	
	(vii)	Cheque issued but yet to be presented for payment	1,300	3,400
				6,600
Less:	(iii)	Cheque issued for ₹ 172 posted in the Cash Book as ₹ 127	45	
	(iv)	Cheque dishonoured but not recorded in the Cash Book	425	
	(v)	Wrong debit by the Bank to Hari's A/c	150	
	(viii)	Cheque deposited but yet to be credited	1,200	

(ix)	Interest debited by the Bank and yet to be entered in the Cash Book	300	2,120
Bank overdraft as per the Cash Book (Cr.)			4,480

6. Statement of Valuation of Stock on 31st March, 2018

		₹	₹
Value of stock as on 15th April, 2018			50,000
Add:	Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2018 to 15th April, 2018	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

7. Lease Account

Dr. 2014-15		₹	2014-15		Cr. ₹
April. 1	To Bank A/c	2,00,000.00	Mar. 31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c (5% on ₹ 2,00,000)	10,000.00		By Balance c/d	1,53,597.60
		2,10,000.00			2,10,000.00
2015-16			2015-16		
April. 1	To Balance b/d	1,53,597.60	Mar.31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c (5% on ₹ 1,53,597.60)	7,679.88		By Balance c/d	1,04,875.08
		1,61,277.48			1,61,277.48
2016-17			2016-17		
April 1	To Balance b/d	1,04,875.08	Mar 31	By Depreciation A/c	56,402.40

Mar. 31	To Interest A/c	5,243.75	Mar 31	By Balance c/d	53,716.43
		1,10,118.83			1,10,118.83
2017-18			2017-18		
April. 1	To Balance b/d	53,716.43	Mar. 31	By Depreciation A/c	56,402.25
Mar. 31	To Interest A/c	2,685.82			
		56,402.25			56,402.25

Profit and Loss Account

2014-15		₹	2014-15		₹
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	10,000.00
2015-16			2015-16		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	7.679.88
2016-17			2016-17		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	5,243.75
2017-18			2017-18		
Mar. 31	To Depreciation A/c	56,402.25	Mar. 31	By Interest A/c	2,685.82

8. **In the books of Siriman**

Journal Entries

Particulars		*L.F.*	*Dr.* ₹	*Cr.* ₹
Bills Receivable A/c	Dr.		1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c	Dr.		99,000	
Discount A/c	Dr.		1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita	Dr.		1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita	Dr.		1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				

Bank A/c To Rita (Being the receipt of a portion of the amount due on the bill together with interest)		Dr.	51,500	51,500
Bills Receivable A/c To Rita (Being the new bill drawn for the balance)		Dr.	50,000	50,000
Rita To Bills Receivable A/c (Being the dishonour of the bill due to Rita's insolvency)		Dr.	50,000	50,000
Bank A/c Bad Debts A/c To Rita (Being the receipt of 40% of the amount due on the bill from Rita's estate)		Dr. Dr.	20,000 30,000	50,000

9. (a) **In the Books of Mr. Green**

Consignment A/c

	₹		₹
To Goods sent on Consignment A/c (6,000 × ₹ 120)	7,20,000	By White's A/c – Sales (5000 × ₹ 125)	6,25,000
To Bank A/c – Packing, Freight charges	3,000	By Goods sent on Consignment A/c (6000 × ₹ 20)	1,20,000
To White's A/c – Selling expenses	1,000		
To White's Account – Commission 5% on ₹ 6,25,000 = 31,250 20% on ₹ 25,000 = 5,000	36,250	By Consignment stock account (Refer working note)	1,20,500
To Stock reserve A/c (1000 × ₹ 20)	20,000		
To Profit and Loss account	85,250		
	8,65,500		8,65,500

In the Book of Mr. White
Mr. Green's Account

	₹		₹
To Bank – Selling expense	1,000	By Sales – debtors	6,25,000
To Commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	6,25,000		6,25,000

Working Note:

Closing Stock valuation:

	₹
Cost price of 1000 sarees	1,20,000
1000 × 120 =1,20,000	
Add: Proportionate expenses (3,000 × 1,000/6,000)	500
	1,20,500

(b)

Books of A
Joint Venture Account

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Purchases (Cost of goods supplied)	60,000	By Bank (Insurance claim)	3,000
To Bank (Expenses)	2,000	By B (Sales)	64,350
To B (Expenses)	1,000	By B (agreed value for damaged goods)	4,546
To B (Commission – 1/21 of 8,896)	424		
To Profit transferred to:			
Profit & Loss A/c	5,648		
B	2,824		
	71,896		71,896

B's Account

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000

To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Expenses)	1,000
		By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

Working Notes:

1. It has been assumed that the goods damaged in transit have no residual value.
2. **Computation of Sales**

	₹
Cost of goods sent	60,000
Less : Cost of damaged goods	5,000
	55,000
Less : Cost of goods remaining unsold	5,500
Cost of goods sold	49,500
Add : Profit @ 30%	14,850
Sales	64,350

3. Claim for loss of fire admitted by B

Cost of goods	5,500
Add : Proportionate expenses (2,000 × 5,500)/60,000	183
	5,683
Less : 20%	1,137
	4,546

10. (a) **Journal Entries**

Date 2018	Particulars		Dr. ₹	Cr. ₹
31st Dec.	Sales A/c	Dr.	3,000	
	To Ritu's A/c			3,000
	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	2,250	
	To Trading A/c			2,250
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹3,000
Less: Profit (3,000 x 20/120)	₹ 500
Cost of goods	₹2,500

Market price = 2,500 - (2,500 x 10%) = ₹ 2,250.

(b) (i) **Minimum Rent** is the amount of rent which the lessee is required to pay to the lessor whether he has derived any benefit or not out of the right vested to him by the lessor. It is also called Dead Rent or Rock Rent or Fixed Rent.

(ii) **Short-Workings** represents excess of Minimum Rent over the Actual Royalty. Right of Recoupment implies that lessor allows the lessee the **right to carry forward and set off** the short-workings against the excess or surplus of royalties over the Minimum Rent in the subsequent years as per the agreement.

11. (a). **Calculation of average due date (Base date: 8th April)**

Due Date	*Amount*	*No. of days from base date*	*Product*
	₹		₹
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
10th July	400	93	37,200
	1,175		63,350

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th April + 63,350/1,175

= 8th April + 54 days = 1st June

(b) In the books of G

H in Account Current with G

(interest to 31st March,2018@10%p.a.)

Date	*Due date*	*Particulars*	*No. of days till 31.3.18*	*Amt.*	*Product*	*Date*	*Due date*	*Particulars*	*No. of days till 31.3.18*	*Amt.*	*Product*
2017	*2017*			₹	₹	*2017*	*2017*			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2018	2018					2018	2018				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

12. **Journal Entries**

	Particulars		*Dr. (₹)*	*Cr. (₹)*
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000
	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of T
for the year ending 31st March, 2018

Dr.		₹			*Cr.* ₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation	10,000	24,000			

$\left(2{,}00{,}000\times\frac{10}{100}\times\frac{6}{12}\right)$			$\left(2{,}50{,}000\times\frac{12}{100}\times\frac{8}{12}\right)$		
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2018

Liabilities		₹	***Assets***		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

13. Total Profit for 3 years = (₹ 17,000)+₹ 50,000+₹ 75,000= ₹ 1,08,000.

Average profits = $\frac{\text{TotalProit}}{\text{No. of years}}\times\frac{₹1{,}08{,}000}{3}=₹36{,}000$

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration

= ₹ 36,000 – ₹ 6,000 = ₹ 30,000

Normal Profit=Interest on Capital employed

= ₹ 20,000 (i.e. ₹ 2,00,000 x10/100) = ₹ 20,000

Super Profit = Average Profit-Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000

Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 =₹ 20,000

14. (i) **Revaluation Account**

		₹			₹
To	Furniture	870	By	Building	3,200

To	Stock	1,070	By	Sundry creditors	1,400
To	Provision of doubtful debts (₹ 1,750 – ₹ 200)	1,550	By	Investment	450
To	Outstanding wages	1,560			
		5,050			5,050

(ii) Partners' Capital Accounts

		A	B	C			A	B	C
		₹	₹	₹			₹	₹	₹
To	Balance c/d	71,000	54,000	25,000	By	Balance b/d	44,000	36,000	–
					By	Cash A/c	–	–	25,000
					By	Goodwill A/c (Working Note)	27,000	18,000	
		71,000	54,000	25,000			71,000	54,000	25,000

(iii) Balance Sheet of New Partnership Firm

(after admission of C) as on 1.1.18

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	45,000
A 71,000		Building (26,000 + 3,200)	29,200
B 54,000		Furniture (5,800 – 870)	4,930
C 25,000	1,50,000	Stock-in-trade (21,400 – 1,070)	20,330
Bills Payable	4,100	Debtors 35,000	
Bank Overdraft	9,000	Less: Provision for bad debts (1,750)	33,250
Sundry creditors (12,900-1,400)	11,500	Investment (2,500 + 450)	2,950
Outstanding wages	1,560	Cash (15,500 + 25,000)	40,500
	1,76,160		1,76,160

Working Note:

Calculation of goodwill

C's contribution of ₹ 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.

But combined capital of A, B and C amounts ₹ 44,000 + 36,000 + 25,000 = ₹ 1,05,000.

Thus Hidden goodwill is ₹ 45,000 (₹ 1,50,000 – ₹ 1,05,000).

15. Corrected Receipts and Payments Account of Trustwell Club

for the year ended 31st March, 2018

	Receipts	₹	*Amount* ₹		*Payments*	*Amount* ₹
To	Balance b/d		450	By	Expenses (₹ 6,300 – ₹ 2,700)	3,600
To	Subscription			By	Sports Material	2,700
	Annual Income	4,590				
	Less: Receivable as on 31.3.2018	270		By	Balance c/d (Cash in Hand and at Bank)	90,720
	Add: Advance received for the year 2018–2019	90				
	Add: Receivable as on 31.3.2017	180				
	Less: Advance received as on 31.3.2017	90	4,500			
To	Other Fees		1,800			
To	Donation for Building		90,000			
To	Sale of Furniture		270			
			97,020			97,020

Income and Expenditure Account of Trustwell club

for the year ended 31st March, 2018

	Expenditure		Amount ₹		Income	Amount ₹
To	Sundry Expenses		3,600	By	Subscription	4,590
To	Sports Material			By	Other fees	1,800
	Balance as on 1.4.2017	6,660		By	Interest on investment (5% on ₹ 27,000)	1,350
	Add: Purchases	2,700				
	Less: Balance as on 31.3.2018	1,800	7,560	By	Deficit: Excess of Expenditure over Income	3,600
To	Loss on sale of Furniture		180			
			11,340			11,340

Balance Sheet of Trustwell club

as on 31st March, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	36,000		Furniture	1,800	
Less: Excess of Expenditure over Income	3,600	32,400	*Less*: Sold	450	1,350
			5% Investment		27,000
Building Fund		90,000	Interest Accrued on Investment		1,350
Subscription Received in Advance		90	Sports Material		1,800
			Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			1,22,490

Working Note:

Balance Sheet of Trustwell Club

as on 1st April, 2017

Liabilities	*Amount*	Assets	*Amount*
	₹		₹
Subscription Received in Advance	90	Furniture	1,800
Capital Fund (Balancing Figure)	36,000	Investment	27,000
		Sports Material	6,660
		Subscription Receivable	180
		Cash in Hand and at Bank	450
	36,090		36,090

16.

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000

(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	19,250	
Calls-in-Arrears A/c	Dr.	2,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			1,250
(First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)			

17.

Journal		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares ₹75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)			

Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	45,000	45,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

18. **Books of Suvidha Ltd.**

Journal

Machinery A/c	Dr.	1,98,000	
To Hemant Ltd.			1,98,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,98,000
(12% Debentures issued to Hemant Ltd.)			
Case(ii) When debentures are issued at 10% discount:			
Hemant Ltd.	Dr.	1,98,000	
Discount on Issue of Debentures A/c	Dr.	22,000	
To 12% Debentures A/c			2,20,000
(12% Debentures issued to Hemant Ltd. at 10% discount)			
Case(iii) When debentures are issued at 10% premium:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,80,000
To Premium on Issue of Debentures A/c			18,000
(12% Debentures issued to Hemant Ltd. at 10% premium)			

Workings:

(a) Number of debentures issued in case of 10% discount:

	(₹)
Face value	100
Less: Discount 10%	10
Value at which issued	90

₹ 1,98,000/90 = 2,200 Debentures

(b) Number of debentures issued in case of 10% premium:

	(₹)
Face value	100
Add: Premium 10%	10
Value at which issued	110

₹1,98,000/ 110 = 1,800 Debentures

19. (a) Sales = ₹ 30,00,000

Capital Employed or Net Assets = Share Capital + Reserves and Surplus + Long-term Debt = (₹4,00,000 + ₹6,00,000) + (₹1,00,000 + ₹3,00,000) + (₹2,00,000 + ₹ 2,00,000)

= ₹ 18,00,000

Fixed Assets = ₹8,00,000 + ₹5,00,000 + ₹2,00,000 + ₹1,00,000

= ₹ 16,00,000

Working Capital = Current Assets – Current Liabilities

= ₹4,00,000 – ₹2,00,000 = ₹ 2,00,000

Net Assets Turnover Ratio = ₹30,00,000/₹18,00,000 = 1.67 times

Fixed Assets Turnover Ratio = ₹30,00,000/₹16,00,000 = 1.88 times

Working Capital Turnover = ₹30,00,000/₹2,00,000 = 15 times.

(b) Cost of Goods Sold

= Sales – gross profit

= ₹ 3,00,000 – (₹ 3,00,000 × 20%)

= ₹ 3,00,000 – ₹ 60,000

= ₹ 2,40,000

Stock Turnover Ratio = Cost of Goods Sold / Average stock

4 = Cost of Goods Sold/Average stock

Average stock = Cost of Goods Sold /4

Average stock = ₹ 2,40,000/4

= ₹ 60,000= Average Stock

(Opening stock + Closing stock)/2= ₹ 60,000

= [Opening stock + (Opening stock+₹20,000)]/2= ₹ 60,000

= Opening stock = ₹ 70,000

Liquid Ratio = Liquid assets/Current liabilities

75 = Liquid assets/₹ 40,000

Liquid assets = ₹ 40,000 × .75 = ₹ 30,000

Current Assets = Liquid assets + Closing stock

= ₹ 30,000 + ₹ 70,000

= ₹ 1,00,000.

20. (i) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(ii) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

(i) *Going Concern*: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(iii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) **Over-riding Commission:** In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

   (ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

   (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

   (v) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.

   (b) Define revenue receipts and give examples. How are these receipts treated? Explain.

Journal Entries

3. (a) Pass a journal entry in each of the following cases:

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or Revenue Expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Cash Book

4. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2019		₹
April 1	Received ₹ 20,000 for petty cash	
" 2	Paid auto fare	500
" 3	Paid cartage	2,500
" 4	Paid for Postage & Telegrams	500
" 5	Paid wages	600
" 5	Paid for stationery	400
" 6	Paid for the repairs to machinery	1,500
" 6	Bus fare	100
" 7	Cartage	400
" 7	Postage and Telegrams	700
" 8	Cartage	3,000
" 9	Stationery	2,000
" 10	Sundry expenses	5,000

Rectification of Errors

(b) The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they are detected before preparation of Trial Balance.

(b) they are detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they are detected after preparing Final Accounts.

Bank Reconciliation Statement

5. On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

   1. A cheque for ₹ 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
   2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
   3. On 29th September, 2019, the bank credited an amount of ₹ 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
   4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
   5. On 6th September, 2019, the bank credited ₹ 40,000 to Neel in error.
   6. A bill of exchange for ₹ 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
   7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled ₹ 26,52,000.

   You are required:

   (a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and

   (b) to prepare a bank reconciliation statement as on that date.

Valuation of Inventories

6. Stock taking of XYZ Stores for the year ended 31st March, 2019 was completed by 10th April, 2019, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2019.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally accepted accounting principles.

Concept and Accounting of Depreciation

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

   Another machine was purchased for ₹ 80,000 on 1st July, 2015.

   On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.

   Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

Bills of Exchange

8. Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

   On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

   You are required to prepare Journal Entries in the books of Mr. A

Consignment

9. Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations.

Sales of goods on approval or return basis

10. X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2019	M/s ABC Co.	10,000	No information till 31.12.2019
12.12.2019	M/s DEF Co	15,000	Returned on 16.12.2019
15.12.2019	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2019
20.12.2019	M/s DEF Co	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s ABC Co	11,000	Good Retained on 28.12.2019
30.12.2019	M/s GHI Co	13,000	No information till 31.12.2019

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2019.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

Average Due Date

11. Mehnaaz accepted the following bills drawn by Shehnaaz.

On 8th March, 2018 ₹ 4,000 for 4 months.

On 16th March, 2018 ₹ 5,000 for 3 months.

On 7th April, 2018 ₹ 6,000 for 5 months.

On 17th May, 2018 ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to save ₹ 157 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 157.

Account current

12. Mr. A owed ₹ 4,000 on 1st January, 2019 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2019 Mr. X sold goods to Mr. A	2,230
29 January, 2019 Mr. X bought goods from Mr. A	1,200

10 February, 2019 Mr. A paid cash to Mr. X	1,000
13 March, 2019 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2019.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace. Assume 1 year = 366 Days.

Final accounts and Rectification of entries

13. The following are the balances as at 31st March, 2019 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	Interest paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.

5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2019 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019, and a Balance Sheet as on that date. Also show the rectification entries.

Partnership Accounts

Calculation of Goodwill

14. (a) Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2019 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2019 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

(b) J and K are partners in a firm. Their capitals are: J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Death of Partner

15 The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		₹	Assets		₹
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	600	8,400
		33,100			33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.

(b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account.

(c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.

(d) After death of N, L and M share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners.

Financial Statements of Not for Profit Organizations

16. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account for the year ended 31 December, 2019

RECEIPTS	₹		PAYMENTS		₹
To Balance b/d			By Salaries:		
Cash	800		(₹ 7,200 for 2018)		31,200

	Bank	5,200	6,000	By	Hospital Equipment		17,000
To	Subscriptions:			By	Furniture purchased		6,000
	For 2018		5,100	By	Additions to Building		50,000
	For 2019		24,500	By	Printing and Stationery		2,400
	For 2020		2,400				
To	Government Grant:			By	Diet expenses		15,600
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(₹ 300 for 2020)		2,000
	Fees from sundry			By	Electricity and water		
	Patients		4,800		charges		2,400
To	Donations (not to be		8,000	By	office expenses		2,000
	capitalized)			By	Investments		20,000
To	Net collections from			By	Balances:		
	benefit shows		6,000		Cash	1,400	
					Bank	6,800	8,200
			1,56,800				1,56,800

Additional information:	₹
Value of building under construction as on 31.12.2019	1,40,000
Value of hospital equipment on 31.12.2019	51,000
Building Fund as on 1.1. 2019	80,000
Subscriptions in arrears as on 31.12.2018	6,500
Investments in 8% Govt. securities were made on 1st July, 2019.	

Issue of Shares

17. On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:

    ₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018.

    By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

Forfeiture of Shares

18. Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

19. Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

    ₹ 40 on application

    ₹ 50 on allotment

    You are required to give necessary journal entries regarding issue of debenture.

20. Write **short notes** on the following:

    (i) Objectives of preparing Trial Balance.

    (ii) Rules of posting of journal entries into Ledger.

    (iii) Importance of bank reconciliation statement to an industrial unit.

    (iv) Bill of exchange and various parties to it.

    (v) Fundamental Accounting Assumptions.

    (vi) Accounting conventions.

    (vii) Machine Hour Rate method of calculating depreciation.

SUGGESTED ANSWERS/HINTS

1. **(i)** **False:** Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(ii) **True:** Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) **False:** According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) **False:** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

2. **(a)** **(i)** **Distinction between Money measurement concept and matching concept**

As per **Money Measurement 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 should 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.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by Mohan by taking over a running business).

(ii)

Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000

(iii)

Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	
To Rahim			₹ 600

(b) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

4. (a) **PETTY CASH BOOK**

Receipts ₹	Date 2019	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	*Entry Made Wrongly*
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. (i) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2019		₹	**2019**		
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

(ii) **Bank Reconciliation Statement as on 30th September, 2019**

Particulars	Amount
	₹
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2019	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2019	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2019. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

6. **Statement showing the valuation of stock as on 31st March, 2019**

		₹
A	Value of Stock as on 10th April, 2019	1,67,500

B	*Add:* Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	*Less*: Purchases for the next period (net)	8,100
D	*Less*: Cost of Sales Returns	225
E	*Less*: Loss on revaluation of slow moving inventories	600
F	*Less*: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2019	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. Machinery Account in the books of M/s. Green Channel Co.

		₹			₹
1.1.2015	To Bank A/c	1,60,000	31.12.2015	By Depreciation A/c (₹ 20,000 + ₹ 4,000)	24,000
	To Bank A/c (Erection charges)	40,000	31.12.2015	By Balance c/d (₹ 1,80,000 + ₹ 76,000)	2,56,000
1.7.2015	To Bank A/c	80,000			
		2,80,000			2,80,000
1.1.2016	To Balance b/d	2,56,000	31.12.2016	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.2016	By Balance c/d (₹ 1,60,000 + ₹ 68,000)	2,28,000
		2,56,000			2,56,000
1.1.2017	To Balance b/d	2,28,000	1.7.2017	By Bank A/c	1,00,000
30.9.2017	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.12.2017	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			2,58,000
1.1.2018	To Balance b/d	89,250	31.12.2018	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. Journal Entries in the Books of Mr. A

Date		*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	B Dr.		10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B Dr.		240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12× 12%=240)			

November	4	Cash A/c Dr.	2,240	
		Bills Receivable A/c Dr.	8,000	
		To B		10,240
		(Being amount and acceptance of new bill received from B)		
December	31	B A/c Dr.	8,000	
		To Bills Receivable A/c		8,000
		(Being B became insolvent)		
December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To B		8,000
		(Being the amount received and written off on B's insolvency)		

9. **Consignment to Jaipur Account in the Books of Manoj**

Particulars	₹	***Particulars***	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. Calculation of value of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹ 18,750

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

   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

   Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. Calculation of abnormal loss (10%):

   Abnormal Loss at Invoice price = ₹ 18,750.

   Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000

   Add: Proportionate expenses of Manoj (10 % of ₹ 15,000) = ₹ 1,500

   ₹ 16,500

3. **Calculation of closing Inventories (15%):**

Manoj's Basic Invoice price of consignment	=	₹ 1,87,500
Manoj's expenses on consignment	=	₹ 15,000
		₹ 2,02,500

Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375

Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625

Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold= 75% of ₹ 1,87,500 = ₹ 1,40,625

Excess of selling price over invoice price = ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)

Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

= ₹ 14,062.5 + ₹ 2,343.75 = ₹ 16,406

10. Goods on sales or return, sold and returned day book in the books of 'X'

Date 2019	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2019*	*Sold ₹*	*Returned ₹*
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2019		*Amount ₹*	2019		*Amount ₹*
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent on sales or return	77,000
	To Sales	47,000			
	To Balance c/d	13,000			
		77,000			77,000

11. **Taking 19.6.2018 as a Base date**

Transaction Date	Due Date	Amount	Amount	
8.3.2018	11.7.2018	4,000	22	88,000
16.3.2018	19.6.2018	5,000	0	0
7.4.2018	10.9.2018	6,000	83	4,98,000
17.5.2018	20.8.2018	5,000	62	3,10,000
		20,000		8,96,000

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2018 + ₹ 8,96,000/₹20,000

= 19.6.2018 + 44.8 days (or 45 days approximately)

= 3.8.2018

Mehnaaz wants to save interest of ₹ 157. The yearly interest is ₹ 20,000 × 18%

= ₹ 3,600.

Assume that days corresponding to interest of ₹ 157 are Y.

Then, 3,600 × Y/365 = ₹ 157

or Y = 157 × 365/3,600 = 15.9 days or 16 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 157 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2018 (3.8.2018 – 16 days).

12. **Mr. A in Account Current with Mr. X**

(Interest upto 15th March, 2019 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2019						*2019*					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\dfrac{₹4{,}02{,}600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to	2,140		

			6,340	4,91,800		be paid)	6,340		4,91,800

13. **Rectification Entries**

	Particulars	*Dr.*	*Cr.*
		Amount	*Amount*
		₹	₹
(i)	Returns inward account	Dr. 2,575	
	Sales account	Dr. 1,725	
	To Purchases account		2,575
	To Returns outward account		1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
(ii)	Drawings account	Dr. 3,500	
	To Purchases account		3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
(iii)	Plant and machinery account	Dr. 450	
	To Wages account		450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		
(iv)	Advertisement expenses account	Dr. 825	
	To Purchases account		825
	(Being free samples distributed for publicity out of purchases, now rectified)		

Trading and Profit and Loss Account of Mr. XYZ

for the year ended 31st March, 2019

Dr. *Cr.*

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			*Less:* Sales return	2,575	2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock		

To	Carriage inward		1,125		$\left(₹80,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		1,25,000
To	Wages		11,715				
To	Gross profit c/d		1,39,535				
			3,36,000				3,36,000
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of ₹ 1,20,000	6,000					
	Less: Existing provision	3,200	2,800				
To	Provision for discount on debtors						
	2.5% of ₹ 1,14,000	2,850					
	Less: Existing provision	1,375	1,475				
To	Depreciation:						
	Plant and machinery	3,000					
	Furniture and fittings	1,025	4,025				
To	Office expenses		10,160				
To	Interest on loan		3,000				
To	Net profit						
	(Transferred to capital account)		83,800				
			1,39,985				1,39,985

Balance Sheet of Mr. XYZ as on 31st March, 2019

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		*Less*: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less:	11,500	1,37,300	*Less*: Depreciation	1,025	9,225

Drawings					
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	*Less*: Provision for doubtful debts	6,000	
			Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			2,67,250

14.

Valuation of Goodwill:		₹
(1)	*Average Capital Employed*	
	Total Assets *less* Trade payables as on 31.12.2019	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2019	(1,00,000)
		6,00,000
(2)	*Super Profit :*	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	*Value of Goodwill*	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

15. (a) (i) Journal Entry in the books of the M/s LMN

Date	Particulars		Dr. ₹	Cr. ₹
Jan 3 2018	L's Capital A/c	Dr.	1,000	
	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c (₹ 11,700 - 10,000)	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400		
To Partners' Capital A/cs (L - ₹ 100, M - ₹ 100, N - ₹ 100)	300		
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors A/c	–	–	10,100	By Revaluation A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

16. **Jeevan Hospital**

Income & Expenditure Account
for the year ended 31 December, 2019

Expenditure	(₹)	Income	(₹)
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	16,000		
	64,100		64,100

Balance Sheet as at 31st Dec., 2019

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add : Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in advance		2,400	8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800

			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2,27,700			2,27,700

Working Notes:

(1) Balance sheet as at 31st Dec., 2019

Liabilities	₹	Assets	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	7,200	Cash in hand	800
	1,36,500		1,36,500

		₹
(2)	**Value of Building**	
	Balance on 31st Dec. 2019	1,40,000
	Paid during the year	50,000
	Balance on 31st Dec. 2018	90,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2019	51,000
	Paid during the year	(17,000)
	Balance on 31st Dec. 2018	34,000
(4)	**Subscription due for 2018**	
	Receivable on 31st Dec. 2018	6,500
	Received in 2019	5,100
	Still Receivable for 2018	1,400

17. **Pehal Ltd.**

Journal

2017			*Dr.* ₹	*Cr.* ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000

	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

18. **In the books of Company**

Journal

Particulars		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000

(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

19. **Books of Pihu Ltd.**

Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c	Dr.	20,00,00,000	
To Debenture Application A/c			20,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	20,00,00,000	
To 9% Debentures A/c			20,00,00,000
(Application money transferred to 9% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	25,00,00,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	

To 9% Debentures A/c (Amount due on allotment)			30,00,00,000
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	25,00,00,000	25,00,00,000

20. **(i)** Preparation of trial balance serves the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(ii) **Rules regarding posting of entries into ledger**

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.

2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.

3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(iii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iv) A **bill of exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The **drawer**, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The **drawee**, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The **payee**, the person who is to receive the payment. The drawer in many cases is also the payee.

(v) **Fundamental Accounting Assumptions**: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.

3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of

past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(vi) **Accounting conventions** emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(vii) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}} = ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

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

   (vi) 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.

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

Theoretical Framework

2. (a) Differentiate between provision and contingent liability.

   (b) State the advantages of setting Accounting Standards.

Journal Entries

3. (a) 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.

   (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.

Capital or revenue expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) Money spent to reduce working expenses.

   (ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.

(iii) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.

(iv) Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

Cash book

4. (a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2019			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	2,000
	30	Paid rent by cheque	800

Rectification of errors

(b) 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.

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

Bank Reconciliation Statement

5. 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 credited 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 from bank in this connection	1,75,000

Inventories

6. Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

(i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was ₹ 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.

(b) The total of a page had been undercast by ₹ 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.

(iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled ₹ 4,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. Transfer of ownership takes place at the time of delivery of goods.

Concept and Accounting of Depreciation

7. 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.

Bill of exchange

8. 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.

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

Consignment

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

Particulars	₹
Carriage	15,000

Freight	45,000
Loading Charges	15,000

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 (which is an abnormal loss) and another 50 cases were in transit. Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Ganpath.

Sales of goods on approval or return basis

10. 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-

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

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.

Average Due Date

11. (a) Kiran had accepted bills payable to Heena, falling due on different dates. The details of bills are as follows:

Date of bill	Amount	Usance of bill
9th April 2018	₹ 3,000	for 4 months
18th April 2018	₹ 5,500	for 3 months
25th May 2018	₹ 3,000	for 6 months
5th June 2018	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2018-2019.

Account current

(b) From the following transactions in the books of Mr. Perfact, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2019. Interest is to be charged and/or allowed @ 12% p.a. (Take 365 days in year)

2019		₹
January 1	Balance in Smart's Account (Credit)	3,500
January 12	Sold goods to Smart (due 1st February)	30,000
January 31	Sold goods to Smart (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Smart	7,000
March 25	Cash received	6,500

Final accounts

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

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

Insurance premium	48,000	
Electricity charges	14,000	
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 Building	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**

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) Provision 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.

Partnership Accounts

Profit and Loss Appropriation Account

13. A, B and C entered into partnership on 1.1.2019 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively.

Profits for the year ending 31.12.2019 before providing for interest on partners capital was ₹ 1,59,000.

You required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

14. J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Death of partner

15 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		Cash in hand	2,800
Ramesh	15,000		Cash at Bank	2,200
Naresh	10,000	40,000		
		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) Provision 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.

Financial statements of Not for Profit Organizations

16. Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum 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:

Receipts	₹	*Payments*	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

Issue of Shares

17. 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, 2018. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

    (i) ₹ 2 per share payable on application, to be received by 1st July, 2018;

    (ii) Allotment to be made on 10th July, 2018 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, 2019.

    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.

Forfeiture of Shares

18. 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

    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.

Issue of Debentures

19. 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.

20. Write short notes on the following:

    (i) Accounting conventions.

    (ii) Trade bill vs. Accommodation bill.

    (iii) Measurement.

    (iv) Advantages of subsidiary books.

SUGGESTED ANSWERS/HINTS

1. (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.

(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) **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.

(vi) **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.

(vii) **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.

2. (a) 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.

(b) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and ease in comparison.

3. (a) 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

(b) (i) Capital expenditure.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue expenditure.

4. (a) **Triple Column Cash Book**

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2019			₹	₹	₹	*2019*			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b)

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			
(ii)	X	Dr.	5,000	

	To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)			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

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

5. (a) 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

6. Valuation of Physical Stock as at March 31, 2018

			₹
Stock at cost on 31.12.2017			80,000
Add: (1) Undercasting of a page total		200	
(2) Goods purchased and delivered during January – March, 2018			
₹ (70,000 – 3,000 + 4,000)		71,000	
(3) Cost of sales return ₹ (1,000 – 200)		800	72,000
			1,52,000
Less:(1) Overcasting of a page total ₹ (6,000 – 5,000)		1,000	
(2) Goods sold and dispatched during January – March, 2018			
₹ (90,000 – 5,000 + 4,000)	89,000		
Less: Profit margin $\left(89{,}000 \times \frac{25}{125}\right)$	17,800	71,200	72,200
Value of stock as on 31st March, 2018			79,800

7. In the books of Firm

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.

8. 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
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			

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

9. **In the books of Ganpath**

Consignment to Rawat of Jaipur Account

Particulars	₹	*Particulars*	₹
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
To Bank (Expenses: 15,000+45,000+15,000)	75,000	By Goods lost in Transit 50 cases @ ₹ 1,650 each (WN1)	82,500
To Rawat (Expenses: 18,000+25,000+7,000)	50,000	By Consignment Inventories: In hand 50 @ ₹ 1,695 each (WN2)	84,750
To Rawat (Commission)	73,500	By Consignment Inventories: In transit 50 @ ₹ 1,650 each (WN3)	82,500
To Profit on Consignment ts/f to Profit & Loss A/c	36,250		
	9,84,750		9,84,750

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:

1. 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 i.e. 1,500+150.
2. 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 i.e. 1,500+150+45.
3. 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 i.e. 1,500+150 =1,650.
4. It has been assumed that balance of ₹ 6,11,500 is not yet paid.

10. **In the Books of Mr. Ganesh**

Journal Entries

Date	*Particulars*		*L.F.*	*Dr.* ₹	*Cr.* ₹
2018 March 31	Sales A/c	Dr.		6,500	
	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.

11. (a) Calculation of Average Due Date

Taking Base Date 21.07.2018

Date of bill	*Period*	*Due Date*	*Amount*	*Number of Days from Base Date*	*Product*
			₹		₹
9.4.2018	4 months	12.08.2018	3,000	22	66,000
18.4.2018	3 months	21.07.2018	5,500	0	0
25.5.2018	6 months	28.11.2018	3,000	130	3,90,000
5.6.2018	3 months	8.09.2018	6,000	49	2,94,000
			17,500		7,50,000

$$\text{Average Due Date} = \text{21st July} + \frac{7,50,000}{17,500} = 21.7.2018 + 43 \text{ days} = 2.09.2018.$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2018 + 4 months = 4.11.2018;

Second Bill- 1.7.2018+ 6 months = 4.1.2019.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2018 to 4.11.2018)

= ₹ 10,000 x 10% x 63/365 = ₹ 172.60

2nd bill = Interest will be charged on ₹ 7,500 (₹ 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2018 to 4.1.2019)

= ₹ 7,500 x 10% x 124/365 = ₹ 254.80.

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (7,500+ 172.60+ 254.80) = ₹ 7,927.4

(b) In the books of Mr. Perfact

Mr. Smart in Account Current with Mr. Perfact

(Interest to 31st March, 2019 @ 12% p.a.)

(By means of product)

Date 2019	*Particulars*	*Due Date*	*Amount ₹*	*Days*	*Product*	*Date 2019*	*Particulars*	*Due Date*	*Amount ₹*	*Days*	*Product*
Jan 12	To Sales A/c	Feb. 1	30,000	58	17,40,000	Jan. 1	By Balance b/d	Jan. 1	3,500	90	3,15,000
Jan 31	To Sales A/c	Feb. 15	27,500	44	12,10,000	Feb. 15	By Cash A/c	Feb. 15	40,000	44	17,60,000
Mar. 31	To Interest		130			Feb. 20	By Cash A/c	Feb. 20	7,500	39	2,92,500
	3,96,500/365 x $\frac{12}{100}$					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
						Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,870			Mar. 31	By Balance of products				3,96,500
			64,500		29,50,000				64,500		29,50,000

12. 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		
To Provision for Doubtful Debts (W.N.4)		16,200	received		12,000
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
			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

13. Profit and Loss Appropriation Account

for the year ended 31st December, 2019

Dr. *Cr.*

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000
	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	8,000	34,000			
To	Partners' capital accounts: [profit (₹ 1,59,000 – ₹ 34,000) transferred]					
	A $\left(\frac{5}{10} \text{ of ₹ } 1{,}25{,}000\right)$	62,500				
	Less: Transferred to C	5,000	57,500			
	B $\left(\frac{3}{10} \text{ of ₹ } 1{,}25{,}000\right)$		37,500			
	C $\left(\frac{2}{10} \text{ of ₹ } 1{,}25{,}000\right)$	25,000				
	Add: Transferred from A	5,000	30,000			
			1,59,000			1,59,000

14. (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

15. **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			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–

& Ramesh					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 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

16. **Income and Expenditure Account**

for the year ended 31st March, 2019

	₹		₹
To Medicines consumed		By Prescription fees	3,30,000
Purchases 1,22,500		By Visiting fees	1,25,000
Less: Closing Stock (47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)	40,000		
To Salaries (₹ 52,500 – ₹ 15,000)	37,500		
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over expenditure	2,42,000		
	4,67,000		4,67,000

Capital Account
for the year ended 31st March, 2019

	₹		₹
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice	2,42,000
Marriage expenses	1,07,500	(derived from income	
To Salary of domestic servants	15,000	and expenditure a/c)	
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		4,92,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	*Assets*	₹
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

17. Journal of Piyush Limited

Date 2018	*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 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 (Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No…..dated….)			6,50,000
2019 April 30	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,30,000 shares @ ₹ 5 each received)	Dr.	6,50,000	6,50,000

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**

18. **In the books of Bhagwati Ltd.**

Journal Entries

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

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	

19. 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
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

20. **(i)** Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(ii) **Distinction between Trade bill and Accommodation bill**

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(iii) Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Any measurement discipline deals with three basic elements of measurement viz., identification of objects and events to be measured, selection of standard or scale to be used, and evaluation of dimension of measurement standards or scale.

Kohler defined measurement as the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquiry or apparatus of observations in accordance with logical or mathematical rules.

Three important elements of measurement are:

(1) Identification of objects and events to be measured;

(2) Selection of standard or scale to be used;

(3) Evaluation of dimension of measurement standard or scale.

(iv) Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages :

(i) Division of work

(ii) Specialisation and efficiency

(iii) Saving of the time

(iv) Availability of information's

(v) Facility in checking

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) Accrual concept implies accounting on cash basis.

   (b) The Sales book is kept to record both cash and credit sales.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) Finished goods are normally valued at cost or market price whichever is higher.

   (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

   (h) Partners can share profits or losses in their capital ratio, when there is no agreement.

   (i) Receipts and Payments Account highlights total income and expenditure.

Theoretical Framework

2. Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) Pass a journal entry in each of the following cases:

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or Revenue Expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) Travelling expenses of the directors for trips abroad for purchase of capital assets.

   (ii) Amount spent to reduce working expenses.

(iii) Amount paid for removal of stock to a new site.

(iv) Cost of repairs on second-hand car purchased to bring it into working condition.

Cash Book

4. (a) From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	*Debit Note No.*	*Particulars*
04.01.2020	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2020		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2020	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2020		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Rectification of Errors

(b) The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:

(i) Balance as per Pass Book is ₹ 10,000.

(ii) Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

(iii) Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.

(iv) Withdrawal column of the Pass Book undercast by ₹ 100.

(v) The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

(vi) The payment of a cheque of ` 350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of ` 1,000 deposited by Shri Hari (another customer of the bank).

Valuation of Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2020.

(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

(iii) Sales Return ₹ 1,000.

(iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2020.

Concept and Accounting of Depreciation

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Bills of Exchange

8. Rita owed ₹1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the

balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman

Consignment

9. Mr. A of Assam sent on 18th February, 2020 a consignment of 1,000 DVD players to B of Bengal costing ₹ 100 each. Expenses of ₹ 1,500 were met by the consignor. B spent ₹ 3,000 for clearance and selling expenses were ₹ 20 per DVD player.

   B sold on 15th March, 2020, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2020, 300 DVD players @ ₹ 170 each.

   B is entitled to a commission of ₹ 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2020.

   You are required to prepare the consignment account and B's account in the books of A.

Sales of goods on approval or return basis

10. X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2019	M/s ABC Co.	10,000	No information till 31.12.2019
12.12.2019	M/s DEF Co	15,000	Returned on 16.12.2019
15.12.2019	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2019
20.12.2019	M/s DEF Co	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s ABC Co	11,000	Good Retained on 28.12.2019
30.12.2019	M/s GHI Co	13,000	No information till 31.12.2019

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2019.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

Account current

11. The following are the transactions that took place between G and H during the period from 1st October, 2019 to 31st March, 2020:

2019		*₹*
Oct.1	*Balance due to G by H*	*3,000*
Oct 18	*Goods sold by G to H*	*2,500*
Nov. 16	*Goods sold by H to G (invoice dated November, 26)*	*4,000*
Dec.7	*Goods sold by H to G (invoice dated December, 17)*	*3,500*
2020		*₹*
Jan. 3	*Promissory note given by G to H, at three months*	*5,000*
Feb. 4	*Cash paid by G to H*	*1,000*
Mar. 21	*Goods sold by G to H*	*4,300*
Mar.28	*Goods sold by H to G (invoice dated April, 8)*	*2,700*

Draw up an Account Current up to March 31st, 2020 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.(1 year =365 Days)

Final accounts and Rectification of entries

12. The following is the Trial Balance of T on 31st March, 2019 :

	Dr. ₹	*Cr.* ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2019)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000

Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2019)	17,000	-
Investments 12% (01.8.2018)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2019 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

(i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.

(iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2019.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2019.

Partnership Accounts

Calculation of Goodwill

13. J and K are partners in a firm. Their capitals are: J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Retirement of Partner

14 On 31st March, 2020, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2020, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹10,000.

(iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.

(vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2020..

Financial Statements of Not for Profit Organizations

15. The following information of M/s. TT Club are related for the year ended 31st March, 2020:

(1)

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2020.

Issue of Shares

16. Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Issue of Debentures

17. A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

18. Write short notes on the following:

(i) Fundamental Accounting Assumptions.

(ii) Objectives of preparing Trial Balance.

(iii) Accounting conventions.

(iv) Machine Hour Rate method of calculating depreciation.

SUGGESTED ANSWERS/HINTS

1. (a) **False -** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

   (b) **False -** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

   (c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

   (d) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

   (e) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

   (f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

   (g) **False -** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

   (h) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

   (i) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

2. **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by Mohan by taking over a running business).

(ii)

Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000

(iii)

Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	
To Rahim			₹ 600

(b) (i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

4. (a) **Purchase Returns Book**

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2020				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	***After Trial Balance***	***After Final Accounts***
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	***Entry Made Wrongly***
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	***After Trial Balance***	***After Final Accounts***
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. (i) Bank Reconciliation Statement as at 31.03.2020

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

6. Statement of Valuation of Stock on 31st March, 2020

		₹	₹
Value of stock as on 15th April, 2020			50,000
Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020 Sales (₹ 41,000 – ₹ 1,000)	40,000	

	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2020 to 15th April, 2020	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

7. Machinery Account in the books of M/s. Green Channel Co.

		₹			₹
1.1.2017	To Bank A/c	1,60,000	31.12.2017	By Depreciation A/c (₹ 20,000 + ₹ 4,000)	24,000
	To Bank A/c (Erection charges)	40,000	31.12.2017	By Balance c/d (₹ 1,80,000 + ₹ 76,000)	2,56,000
1.7.2017	To Bank A/c	80,000			
		2,80,000			2,80,000
1.1.2018	To Balance b/d	2,56,000	31.12.2018	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.2018	By Balance c/d (₹ 1,60,000 + ₹ 68,000)	2,28,000
		2,56,000			2,56,000
1.1.2019	To Balance b/d	2,28,000	1.7.2019	By Bank A/c	1,00,000
30.9.2019	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.12.2019	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			2,58,000
1.1.2020	To Balance b/d	89,250	31.12.2020	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	*Machine II*	*Machine III*
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2017	20,000	4,000	
Written down value as on 31.12.2017	1,80,000	76,000	
Depreciation for 2018	20,000	8,000	
Written down value as on 31.12.2018	1,60,000	68,000	
Depreciation for 2018	10,000	8,000	750
Written down value as on 31.12.2019	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **In the books of Siriman**

Journal Entries

Particulars	*L.F.*		*Dr.* ₹	*Cr.* ₹
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				

Bank A/c To Rita (Being the receipt of a portion of the amount due on the bill together with interest)		Dr.	51,500	51,500
Bills Receivable A/c To Rita (Being the new bill drawn for the balance)		Dr.	50,000	50,000
Rita To Bills Receivable A/c (Being the dishonour of the bill due to Rita's insolvency)		Dr.	50,000	50,000
Bank A/c Bad Debts A/c To Rita (Being the receipt of 40% of the amount due on the bill from Rita's estate)		Dr. Dr.	20,000 30,000	50,000

9. **In the books of A**

Consignment Account

Dr.			*Amount*				*Cr. Amount*
2020			₹	*2020*			₹
Feb. 18	To	Goods sent on consignment account	1,00,000	March 15	By	B's account (Sales) (600 × ₹ 160)	96,000
Feb. 18	To	Cash/Bank account (Expenses)	1,500	May 20	By	B's account (Sales) (300 × ₹ 170)	51,000
Feb. 18	To	B's account (Clearance charges)	3,000	June 30	By	Consignment Stock (Working note 2)	10,450
June 30	To	B's account: Selling expenses (900 × ₹ 20)	18,000				

		Commission (Working note 1)	24,900				
June 30	To	Profit and loss account (profit on consignment transferred)	10,050				
			1,57,450				1,57,450

B's Account

Dr.							*Cr.*
			Amount				*Amount*
2020			₹	*2020*			₹
March 15	To	Consignment account (Sales)	96,000	Feb 18	By	Consignment account (Clearance charges)	3,000
May 20	To	Consignment account		June 30	By	Consignment account:	
		(Sales)	51,000			Selling expenses	18,000
						Commission	24,900
				June 30	By	Cash/Bank account	1,01,100
			1,47,000				1,47,000

Working Notes:

1. **Calculation of total commission:**

Let total commission be *x*

$$x = 900 \times ₹\ 25 + \frac{1}{4}[(₹\ 96{,}000 + ₹\ 51{,}000) - x - (900 \times ₹\ 125)]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 1{,}47{,}000 - x - ₹\ 1{,}12{,}500]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 34{,}500 - x]$$

$$4x + x = ₹\ 90{,}000 + ₹\ 34{,}500$$

5x = ₹ 1,24,500

x = ₹ 24,900

2. Valuation of consignment stock:

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹1,500 \times 100)}{1,000}$	150
Proportionate expenses paid by B $\frac{(₹3,000 \times 100)}{1,000}$	300
	10,450

10. Goods on sales or return, sold and returned day book in the books of 'X'

Date 2019	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2019*	*Sold ₹*	*Returned ₹*
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2019		*Amount ₹*	2019		*Amount ₹*
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent on sales or return	77,000
	To Sales	47,000			
	To Balance c/d	13,000			
		77,000			77,000

11. **In the books of G**

H in Account Current with G

(interest to 31st March,2020@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.20	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.20	Amt.	Product
2019	2019			₹	₹	2019	2019			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2020	2020					2020	2020				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

12. **Journal Entries**

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000

	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of T
for the year ending 31st March, 2019

Dr.					*Cr.*
		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation	10,000	24,000	$\left(2,50,000\times\frac{12}{100}\times\frac{8}{12}\right)$		
$\left(2,00,000\times\frac{10}{100}\times\frac{6}{12}\right)$					
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2019

Liabilities		₹	***Assets***		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000

Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

13. (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1,50,000 \times 100}{20} = ₹\,7,50,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

14. (a) Revaluation Account

Date		*Particulars*	*₹*	*Date*		*Particulars*	*₹*
2020				*2020*			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000

	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred)					
		Mr. P (2/7) 2,000					
		Mr. Q (3/7) 3,000					
		Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(b) Partners' Capital Accounts

Dr.										Cr.
	Particulars	*P*	*Q*	*R*		*Particulars*	*P*	*Q*	*R*
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(c) Cash and Bank Account

	Particulars	₹		*Particulars*	₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c –		By	Balance b/d	20,550

	surrender value of joint life policy	7,550			
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2020

Liabilities		₹	*Assets*		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

15. **Subscription for the year ended 31.3.2020**

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2019	11,250	
Less: Subscription received in advance on 31.3.2020	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2020	16,500	
Add: Subscription received in advance on 1.4.2019	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2019	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2020	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2019	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2020	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 20 (An extract)

Liabilities	₹	*Assets*	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

will be 2,000 hours × ₹ 20 = ₹ 40,000.

16.

Bank A/c To Equity Share Application A/c (Money received on application for 1,000 shares @ ₹ 25 per share)	Dr.	25,000	25,000
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 1,000 shares to share capital)	Dr.	25,000	25,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 1,000 shares @ ₹ 30 per share)	Dr.	30,000	30,000
Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	30,000	30,000
Equity Share First Call A/c To Equity Share Capital A/c (First call money due on 1,000 shares @ ₹ 20 per share)	Dr.	20,000	20,000
Bank A/c Calls-in-Arrears A/c To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)	Dr. Dr.	19,250 2,000	 20,000 1,250

17. **In the books of A Limited**

Date	Particulars		₹ '000	₹ '000
April 1	Bank A/c To 12% Debentures Application A/c (Being money received on 3,85,000 debentures)	Dr.	38,500	38,500
April 7	12% Debentures Application A/c To Bank A/c (Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)	Dr.	3,500	3,500

April 7	12% Debentures Application A/c To 12% Debentures A/c (Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No….dated…)	Dr.	35,000	 35,000

18. (i) **Fundamental Accounting Assumptions**: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.

3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) **Objectives of preparing Trial Balance**

The preparation of trial balance has the following objectives:

1 *Checking of the arithmetical accuracy of the accounting entries:* Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. *Basis for preparation of financial statements:* Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial

statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. *Summarized ledger:* Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is ₹36,005.

   (ii) All the personal & real accounts are recorded in P&L A/c.

   (iii) Amount spent on the replacement of worn out part of machine is Capital Expenditure.

   (iv) When closing inventory is overstated, net income for the accounting period will be understated.

   (v) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (vi) Goodwill is intangible asset therefore it cannot be valued.

   (vii) Interest on calls in arrears is payable by company to shareholders.

   (viii) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

   (ix) Debenture holders enjoy the voting rights in the company.

Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.

   (b) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) (i) Employees had taken stock worth ₹ 25,000 (Cost price ₹ 22,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

   (ii) Wages paid for erection of Machinery ₹ 16,000.

   (iii) Income tax liability of proprietor ₹ 3,400 was paid out of petty cash.

   (iv) Purchase of goods from Naveen of the list price of ₹ 20,000. He allowed 10% trade discount, ₹ 500 cash discount was also allowed for quick payment.

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

- -- Inauguration expenses of a new manufacturing unit in an existing Business.
- -- Installation of a new central heating system.
- -- Repainting of a delivery van.
- -- Providing drainage for a new piece of water-extraction equipment.
- -- Legal fees on the acquisition of land.
- -- Carriage costs on a replacement part for a piece of machinery.

Cash Book

4. (a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2020			₹
Sep.	1	Cash in hand	6,000
	1	Cash at bank	24,000
	2	Paid into bank	2,000
	5	Bought furniture and issued cheque	3,000
	8	Purchased goods for cash	1,000
	12	Received cash from Mohan	1,960
		Discount allowed to him	40
	14	Cash sales	10,000
	16	Paid to Amar by cheque	2,900
		Discount received	100
	19	Paid into Bank	1,000
	23	Withdrawn from Bank for Private expenses	1,200
	24	Received cheque from Parul	2,860
		Allowed him discount	40
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	4,000
	30	Paid rent by cheque	1,600

Rectification of Errors

(b) Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹5,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹7,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Hari, who returned the goods;

(3) A sale of ₹20,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹ 2,000;

(4) Bad Debts aggregating ₹15,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹12,500 was not posted.

Bank Reconciliation Statement

5. From the following information (as on 31.3.2020), prepare a bank reconciliation statement after making necessary adjustments in the cash book:

Particulars	
Bank balances as per the cash book (Dr.)	32,50,000
Cheques deposited, but not yet credited	44,75,000
Cheques issued but not yet presented for payment	35,62,000
Bank charges debited by bank but not recorded in the cash-book	12,500
Dividend directly collected by the bank	1,25,000
Insurance premium paid by bank as per standing instruction not intimated	15,900
Cash sales wrongly recorded in the Bank column of the cash-book	2,55,000
Customer's cheque dishonoured by bank not recorded in the cash-book	1,30,000
Wrong credit given by the bank	1,50,000

Also show the bank balance that will appear in the trial balance as on 31.3.2020.

Valuation of Inventories

6. Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2020 was completed by 10th April, 2020, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at

₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31st March, 2020.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2020

Concept and Accounting of Depreciation

7. M/s Roxy purchased a brand new machinery on 1st January 2017 for ₹ 3,20,000 and also incurred ₹ 80,000 on its installation. Another machinery was purchased on 1st July 2017 for ₹ 1,60,000. On 1st July 2019, the machinery purchased on 1st January 2017 was sold for ₹ 2,50,000. Another machinery was purchased and installed on 30th September 2019 for ₹ 60,000.

   Under existing practice, the company provides for depreciation @10% p.a. on Original cost. However, from the year 2020 it decided to adapt WDV method and charge the depreciation @ 15% p.a. You are required to show the Machinery Account for the years 2019 and 2020 considering the books of accounts are closed on 31st December each year.

Bills of Exchange

8. Prepare Journal entries for the following transactions in Samarth's books.

   (i) Samarth's acceptance to Aarav for ₹ 1,250 discharged by a cash payment of ₹ 500 and a new bill for the balance plus ₹ 25 for interest.

   (ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ₹ 20 noting charges. Bill withdrawn against cheque.

   (iii) Harshad retires a bill for ₹ 5,000 drawn on him by Samarth for ₹ 20 discount.

   (iv) Samarth's acceptance to Patel for ₹ 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

Consignment

9. Mr. Divik of Jaipur purchased, 5,000 pieces of sarees at ₹ 500 per saree. Out of these 3,000 sarees were sent on consignment to Mr. Manoj of Pillani at the selling price of ₹ 600 per saree. The consignor paid ₹ 30,000 for packing and freight. Mr. Manoj sold 2,500 sarees at ₹ 625 per saree and incurred ₹ 10,000 for selling expenses and remitted ₹ 5,00,000 to Jaipur on account of Mr. Divik. Mr. Manoj is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

   You are required to prepare Consignment Account in the books of Mr. Divik and Mr. Divik's account in the books of agent Mr. Manoj.

Sales of goods on approval or return basis

10. Ms. Madhu has supplied goods on sale or return basis to customers, the particulars of which are as under.

Date of dispatch	Party's name	Amount ₹	Remarks
01.03.2020	M/s. Piya	20,000	Awaiting approval from customers as on 31.03.2020
08.03.2020	M/s. Riya	25,000	Returned on 16.03.2020
15.03.2020	M/s. Ciya	24,000	Goods worth ₹ 4,000 returned on 20.03.2020
19.03.2020	M/s. Diya	22,500	Goods accepted on 24.03.2020
25.03.2020	M/s. Tiya	18,250	Good accepted on 28.03.2020
30.03.2020	M/s. Bhavya	23,000	Awaiting approval from customers as on 31.03.2020

Goods are sent on the terms of 10 days return window from the date of dispatch, failing which it will be treated as sales. The books of Madhu are closed on the 31st March, 2020.

Prepare the following accounts in the books of Madhu.

(a) Goods on "sales or return, sold and returned day books".

(b) Goods on sales or return total account.

Average Due Date

11. From the following details calculate the average due date:

Date of Bill	Amount (₹)	Usance of Bill
28th January, 2020	2,500	1 month
20th March, 2020	2,000	2 months
12th July, 2020	3,500	1 month
10th August, 2020	3,000	2 months

Account current

12. On 1st January, 2020, Kamal 's account in Vimal's ledger showed a debit balance of ₹ 15,000. The following transactions took place between Vimal and Kamal during the quarter ended 31st March, 2020:

2020			₹
Jan.	11	Vimal sold goods to Kamal	18,000
Jan.	24	Vimal received a promissory note from Kamal due after 3 months	15,000
Feb.	01	Kamal sold goods to Vimal	30,000
Feb.	04	Vimal sold goods to Kamal	24,600
Feb.	07	Kamal returned goods to Vimal	3,000
March	01	Kamal sold goods to Vimal	16,800
March	18	Vimal sold goods to Kamal	27,600
March	23	Kamal sold goods to Vimal	12,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Vimal to Kamal as on 31st March, 2020, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

Final accounts and Rectification of entries

13. The following is the trial balance of Manan as at 31st March 2020:

	Dr.	*Cr.*
	₹	₹
Manan's capital account	-	1,53,380
Stock 1st April, 2019	93,600	-
Sales	-	7,79,200
Returns inward	17,200	-
Purchases	6,43,400	-
Returns outward	-	11,600
Carriage inwards	39,200	-
Rent & taxes	9,400	-
Salaries & wages	18,600	-
Sundry debtors	48,000	-
Sundry creditors	-	29,600
Bank loan @ 14% p.a.	-	40,000
Bank interest	2,200	-
Printing and stationary expenses	28,800	-
Bank balance	16,000	-
Discount earned	-	8,880

Furniture & fittings	10,000	-
Discount allowed	3,600	-
General expenses	22,900	-
Insurance	2,600	-
Postage & telegram expenses	4,660	-
Cash balance	760	-
Travelling expenses	1740	-
Drawings	60,000	
	10,22,660	10,22,660

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 6,000 due from Rahul and included among the creditors ₹ 2,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Manan amounting to ₹ 1200 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 800 had been omitted from the books.

(8) Stock on 31st March 2020 was ₹ 1,57,200.

Prepare (i) Trading & profit and loss account for the year ended 31.3.2020 and (ii) Balance sheet as on 31st March, 2020.

Partnership Accounts

Profit and Loss Appropriation Account

14. (a) Rose, Lilly and Lotus start business with capital of ₹ 2,00,000/-, ₹ 3,00,000/- and ₹4,00,000 on 1st April 2019. Lotus is entitled to a salary of ₹ 50,000 per annum. Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of ₹ 50,000 by Lotus. Partners drawings during the year were Rose ₹ 40,000/-Lilly ₹ 30,000/- Lotus ₹ 20,000/-. Lotus had paid ₹ 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20

before allowing interest on capital and charging interest on drawings and salary paid to Lotus was ₹3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

Calculation of Goodwill

(b) The profits and losses for the previous years are: 2017 Profit ₹ 5,000, 2018 Loss ₹ 8,500, 2019 Profit ₹ 25,000, 2020 Profit ₹ 37,500. The average Capital employed in the business is ₹ 1,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 3,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Admission of Partner

15 Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2

Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital :		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to ₹40,000.

7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Financial Statements of Not for Profit Organizations

16. The following is the Receipts and payments account of Rotary Club for the year ended on 31st March, 2020

Dr Receipts and payments A/c for the year ended on 31st march 2020 Cr

Receipts	Amount (₹)	Payments	Amount (₹)
To balance b/d	8,450	By Salaries and wages	12,250
To Subscription	23,000	By Supply of refreshment	18,250
To Sale of refreshments	22,000	By Sports equipment	27,500
To Entrance fees	26,000	By Telephone Charges	2,800
To interest on investments @ 7%	4,550	By Electricity charges	15,600
		By Honorarium charges	6,500
		By balance c/d	1,100
	84,000		84,000

Additional information:

1. Following are the assets and liabilities on 31st March, 2019:

   Assets- Sports equipment- ₹ 32,000; Subscription in arrears- ₹ 7,600; furniture- ₹ 12,480

   Liabilities- Outstanding Electricity charges- ₹ 5,400; Subscription in advance- ₹ 6,250

2. Following are the assets and liabilities on 31st March, 2020-

   Assets- Sports equipment- ₹ 50,500; Subscription in arrears- ₹ 5,200; furniture- ₹ 11,180

   Liabilities- Outstanding Electricity charges- ₹ 3,800; Subscription in advance- ₹ 4,850

3. 50% of the entrance fees to be capitalized.

4. Interest on the investments is being received in full, and the investments have been made on 1.4.2019

You are required to prepare Income and Expenditure account and the Closing balance sheet as of 31st March 2020 in the books of Rotary Club.

Issue and Forfeiture of Shares

17. Alankit Limited issued at par 2,00,000 Equity shares of ₹ 100 each payable ₹ 25 on application; ₹ 30 on allotment; ₹ 20 on first call and balance on the final call. All the shares were fully subscribed. Mr. Dhawan who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Dhawan.

    You are required to prepare journal entries to record these transactions.

18. Samuel who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Robort at ₹ 65 per share paid-up as ₹75 per share.

    You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

19. Priya Ltd. issued 25,00,000, 12% debentures of ₹ 10 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

    ₹ 4 on application

    ₹ 5 on allotment

    Record necessary journal entries regarding issue of debenture.

20. Write short notes on:

    (i) Fundamental Accounting Assumptions.

    (ii) Retirement of bills of exchange.

    (iii) Noting Charges.

    (iv) Over-riding Commission.

SUGGESTED ANSWERS

1. (i) **True**: the trade discount is to be deducted from the total value of ₹ 75,800. The amount paid in cash includes cash purchases and only the credit purchase will be shown in the purchases book- 36,005 (72,010 x 50%).

(ii) **False**: All the personal & real account are recorded in balance sheet.

(iii) **False**: Amount spent for replacement of any worn out part of a machine is revenue expense since it is a part of its maintenance cost.

(iv) **False**: When closing inventory is overstated, net income for the accounting period will be overstated.

(v) **False**: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(vi) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

(vii) **False**: Interest on calls in arrears is payable by shareholders to company.

(viii) **False**: It shall be disclosed as a current liability in the opening balance sheet.

(ix) **False**: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

2. **(a)** (i) **Distinction between Money measurement concept and matching concept**

As per **Money Measurement 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.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a)

	Particulars	Dr.	Cr.
		Amount (₹)	Amount (₹)
(i)	Salaries A/c	22,500	
	To Purchase A/c		22,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	16,000	
	To Cash A/c		16,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	3,400	
	To Petty Cash A/c		3,400
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	18,000	
	To Cash A/c		17,500
	To Discount Received A/c		500
	(Being the goods purchased from Naveen for ₹ 20,000 @ 10% trade discount and cash discount of ₹ 500)		

(b) -- Inauguration expenses of new unit of existing business: revenue.

-- Installation of new heating system: capital.

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Legal fees on acquisition of land: capital

-- Carriage costs on replacement part: revenue.

4. (a) **Triple Column Cash Book**

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2020			₹	₹	₹	*2020*			₹	₹	₹
Sep. 1	To	Balance b/d	–	6,000	24,000	Sep. 2	By	Bank (C)		2,000	
Sep. 2	To	Cash (C)		–	2,000	Sep. 5	By	Furniture			3,000

								A/c			
Sep. 12	To	Sapna	40	1,960		Sep. 8	By	Purchase A/c		1,000	
Sep. 14	To	Sales A/c		10,000		Sep. 16	By	Amar	100		2,900
Sep. 19	To	Cash (C)			1000	Sep. 19	By	Bank (C)		1,000	
Sep. 24	To	Parul (Note 2)	40	2,860		Sep. 23	By	Drawings A/c			1,200
Sep. 26	To	Cash (C)			2,860	Sep. 26	By	Bank (C)		2,860	
Sep. 28	To	Bank (C)		4,000		Sep. 28	By	Cash (C)			4,000
						Sep. 30	By	Rent A/c			1,600
						Sep. 30	By	Balance c/d		17,960	17,160
			80	24,820	29,860				100	24,820	29,860
Oct. 1	To	Balance b/d		17,960	17,160						

Note:

(1) Discount allowed and discount received ₹ 80 and ₹ 100 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b)

	Particulars		***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(1)	Sales Account	Dr.		5,000	
	Sales Returns Account	Dr.		5,000	
	To Suspense Account				10,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		15,000	
	To Mr. Hari				15,000
	(Wrong debit to Mr. Hari for goods returned by him, now rectified)				
(3)	Mr. Amit	Dr.		20,000	
	To Mr. Sumit				2,000

	To Suspense Account (Omission of debit to Mr. Amit and wrong credit to Mr. Sumit for sale of ₹20,000, now rectified)				18,000
(4)	Bad Debts Account	Dr.		15,000	
	To Suspense Account				15,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		12,500	
	To Suspense Account				12,500
	(The total of Discount allowed during September, 2020 not posted from the Cash Book; error now rectified)				

5. (i) **Cash Book as on 31.3.2020**

(After making necessary adjustments)

Dr.			**Cr.**
Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	32,50,000	By Bank charges	12,500
To Dividend	1,25,000	By Insurance premium	15,900
		By Trade receivables (cheque dishonoured)	1,30,000
		By Cash A/c (wrongly recorded cash sales)	2,55,000
		By Balance c/d	29,61,600
	33,75,000		33,75,000

Bank Reconciliation Statement as on 31.3.2020

Particulars	**Details**	**Amount ₹**
Bank balance as per the cash book		29,61,600
Add: Cheques issued but not yet presented for payment	35,62,000	

Wrong credit given by bank	1,50,000	37,12,000
		66,73,600
Less: Cheques deposited but not yet credited by bank		(44,75,000)
Balance as per the pass book		21,98,600

The bank balance of ₹ 29,61,600 will appear in the trial balance as on 31st March, 2020.

Note: Cash sales should have been recorded by passing the following entry:

Cash A/c	Dr	2,55,000	
To Sales A/c			2,55,000

But it has been wrongly debited to Bank A/c, so following rectification entry has been passed:

Cash A/c	Dr.	2,55,000	
To Bank A/c			2,55,000

6. **Statement showing the valuation of stock as on 31st March, 2020**

		₹
A	Value of Stock as on 10th April, 2020	5,02,500
B	*Add:* Cost of sales after 31st March, till stock taking (₹ 20,625 – ₹ 5,156)	15,469
C	*Less*: Purchases for the next period (net)	(24,300)
D	*Less*: Cost of Sales Returns (900-675)	(675)
E	*Less*: Loss on revaluation of slow moving inventories	(1800)
F	*Less*: Reduction in value on account of default	(900)
G	Value of Stock on 31st March, 2020	4,90,294

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. **In the books of M/s Roxy**

Machinery A/c

Date	Account	(in ₹)	Date	Account	(in ₹)
01.01.2019	To Balance b/d	4,56,000	01.07.2019	By Bank A/c	2,50,000
				By P&L A/c – Loss on Sale	50,000
30.09.2019	To Bank A/c	60,000	31.12.2019	By Depreciation	37,500
				By Balance c/d	1,78,500
		5,16,000			5,16,000
01.01.2020	To Balance b/d	1,78,500	31.12.2020	By Depreciation	26,775
			31.12.2020	By Balance c/d	1,51,725
		1,78,500			1,78,500

Working Note: Calculation of Book Value of Machines under SLM

	Machine 1	Machine 2	Machine 3
	(in ₹)	(in ₹)	(in ₹)
Date of Purchase	01.01.2017	01.07.2017	30.09.2019
Original Cost	4,00,000	1,60,000	60,000
Depreciation for 2017 (SLM)	(40,000)	(8,000)	
WDV on 31.12.2017	3,60,000	1,52,000	
Depreciation for 2018 (SLM)	(40,000)	(16,000)	
WDV on 31.12.2018	3,20,000	1,36,000	
Depreciation for 2019 (SLM)	(20,000)	(16,000)	(1,500)
WDV on 31.12.2019 (30th June for Machine1)	3,00,000	1,20,000	58,500
Sale Proceeds	(2,50,000)		
Loss on Sale	50,000		
Depreciation for 2020 (WDV @ 15%)	-	(18,000)	(8,775)
WDV on 31.12.2020	-	**1,02,000**	**49,725**

8. **Books of S. Samarth**

Journal Entries

			Dr. ₹	Cr. ₹
(i)	Bills Payable Account	Dr.	1,250	
	Interest Account	Dr.	25	
	To Cash A/c			500
	To Bills Payable Account			775
	(Bills Payable to Aarav discharged by cash payment of ₹ 500 and a new bill for ₹1,250 including ₹ 25 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To Sahni			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to Sahni dishonoured, ₹ 20 paid by Sahni as noting charges)			
	(b) Sahni	Dr.	4,020	
	To Bank Account			4,020
	(Payment to Sahni on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	4,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			5,000
	(Payment received from Harshad against his acceptance for ₹ 5,000. Allowed him a discount of ₹ 20)			
(iv)	Bills Payable Account	Dr.	19,000	
	To Bills Receivable Account			19,000
	(Bills Receivable from Patel endorsed to Sandeep in settlement of bills payable issued to him earlier)			

9. **In the Books of Mr. Divik**

Consignment A/c

	₹		₹
To Goods sent on	18,00,000	By Manoj's A/c – Sales	15,62,500

Consignment A/c (3,000 × ₹ 600)		(2500 × ₹ 625)	
To Bank A/c – Packing, Freight charges	30,000	By Goods sent on Consignment A/c (3000 × ₹ 100)	3,00,000
To Manoj's A/c – Selling expenses	10,000		
To Manoj's Account – Commission		By Consignment stock account	3,05,000
5% on ₹ 15,62,500= 78,125		(Refer working note)	
20% on ₹ 62,500= 12,500	90,625		
To Stock reserve A/c (500 × ₹ 100)	50,000		
To Profit and Loss account	1,86,875		
	21,67,500		21,67,500

In the Book of Mr. Manoj

Mr. Divik's Account

	₹		₹
To Bank – Selling expense	10,000	By Sales	15,62,500
To Commission	90,625		
To Bank	5,00,000		
To Balance c/d	9,61,875		
	15,62,500		15,62,500

Working Note:

Closing Stock valuation:

	₹
Cost price of 500 sarees (500 × 600)	3,00,000
Add: Proportionate expenses (30,000 × 500/3,000)	5,000
	3,05,000

10. In the books of 'Madhu'

Goods on sales or return, sold and returned day book.

Date 2020	Party to whom goods sent	L.F	Amount ₹	Date 2020	Sold ₹	Returned ₹
Mar 01	M/s. Priya		20,000	Mar 11	20,000	-
Mar 08	M/s. Riya		25,000	Mar. 16	-	25,000
Mar 15	M/s. Chiya		24,000	Mar. 20	20,000	4,000
Mar 19	M/s. Diya		22,500	Mar. 24	22,500	-
Mar 25	M/s. Tiya		18,250	Mar. 28	18,250	-
Mar 30	M/s. Bhavya		23,000	Pending approval		
			1,32,750		80,750	29,000

Goods on Sales or Return Total Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2020 Mar. 31	To Returns	29,000	2020 Mar. 31	By Goods sent on sales or return	1,32,750
	To Sales	80,750			
	To Balance c/d	23,000			
		1,32,750			1,32,750

11. Calculation of Average Due Date

(Taking 3rd March, 2020 as base date)

Date of bill 2020	*Term*	*Due date 2020*	*Amount (₹)*	*No. of days from the base date i.e. 3rd March, 2020 (₹)*	*Product (₹)*
28th January	1 month	3rd March	2,500	0	0
20th March	2 months	23rd May	2,000	81	1,62,000
12th July	1 month	14th Aug.	3,500	164	5,74,000
10th August	2 months	13th Oct.	3,000	224	6,72,000
			11,000		14,08,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 3rd March, 2020 + $\frac{14,08,000}{11,000}$

= 3rd March, 2020 + 128 days = 9th July, 2020

Working Note:

Bill dated 12th July, 2020 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2020. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2020.

Note: 365 days are taken for calculation.

12. **In the books of Vimal**

Kamal in Account Current with Vimal

(Interest to 31st March, 2020 @ 10% p.a.)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2020		₹		₹	2020		₹		₹
Jan.1	To Balance b/d	15,000	91	13,65,000	Jan.24	By Promissory Note (due date 26th April)	15,000	(26)	(3,90,000)
Jan.11	To Sales	18,000	80	14,40,000	Feb. 1	By Purchases	30,000	59	17,70,000
Feb. 4	To Sales	24,600	56	13,77,600	Feb. 7	By Sales Return	3,000	53	1,59,000
Mar.18	To Sales	27,600	13	3,55,800	Mar. 1	By Purchases	16,800	30	5,04,000
Mar.31	To Interest	442			Mar.23	By Purchases	12,000	8	96,000
					Mar.31	By Balance of Products			16,19,400
					Mar.31	By Bank	8,842		
		85,642		45,38,400			85,642		45,38,400

Working Note:

Calculation of interest:

Interest = = 16,19,400/366 x 10/100 = ₹442.45 (approx.)

Note: 366 days are taken for calculation since year 2020 is a leap year.

13. **Trading and Profit and Loss Account of Mr. Manan**

for the year ended 31st March,2020

Particulars	₹	Amount ₹		Amount ₹	₹
To Opening stock		93,600	By Sales	7,79,200	

To Purchases	6,43,400		*Less:* Returns	17,200	7,62,000
Add: Omitted invoice	800		By Closing stock		1,57,200
	6,44,200				
Less: Returns	11,600				
	6,32,600				
Less: Drawings	1,200	6,31,400			
To Carriage		39,200			
To Gross profit c/d		1,55,000			
		9,19,200			9,19,200
To Rent and taxes		9,400	By Gross profit b/d		1,55,000
To Salaries and wages		18,600	By Discount		8,880
To Bank interest	2,200				
Add: Due	3,400	5,600			
To Printing and stationary	28,800				
Less: Prepaid (1/4)	7,200	21,600			
To Discount allowed		3,600			
To General expenses		22,900			
To Insurance		2,600			
To Postage & telegram expenses		4,660			
To Travelling expenses		1,740			
To Provision for bad debts [W.N.(2)]		2,300			
To Provision for discount on debtors [W.N.(2)]		874			
To Depreciation on furniture & fittings		1,000			
To Net profit		69,006			
		1,63,880			1,63,880

Balance Sheet of Manan as at 31st March,2020

Liabilities	₹	₹	*Assets*	₹	₹
Capital	1,53,380		Furniture & fittings	10,000	
Add: Net profit	69,006		*Less:* Depreciation	1000	9,000
	2,22,386		Sundry debtors (W.N.1)	46,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 60,000			& doubtful debts (W.N.2)	2,300	

Goods 1,200 61,200	1,61186		43,700	
Bank loan	40,000	*Less:* Provision for		
Bank interest due	3,400	discount (W.N.2)	874	42,826
Sundry creditors (W.N.3)	28,400	Stock		1,57,200
		Prepaid expenses:		
		Printing & stationary		7,200
		Bank balance		16,000
		Cash balance		760
	2,32,986			2,32,986

Working Notes:

(1) Sundry debtors

Balance as per trial balance	48,000
Less: Due to Rahul	2,000
	46,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 46,000	2,300

Provision for discount:

2% on ₹ 43,700 (46,000 -2,300)	874

(3) Sundry creditors

Balance as per trial balance	29,600
Less: Set off in respect of Rahul	2,000
	27,600
Add: Purchase invoice omitted	800
	28,400

14. (a) In the Books of Rose, Lilly and Lotus

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

Particulars	₹	Particulars		₹
To Salary to Lotus	50,000	By Net Profit b/d	3,34,600	
To Interest on capital		Add: Drawings of		
Rose 24,000		Lotus wrongly debited		
Lilly 36,000		as salaries	10,000	3,44,600
Lotus 48,000	1,08,000			
		By Interest on drawings		
To Net Profit transferred to		Rose 2,400		

Rose 50,000 Lilly 64,000 Lotus 78,000	1,92,000	Lilly 1,800 Lotus 1,200	5,400
	3,50,000		**3,50,000**

Partners' Capital Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Balance c/d	2,00,000	3,00,000	4,00,000	By Bank	2,00,000	3,00,000	4,00,000
	2,00,000	**3,00,000**	**4,00,000**		**2,00,000**	**3,00,000**	**4,00,000**
				By balance b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Tuition fees			10,000	By Interest on capital	24,000	36,000	48,000
To Drawings	40,000	30,000	20,000	By Salary			50,000
To Interest on drawings	2,400	1,800	1,200	By Net Profit	50,000	64,000	78,000
To balance c/d	31,600	68,200	1,44,800				
	74,000	**1,00,000**	**1,76,000**		**74,000**	**1,00,000**	**1,76,000**
				By balance b/d	31,600	68,200	1,44,800

(b) Total Profit for 4 years = ₹ 5000+ ₹ (8,500) +₹ 25,000+₹ 37,500= ₹ 59,000.

Average profits = $\frac{\text{Total Profit}}{\text{No of Years}} = \frac{₹\ 59{,}000}{4}$ = ₹14,750

Average Profits for Goodwill = ₹ 14,750 – Proprietor Remuneration

= ₹ 14,750 – ₹ 3,000 = ₹ 11,750

Normal Profit = Interest on Capital employed

= ₹ 10,000 (i.e. ₹ 1,00,000 x10/100) = ₹ 10,000

Super Profit = Average Profit-Normal Profit = ₹ 11,750 – ₹ 10,000 = ₹ 1,750

Goodwill = Super Profit x No of years purchases = ₹ 1,750 x 3 =₹ 5,250

15. **In the books of Ramu, Mamu and Damu**

Revaluation A/c

Particulars		₹	Particulars	₹
To machinery		36,000	By Building	75,000
To Bad debts		2,800		
To Reserve for Bad debts		2,000		
To Furniture		4,000		
To Inventory		5,200		
To Profit on revaluation				
Ramu	15,000			
Mamu	10,000	25,000		
		75,000		75,000

Partner's Capital A/cs

Particulars	Ramu	Mamu	Damu	Particulars	Ramu	Mamu	Damu
				By Balance b/d	2,10,000	1,90,000	
To Ramu, Mamu			50,000	By bank			1,50,000
				By Damu	25,000	25,000	
To Bank (b/f)	36,000	99,000		By General reserve	36,000	24,000	
To balance c/d (working note)	2,50,000	1,50,000	1,00,000	By revaluation	15,000	10,000	
	2,86,000	2,49,000	80,000		2,86,000	2,49,000	1,50,000

Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	24,000	By Ramu's capital	36,000
To Damu's capital	1,50,000	By Mamu's capital	99,000
		By balance c/d	39,000
	1,74,000		1,74,000

Balance Sheet as on 1st April, 2020 (after admission)

Liabilities	₹	Assets		₹
Capital Accounts:		Land & Building		2,25,000
Ramu	2,50,000	Machinery		1,44,000
Mamu	1,50,000	Furniture		40,000
Damu	1,00,000	Trade Receivables	40000	
Loan from HDFC bank	25,000	Reserve for Bad debts	2,000	38,000
Trade Payables	21,000	Inventory		60,000
		Bank		39,000
	5,46,000			5,46,000

Working Note:

Partner	Old Share		Sacrificed Share		New Share
Ramu	3/5	-	1/10	=	5/10
Mamu	2/5	–	1/10	=	3/10
Damu		–	2/10 (gain)	=	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share- The closing balances will be fixed first as follows-

Capital and goodwill brought in by Damu - ₹ 1,50,000

His share of goodwill- 2,50,000 x 1/5 ₹ (50,000)

Amount brought in as capital ₹1,00,000

Total capital of the firm based on his share 1,00,000 x 5 = ₹ 5,00,000

Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio

Closing capital of Ramu ($5/10^{th}$ share) = 5,00,000 x 5/10 = 2,50,000

Closing capital of Mamu ($3/10^{th}$ share) = 5,00,000 x 3/10 = 1,50,000

Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books

16. In the books of Rotary Club

Dr Income and expenditure Account for the year ended on 31^{st} March, 2020 Cr

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries and wages	12,250	By Subscriptions (W.N. 4)	22,000

To Depreciation (W.N. 3)	10,300	By Net proceeds from refreshments (22,000-18,250)	3,750
To Telephone Charges	2,800	By Entrance fees (50% x 26,000)	13,000
To Electricity charges (W.N. 5)	14,000	By Interest on investments	4,550
To Honorarium charges	6,500	By Excess of expenditure over income	2,550
	45,850		45,850

Balance sheet as on 31st March, 2020

Liabilities		Amount (₹)	Assets	Amount (₹)
Opening capital fund	1,13,880		Sports Equipment	50,500
Less: Deficit	(2,550)	1,11,330	Furniture	11,180
Entrance fees		13,000	7% Investments	65,000
Outstanding electricity charges		3,800	Subscription in arrears	5,200
Subscription in advance		4,850	Cash	1,100
		1,32,980		1,32,980

Working notes

1. Investments made- $\frac{\text{Income earned during the year}}{\text{Rate of interest}} = \frac{4,550}{7\%} = 65,000$

2. **Balance sheet as on 31st March, 2019**

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening capital fund (B/f)	1,13,880	Sports Equipment	32,000
Accrued electricity charges	5,400	Furniture	12,480
Subscription in advance	6,250	7% Investments	65,000
		Subscription Outstanding	7,600
		Cash	8,450
Total	1,25,530		1,25,530

3. Computation of depreciation-

Sports equipment

Particulars	Amt (Rs)
Sports equipment as on 31st, March 2019	32,000
Add: Purchases during the year	27,500
Less: Closing balance of equipment as on 31st, March 2020	(50,500)
Depreciation on sports equipment for the year ended 31st, March 2020	9,000

Furniture

Particulars	Amt (₹)
Furniture as on 31st, March 2019	12,480
Add: Purchases during the year	-
Less: Closing balance of equipment as on 31st, March 2020	(11,180)
Depreciation on furniture for the year ended 31st, March 2020	1,300

Total Depreciation = ₹ 10,300 (9,000+1,300)

4. **Subscription to be credited to income and expenditure account for the year 2020**

Dr **Subscription A/c** (year ended on 31st March, 2020) Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding at the beginning (2019)	7,600	By Advance at the beginning (2019)	6,250
To Income and Expenditure A/c	22,000	By Receipts and payments A/c	23,000
To Advance at the end (2021)	4,850	By Outstanding at the end (2020)	5,200
	34,450		34,450

5. Electricity charges to be debited to Income and expenditure Account-

Electricity charges paid for year 2020	15,600
Add: Outstanding charges for year 2020	3,800
Less: Outstanding charges for year 2019	5,400
Electricity charges to be debited to Income and Expenditure A/c	14,000

17. **Book of Alankit Limited**

Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c To Equity Share Application A/c (Money received on applications for 2,00,000 shares @₹ 25 per share)	Dr.		50,00,000	 50,00,000
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital)	Dr.		50,00,000	 50,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 30 per share)	Dr.		60,00,000	 60,00,000
	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.		60,00,000	 60,00,000
	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 2,00,000 shares at ₹ 20 per share)	Dr.		40,00,000	 40,00,000
	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 2,00,000 shares at ₹25 per share)	Dr.		50,00,000	 40,00,000 10,00,000
	Equity Share Final Call A/c To Equity Share capital A/c (Being final call made due on 2,00,000 shares at ₹25 each)	Dr.		50,00,000	 50,00,000
	Bank A/c Calls in Advance A /C Calls in Arrears A/c (Being final call received for 1,56,000	Dr. Dr. Dr.		39,00,000 10,00,000 1,00,000	 50,00,000

	shares and calls in advance for 40,000 shares adjusted)				
	Interest on Calls in Advance A/c To shareholders A/c Being interest made due on calls in advance of ₹10,000,00 at the rate of 12% p.a.)	Dr.		30,000	 30,000
	Shareholders A/c To bank A/c (Being payment of Interest made to shareholders)	Dr.		30,000	 30,000
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		1,667	 1,667
	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.		1,01,667	 1,00,000 1,667

18.

Particulars		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (12,000 x ₹75) To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 12,000 preference shares ₹75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)	Dr.	9,00,000	 3,00,000 3,00,000 3,00,000
Bank A/c (10,000 x ₹65) Forfeited Shares A/c (10,000 x ₹10) To Preference Share Capital A/c (Being re-issue of 10,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution	Dr. Dr.	6,50,000 1,00,000	 7,50,000

No.....dated....)			
Forfeited Shares A/c To Capital Reserve A/c (Working Note) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	1,50,000	1,50,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 3,00,000/12,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 10,000 = ₹ 1,50,000.

19. **Books of Priya Ltd.**

Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	1,00,00,000	1,00,00,000
Debenture Application A/c To 12% Debentures A/c (Application money transferred to 12% debentures account consequent upon allotment)	Dr.	1,00,00,000	1,00,00,000
Debenture allotment A/c Discount on issue of debentures A/c To 12% Debentures A/c (Amount due on allotment)	Dr. Dr.	1,25,00,000 25,00,000	15,000,000
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	1,25,00,000	125,00,000

20. (i) **Fundamental Accounting Assumptions:** Fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

(i) *Going Concern*: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(ii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iii) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

   (ii) The rationale behind the opening of a suspense account is to tally the trial balance.

   (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (iv) A partnership firm can acquire fixed assets in the name of the firm.

   (v) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

   (vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (vii) The debit notes issued are used to prepare Sales Return Book.

   (viii) Bills receivable and bills payable books are type of subsidiary books.

   (ix) The results and position disclosed by final accounts are not exact.

Theoretical Framework

2. (a) Explain Cash and Mercantile system of accounting.

   (b) State the advantages of setting Accounting Standards.

Journal Entries

3. (a) M/s Shyam Textiles & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

   (i) A purchase of ₹ 4,700 from M/s Timber & Co. was recorded in the accounts of M/s Ginger & Co. as ₹ 7,400. Day Book entry has also been passed incorrectly.

   (ii) A sale of ₹ 9,500 to M/s Aman Bros. was recorded in M/s Manan Bros account as ₹ 5,900. Day Book entry has also been incorrectly passed.

   (iii) Discount allowed ₹ 230 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 320, because discount allowed of ₹ 90 to M/s Aman Bros. has been omitted.

   (iv) A cheque of ₹ 6,400 drawn by M/s Aman Bros. has been dishonoured, but wrongly debited to M/s Manan Bros.

How will the above errors impact trial balance?

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

-- Legal fees on the acquisition of land.

-- Complete repaint of existing building.

-- Repainting of a delivery van.

-- Providing drainage for a new piece of water-extraction equipment.

-- Carriage costs on a replacement part for a piece of machinery.

Cash Book

4. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2021			₹
June	1	Received ₹ 1,00,000 for petty cash	
"	2	Paid taxi fare	2,000
"	3	Paid cartage	10,000
"	4	Paid for courier	2,000
"	5	Paid wages	2,400
"	5	Paid for stationery	1,600
"	6	Paid for the repairs to machinery	6,000
"	6	Auto fare	400
"	7	cartage	1,600
"	7	Paid for courier	2,800
"	8	Cartage	12,000
"	9	Stationery	8,000
"	10	Sundry expenses	20,000

Rectification of Errors

(b) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Machinery sold on credit to Mohan recorded in Journal Properly but omitted to be posted.

(iii) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

(iv) Purchase worth ₹ 4,500 from Mr. X not recorded in subsidiary books.

(v) Credit sale wrongly passed through the Purchase Book.

Bank Reconciliation Statement

5. On 31st March, 2021 the pass-book of a trader showed a credit balance of ₹ 15,65,000 but the passbook balance was different for the following reasons from the cash book balance:

Cheques issued to 'X' for ₹ 60,000 and to 'Y' for ₹ 3,84,000 were not yet presented for payment.

Bank charged ₹ 350 for bank charges and 'Z' directly deposited ₹ 1,816 into the bank account, which were not entered in the cash book.

Two cheques-one from 'A' for ₹ 5,15,000 and another from 'B' for ₹ 12,500 were collected in the first week of April, 2021 although they were banked on 25.03.2021.

Interest allowed by bank ₹ 4,500.

Prepare a bank reconciliation statement as on 31st March, 2021.

Valuation of Inventories

6. Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

(i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was ₹ 2,40,000.

(ii) On 30th September, stock sheet showed the following discrepancies:

(a) A page total of ₹ 15,000 had been carried to summary sheet as ₹ 16,000.

(b) The total of a page had been undercast by ₹ 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled ₹ 2,10,000. Out of this ₹ 9,000 related to goods received prior to 30th September, 2020. Invoices entered in April,2021 relating to goods received in March, 2021 totaled ₹12,000.

(iv) Sales invoiced to customers totaled ₹2,70,000 from September,2020 to March, 2021. Of this ₹ 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled ₹ 12,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

Concept and Accounting of Depreciation

7. The M/s Nishant Transport purchased 10 Buses at ₹ 15,00,000 each on 1st April 2017. On October 1st, 2019, one of the Buses is involved in an accident and is completely destroyed and ₹ 7,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 18,00,000. The company write off 10% on the original cost per annum. The company observe the calendar year as its financial year.

   You are required to prepare the buses account for two year ending 31 Dec, 2020.

Bills of Exchange

8. Prepare Journal entries for the following transactions in David's books.

   (i) David's acceptance to Samuel for ₹ 5,000 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 100 for interest.

   (ii) Samantha's acceptance for ₹ 8,000 which was endorsed by David to Flex was dishonoured. Flex paid ₹ 50 noting charges. Bill withdrawn against cheque.

   (iii) Simon retires a bill for ₹ 2,000 drawn on him by David for ₹ 20 discount.

   (iv) David's acceptance to Ralph for ₹ 20,000 discharged by Ralph's Kent's acceptance to David for a similar amount.

Consignment

9. Shikha of Delhi consigned to Reema of Mumbai, goods to be sold at invoice price which represents 125% of cost. Reema is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Shikha were ₹ 45,000. The account sales received by Shikha shows that Reema has effected sales amounting to ₹ 4,50,000 in respect of 75% of the consignment. Her selling expenses to be reimbursed were ₹ 36,000. 10% of consignment goods of the value of ₹ 56,250 were destroyed in fire at the Mumbai godown. Reema remitted the balance in favour of Shika.

   You are required to prepare consignment account in the books of Shikha along with the necessary calculations.

Sales of goods on approval or return basis

10. On 31st December, 2020 goods sold at a sale price of ₹ 6,000 were lying with customer, Sapna to whom these goods were sold on 'sale or return basis' were recorded as actual

sales. Since no consent has been received from Sapna, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Average Due Date

11. Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2021	2 months	20,000
10th March, 2021	3 months	15,000
5th April, 2021	2 months	10,000
23rd April, 2021	1 months	18,750
10th May, 2021	2 months	25,000

Account current

12. Mr. P owed ₹ 12,000 on 1st January, 2021 to Mr. Q. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2021 Mr. Q sold goods to Mr. P	6,690
29 January, 2021 Mr. Q bought goods from Mr. P	3,600
10 February, 2021 Mr. P paid cash to Mr. Q	3,000
13 March, 2021 Mr. P accepted a bill drawn by Mr. Q for one month	6,000

They agree to settle their complete accounts by one single payment on 15th March, 2021.

Prepare Mr. P in Account Current with Mr. Q and ascertain the amount to be paid. Ignore days of grace.

Final accounts and Rectification of entries

13. The following are the balances as at 31st March, 2021 extracted from the books of Mr. Satender.

	₹		₹
Plant and Machinery	78,200	Bad debts recovered	1800
Furniture and Fittings	41,000	Salaries	90,200
Bank Overdraft	3,20,000	Salaries payable	9,800
Capital Account	2,60,000	Prepaid rent	1,200

Drawings	32,000	Rent	17,200
Purchases	6,40,000	Carriage inward	4,500
Opening Stock	1,29,000	Carriage outward	5,400
Wages	48,660	Sales	8,61,200
Provision for doubtful debts	12,800	Advertisement Expenses	13,400
Provision for Discount on debtors	5,500	Printing and Stationery	5,000
Sundry Debtors	4,80,000	Cash in hand	5,800
Sundry Creditors	1,90,000	Cash at bank	12,500
Bad debts	4,400	Office Expenses	40,640
		Interest paid on loan	12,000

Additional Information:

1. Purchases include sales return of ₹ 10,300 and sales include purchases return of ₹ 6,900.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 14,000 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 1,800 were included in wages account.
4. Free samples distributed out of purchases for publicity costing ₹ 3,300.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date. Also show the rectification entries.

Partnership Accounts

Profit and Loss Appropriation Account

14. (a) X, Y and Z entered into partnership on 1.1.2020 to share profits and losses in the ratio of 5:3:2. X personally guaranteed that Z's share of profit after charging interest on capitals at 6 % p.a. would not be less than ₹ 15,000 in any year. Capitals of X, Y and Z were ₹ 1,60,000, ₹ 1,00,000 and ₹ 80,000 respectively.

Profits for the year ending 31.12.2020 before providing for interest on partners capital was ₹ 79,500.

You are required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

(b) Amar, Akbar and Anthony are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2020 was as follows:

Balance Sheet of M/s Amar, Akbar, Anthony

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	10,00,000
Amar	1,70,000	Inventory	2,00,000
Akbar	6,30,000	Trade receivables	1,00,000
Anthony	4,50,000	Bank	10,000
Trade payables	60,000		
	13,10,000		13,10,000

The partnership earned profit ₹ 4,00,000 in 2020 and the partners withdrew ₹ 3,00,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 3 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Death of Partner

15. The following is the Balance Sheet of M/s. TMR as at 31st March,2021 they share profit equally:

Balance Sheet as at 31st March, 2021

Liabilities		₹	**Assets**		₹
Capital	Tina	24,600	Machinery		30,000
	Meena	24,600	Furniture		16,800
	Rita	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision for Doubtful debts	1800	25,200
		99,300			99,300

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.

(b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.

(c) ₹ 6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.

(d) After death of Rita, Tina and Meena share profit equally.

Prepare Revaluation Account and Capital Accounts of the partners and also show Journal Entry for Goodwill adjustment.

Financial Statements of Not for Profit Organizations

16. The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

	Receipts	₹	Amount ₹		Payments	Amount₹
To	Balance b/d		900	By	Expenses *(including Payment for sports material ₹ 5,400)*	12,600
	Annual Income from Subscription	9,180				
To	Add: Outstanding of last year received this year	360		By	Loss on Sale of Furniture (cost price ₹ 900)	360
		9,540		By	Balance c/d	1,80,900
	Less: Prepaid of last year	180	9,360			
To	Other fees		3,600			
To	Donation for Building		1,80,000			
			1,93,860			1,93,860

Additional information:

Peppapig club had balances as on 1.4.2020 : -

Furniture ₹ 3,600; Investment at 5% ₹ 54,000;

Sports material ₹ 13,320;

Balance as on 31.3.2021 : Subscription Receivable ₹ 540;

Subscription received in advance ₹ 180;

Stock of sports material ₹ 3,600.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date.

Issue of Shares

17. On 1st April, 2020, States Ltd. issued 1,80,000 shares of ₹ 10 each payable as follows:

    ₹ 2 on application, ₹ 3 on allotment, ₹ 2 on First call 1st October, 2020; and ₹ 3 on Final call 1st February, 2021.

    By 20th May, 1,50,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2021.

Forfeiture of Shares

18. Mr. Samphat who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 60 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at ₹ 50 per share paid-up as ₹60 per share.

    You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

19. Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 20 % discount; and (iii) Debentures are issued at 20% premium.

20. Write short notes on any three of the following:

    (i) Double entry system.

    (ii) Journal.

    (iii) Importance of bank reconciliation to an industrial unit.

    (iv) Bill of exchange and the various parties to it.

SUGGESTED ANSWERS

1. (i) **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

(ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

(iii) **True:** In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(iv) **False**: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.

(v) **False:** It shall be disclosed as a current liability in the opening balance sheet.

(vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

(vii) **False:** The debit notes issued are used to prepare purchases return book.

(viii) **True:** Yes, they are types of subsidiary books which is alternate to the journals.

(ix) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

2. (a) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

(b) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

3. (a) Journal Proper of Shyam Textiles & Co.

Rectification Entries

	Particulars	Dr.	Cr.
		Amount	Amount
		₹	₹
(i)	M/s Ginger & Co. A/c	7,400	
	To M/s Timber & Co. A/c		4,700
	To Purchases A/c		2,700
	(Rectification of purchase entry for ₹ 4,700 dated....as ₹ 7,400 in M/s Ginger & Co A/c in place of M/s. Timber & Co.'s A/c).		
(ii)	M/s Aman Bros. A/c	9,500	
	To Sales A/c		5,900
	To M/s Manan Bros. A/c		3,600
	(Rectification of sale entry for ₹ 9,500 dated ....as ₹ 5,900 in M/s Manan Bros A/c in place of M/s Aman Bros. A/c).		
(iii)	Discount Allowed A/c	320	
	To Commission A/c		230
	To M/s Aman Bros. A/c		90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated....).		
(iv)	M/s Aman Bros. A/c	6,400	
	To Manan Bros A/c		6,400
	(Wrong posting for the dishonoured cheque dated.... is being rectified).		

Since all the errors are two-sided in nature, Trial Balance will tally even if the rectifications are not done.

(b) -- Legal fees on acquisition of land: capital

-- Complete repaint: revenue

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Carriage costs on replacement part: revenue.

4. (a) **PETTY CASH BOOK**

Receipts ₹	Date 2021	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Courier ₹	Wages ₹	Sundries ₹
1,00,000	June1		To Cash							
	2	1	By Conveyance	2,000	2,000					
	3	2	By Cartage	10,000		10,000				
	4	3	By Courier	2,000				2,000		
	5	4	By Wages	2,400					2,400	
	5	5	By Stationery	1,600			1,600			
	6	6	By Repairs to machine	6,000						6,000
	6	7	By Conveyance	400	400					
	7	8	By Cartage	1,600		1,600				
	7	9	By Courier	2,800				2,800		
	8	10	By Cartage	12,000		12,000				
	9	11	By Stationery	8,000			8,000			
	10	12	By Sundry Expenses	20,000						20,000
				68,800	2,400	23,600	9,600	4,800	2400	26,000
			By Balance c/d	31,200						
1,00,000				1,00,000						
31,200			To Balance b/d							
68,800	11		To Cash							

(b) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

5. (i) Bank Reconciliation Statement as on 31st March, 2021

Particulars	Details ₹	₹	Amount ₹
Credit balance as per the pass book			15,65,000
Add: Cheques deposited into bank but not yet collected	A: 5,15,000		
	B: 12,500	5,27,500	
Bank charges debited by the bank		350	5,27,850
Less: Cheques issued but not presented for payment	X: 60,000		20,92,850
	Y: 3,84,000	4,44,000	
Direct deposit of cash in bank by Z		1,816	
Interest allowed by the bank		4,500	(4,50,316)
Debit balance as per the cash book			16,42,534

6. Valuation of Physical Stock as at March 31, 2021

		₹
Stock at cost on 30.09.2020		2,40,000
Add: (1) Undercasting of a page total	600	
(2) Goods purchased and delivered during September March, 2021		
₹ (2,10,000 – 9,000 + 12,000)	2,13,000	
(3) Cost of sales return ₹ (3,000 – 600)	2,400	2,16,000
		4,56,000
Less:(1) Overcasting of a page total ₹ (16,000 – 15,000)	1,000	
(2) Goods sold and dispatched during January – March, 2021		
₹ (2,70,000 – 15,000 +12,000) 2,67,000		
Less: Profit margin $\left(2{,}67{,}000 \times \frac{25}{125}\right)$ 53,400	2,13,600	2,14,600
Value of stock as on 31st March, 2021		2,41,400

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 1,20,000 goods delivered in March, 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

7. **Buses A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d	1,23,75,000	Oct-01	By bank A/c	7,00,000
Oct-01	To Bank A/c	18,00,000	Oct-01	By Depreciation on lost assets	1,12,500
			Oct-01	By Profit & Loss A/c (Loss on settlement of Bus)	4,25,000
			Dec-31	By Depreciation A/c	13,95,000
			Dec-31	By balance c/d	1,15,42,500
		1,41,75,000			1,41,75,000
2020			2020		
Jan-01	To balance b/d	1,15,42,500	Dec-31	By Depreciation A/c	15,30,000
			Dec-31	By balance c/d	1,00,12,500
		1,15,42,500			1,15,42,500

Working Note:

1. To find out loss/Profit on settlement of Bus

	₹
Original cost as on 1.4.2017	15,00,000
Less: Depreciation for 2017	1,12,500
	13,87,500
Less: Depreciation for 2018	1,50,000
	12,37,500
Less: Depreciation for 2019 (9 months)	1,12,500
	11,25,000
Less: Amount received from Insurance company	7,00,000
Loss on Settlement of Bus	4,25,000

8. Books of David

Journal Entries

			Dr. ₹	**Cr.** ₹
(i)	Bills Payable Account	Dr.	5,000	
	Interest Account	Dr.	100	
	To Cash A/c			1,000
	To Bills Payable Account			4,100
	(Bills Payable to Samuel discharged by cash payment of ₹ 1,000 and a new bill for ₹4,100 including ₹ 100 as interest)			
(ii)	(a) Samantha	Dr.	8,050	
	To Flex			8,050
	(Samantha's acceptance for ₹ 8050 endorsed to Flex dishonoured, ₹ 20 paid by Flex as noting charges)			
	(b) Flex	Dr.	8,050	
	To Bank Account			8,050
	(Payment to Flex on withdrawal of bill earlier received from Mr. Samantha)			
(iii)	Bank Account	Dr.	1,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			2,000
	(Payment received from Simon against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 20)			
(iv)	Bills Payable Account	Dr.	20,000	
	To Bills Receivable Account			20,000
	(Bills Receivable from Kent endorsed to Ralph in settlement of bills payable issued to him earlier)			

9. Consignment to Mumbai Account in the Books of Shikha

Particulars	₹	***Particulars***	₹
To Goods sent on Consignment A/c	5,62,500	By Goods sent on Consignment A/c (loading)	1,12,500
To Cash A/c	45,000	By Abnormal Loss	49,500
To Reema(Expenses)	36,000	By Reema(Sales)	4,50,000

To Reema(Commission)	49,219	By Inventories on Consignment A/c	91,125
To Inventories Reserve A/c	16,875	By General Profit & Loss A/c	6,469
	7,09,594		7,09,594

Working Notes:

1. Calculation of value of goods sent on consignment:

Abnormal Loss at Invoice price = ₹ 56,250

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

Hence the value of goods sent on consignment = ₹ 56,250 X 100/ 10 = ₹ 5,62,500

Loading of goods sent on consignment = ₹ 5,62,500 X 25/125 = ₹ 1,12,500

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price = ₹ 56,250.

Abnormal Loss at cost = ₹ 56,250 X 100/125 = ₹ 45,000

Add: Proportionate expenses of Shikha (10 % of ₹ 45,000) = ₹ 4,500

₹ 49,500

3. **Calculation of closing Inventories (15%):**

Shikha's Basic Invoice price of consignment = ₹ 5,62,500

Shikha's expenses on consignment = ₹ 45,000

₹ 6,07,500

Value of closing Inventories = 15% of ₹ 6,07,500 = ₹ 91,125

Loading in closing Inventories = ₹ 1,12,500 x 15/100 = ₹ 16,875

Where ₹ 84,375 (15% of ₹ 5,62,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold= 75% of ₹ 5,62,500 = ₹ 4,21875

Excess of selling price over invoice price = ₹ 28,125 (₹ 4,50,000 - ₹ 4,21,875)

Total commission = 10% of ₹ 4,21,875 + 25% of ₹ 28,125

= ₹ 42187.5 + ₹ 7,031.25 = ₹ 49218.75

10. **Journal Entries**

Date 2020	***Particulars***		***Dr.*** ₹	***Cr.*** ₹
31st Dec.	Sales A/c To Sapna's A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	6,000	6,000
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	4,500	4,500

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹6,000
Less: Profit (6,000 x 20/120)	₹ 1,000
Cost of goods	₹5,000

Market price = 5,000 - (5,000 x 10%) = ₹ 4,500.

11. **Calculation of Average Due Date**

(Taking 4th May, 2021 as the base date)

Date of bill	*Term*	*Due date*	*Amount* ₹	*No. of days from the base date i.e. May 4, 2021*	*Product* ₹
2021		2021			
1st March	2 months	4th May	20,000	0	0
10th March	3 months	13th June	15,000	40	6,00,000
5th April	2 months	8th June	10,000	35	3,50,000
23rd April	1 month	26th May	18,750	22	4,12,500
10th May	2 months	13th July	25,000	70	17,50,000
			88,750		31,12,500

$$\text{Average due date} = \text{Base date+ Days equal to } \frac{\text{Total of products}}{\text{Total amount}}$$

$$= 4^{th}\text{ May, 2021} + \frac{₹\,3,11,2500}{88,750} = 4^{th}\text{ May, 2021} + 35\text{ days} = 8^{th}\text{ June, 2021}$$

12. **Mr. P in Account Current with Mr. Q**

(Interest upto 15th March, 2021 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2021						*2021*					
Jan. 01	To	Balance b/d	12,000	74	8,88,000	Jan. 29	By	Purchase account	3,600	45	1,62,000
Jan. 15	To	Sales account	6,690	59	3,94,710	Feb. 10	By	Cash account	3,000	33	99.000
Mar. 13	To	Red Ink product (₹ 6,000 × 29)			1,74,000	Mar. 13	By	Bills Receivable account	6,000		
Mar. 15	To	Interest account $\left(\frac{11,95,710 \times 10 \times 1}{100 \times 365}\right)$	328			Mar. 15	By	Balance of product			11,95,710
							By	Balance c/d (amount to be paid)	6,418		
			19,018		14,56,710				19,018		14,56,710

13. **Rectification Entries**

	Particulars		*Dr.*	*Cr.*
			Amount	*Amount*
			₹	₹
(i)	Returns inward account	Dr.	10,300	
	Sales account	Dr.	6,900	
	To Purchases account			10,300
	To Returns outward account			6,900
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	14,000	
	To Purchases account			14,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	1,800	
	To Wages account			1,800
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			

(iv)	Advertisement expenses account Dr.	3,300	
	To Purchases account		3,300
	(Being free samples distributed for publicity out of purchases, now rectified)		

Trading and Profit and Loss Account of Mr. Satendra for the year ended 31st March, 2021

Dr. *Cr.*

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		1,29,000	By	Sales	8,54,300	
To	Purchases	6,12,400			*Less*: Sales return	10,300	8,44,000
	Less: Purchases return	6,900	6,05,500	By	Closing stock		
To	Carriage inward		4,500		$₹\ 3,20,000 \times \frac{100}{80} \times \frac{100}{80}$		5,00,000
To	Wages		46,860				
To	Gross profit c/d		5,58,140				
			13,44,000				13,44,000
To	Salaries		90,200	By	Gross profit b/d		5,58,140
To	Rent		17,200	By	Bad debts recovered		1800
To	Advertisement expenses		16,700				
To	Printing and stationery		5,000				
To	Bad debts		4,400				
To	Carriage outward		5,400				
To	Provision for doubtful debts						
	5% of ₹ 4,80,000	24,000					
	Less: Existing provision	12,800	11,200				
To	Provision for discount on debtors						
	2.5% of ₹ 4,56,000	11,400					
	Less: Existing provision	5,500	5,900				
To	Depreciation:						
	Plant and machinery 16,000						
	Furniture and fittings	4,100	20,100				
To	Office expenses		40,640				
To	Interest on loan		12,000				
To	Net profit						

(Transferred to capital account)	3,31,200				
	5,59,940				5,59,940

Balance Sheet of Mr. Satendra as on 31st March, 2021

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	2,60,000		Plant and machinery	80,000	
Add: Net profit	3,31,200		*Less*: Depreciation	16,000	64,000
	5,91,200		Furniture and fittings	41,000	
Less: Drawings	46,000	5,45,200	*Less*: Depreciation	4,100	36,900
Bank overdraft		3,20,000	Closing stock		5,00,000
Sundry creditors		1,90,000	Sundry debtors	4,80,000	
Payable salaries		9,800	*Less*: Provision for doubtful debts	35,400	
					4,44,600
			Prepaid rent		1,200
			Cash in hand		5800
			Cash at bank		12,500
		10,65,000			10,65,000

14. (a) **Profit and Loss Appropriation Account for the year ended 31st December, 2020**

Dr. *Cr.*

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	79,500
	X (6% of ₹ 1,60,000)	9,600				
	Y (6% of ₹ 1,00,000)	6,000				
	Z (6% of ₹ 80,000)	4,800	20,400			
To	Partners' capital accounts: [profit (₹ 79,500 – ₹ 20,400) transferred]					
	X $\left(\frac{5}{10} \text{ of ₹ } 59{,}100\right)$	29,550				
	Less: Transferred to Z	3,180	26,370			
	Y $\left(\frac{3}{10} \text{ of ₹ } 59{,}100\right)$					

			17,730			
	Z $\left(\frac{2}{10} \text{ of ₹ } 59{,}100\right)$	11,820				
	Add: Transferred from X	3,180	15,000			
			79,500			79,500

(b)

Valuation of Goodwill:		*₹*
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2020	12,50,000
	Add: 1/2 of the amount withdrawn by partners	1,50000
		14,00,000
	Less: 1/2 of the profit earned in 2020	(2,00,000)
		12,00,000
(2)	Super Profit :	
	Profit of M/s Amar, Akbar ,Anthony	4,00,000
	Normal profit @ 30% on ₹ 12,00,000	3,60,000
	Super Profit	40,000
(3)	Value of Goodwill	
	3 Years' Purchase of Super profit (₹ 40,000 × 3) = ₹ 1,20,000	

15. (i) **Journal Entry in the books of the M/s TMR**

Date	*Particulars*		*Dr.* ₹	*Cr.* ₹
April,5 2021	Tina's Capital A/c	Dr.	3,000	
	Meena's Capital A/c	Dr.	3,000	
	To Rita's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) **Revaluation Account**

Dr. *Particulars*	₹	*Particulars*	*Cr.* ₹
To Furniture A/c (₹ 16,800-13,800)	3,000	By Machinery A/c (₹ 35,100 - 30,000)	5,100

To Inventory A/c (₹ 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Tina - ₹ 300, Meena - ₹ 300, Rita - ₹ 300)	900		
	5,100		5,100

Partners' Capital Accounts

	Tina	Meena	Rita		Tina	Meena	Rita
To Rita (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance c/d	24,900	24,900	–	By Tina (Goodwill)	–	–	3,000
				By Meena (Goodwill)	–	–	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	Tina	Meena	RIta
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

16. Corrected Receipts and Payments Account of Peppapig Club for the year ended 31st March, 2021

Receipts		*₹*	*Amount ₹*	*Payments*		*Amount ₹*
To	Balance b/d		900	By	Expenses (₹ 12,600 – ₹ 5,400)	7,200
To	Subscription Annual Income	9,180		By	Sports Material	5,400

	Less: Receivable as on 31.3.2020	540		By	Balance c/d (Cash in Hand and at Bank)	1,81,440
	Add: Advance received for the year 2020–2021	180				
	Add: Receivable as on 31.3.2020	360				
	Less: Advance received as on 31.3.2020	180	9,000			
To	Other Fees		3,600			
To	Donation for Building		1,80,000			
To	Sale of Furniture		540			
			1,94,040			1,94,040

Income and Expenditure Account of Peppapig club

for the year ended 31st March, 2021

Expenditure			Amount	Income		Amount
			₹			₹
To	Sundry Expenses		7,200	By	Subscription	9,180
To	Sports Material			By	Other fees	3,600
	Balance as on 1.4.2020	13,320		By	Interest on investment (5% on ₹ 54,000)	2,700
	Add: Purchases	5,400				
	Less: Balance as on 31.3.2021	3,600	15,120	By	Deficit: Excess of Expenditure over Income	7,200
To	Loss on sale of Furniture		360			
			22,680			22,680

Balance Sheet of Peppapig club

as on 31st March, 2021

Liabilities		*Amount* (₹)	*Assets*		*Amount* (₹)
Capital Fund	72,000		Furniture	3,600	
Less: Excess of Expenditure over Income	7,200	64,800	*Less*: Sold	900	2,700
			5% Investment		54,000
Building Fund		1,80,000	Interest Accrued		

			on Investment		2,700
Subscription Received in Advance		180	Sports Material		3,600
			Subscription Receivable		540
			Cash in Hand and at Bank		1,81,440
		2,44,980			2,44,980

Working Note:

Balance Sheet of Peppapig Club

as on 1st April, 2020

Liabilities	***Amount***	**Assets**	***Amount***
	₹		₹
Subscription Received in Advance	180	Furniture	3,600
Capital Fund (Balancing Figure)	72,000	Investment	54,000
		Sports Material	13,320
		Subscription Receivable	360
		Cash in Hand and at Bank	900
	72,180		72,180

17. **States Ltd.**

Journal

2020			***Dr.*** ₹	***Cr.*** ₹
May 20	Bank Account	Dr.	3,00,000	
	To Share Application A/c			3,00,000
	(Application money on 1,50,000 shares at ₹ 2 per share received.)			
June 1	Share Application A/c	Dr.	3,00,000	
	To Share Capital A/c			3,00,000
	(The amount transferred to Capital Account on 1,50,000 shares ₹ 2 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	4,50,000	
	To Share Capital A/c			4,50,000

	(Being share allotment made due at ₹ 3 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	4,50,000	
	To Share Allotment A/c			4,50,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	3,00,000	
	To Share Capital Account			3,00,000
	(Amount due from members in respect of first call-on 1,50,000 shares at ₹ 2 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	3,00,000	
	To Share First Call Account			3,00,000
	(Receipt of the amounts due on first call.)			
2021				
Feb. 1	Share Second and Final Call A/c	Dr.	4,50,000	
	To Share Capital A/c			4,50,000
	(Amount due on 1,50,000 share at ₹ 3 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	4,50,000	
	To Share Second & Final Call A/c			4,50,000
	(Amount received against the final call on 1,50,000 shares at ₹3 per share.)			

18. **In the books of Company**

Journal

Particulars		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (12,000 x ₹60)	Dr.	7,20,000	
To Preference Share Allotment A/c			2,40,000
To Preference Share First Call A/c			2,40,000
To Forfeited Share A/c			2,40,000
(Being the forfeiture of 12,000 preference shares ₹ 60 each being called up for non-payment of allotment			

and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (10,000 x ₹50)	Dr.	5,00,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			6,00,000
(Being re-issue of 10,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	1,00,000	
To Capital Reserve A/c (Note 1)			1,00,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 2,40,000/1,20,000	=	₹ 20
Loss on re-issue =₹ 60 – ₹ 50	=	₹ 10
Surplus per share re-issued		₹ 10

Transferred to capital Reserve ₹ 10 x 10,000 = ₹ 1,00,000.

19. **Books of Avantika Ltd.**

Journal

Machinery A/c	Dr.	9,90,000	
To Avneet Ltd.			9,90,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			9,90,000
(10% Debentures issued to Avneet Ltd.)			
Case(ii) When debentures are issued at 20% discount:			
Avneet Ltd.	Dr.	9,90,000	
Discount on Issue of Debentures A/c	Dr.	2,47,500	
To 10% Debentures A/c			12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)			

Case(iii) When debentures are issued at 20% premium:		
Avneet Ltd. Dr.	9,90,000	
To 10% Debentures A/c		8,25,000
To Premium on Issue of Debentures A/c		1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)		

Workings:

(a) Number of debentures issued in case of 20% discount:

	(₹)
Face value	100
Less: Discount 20%	20
Value at which issued	80

₹ 9,90,000/80 = 12,375 Debentures

(b) Number of debentures issued in case of 20% premium:

	(₹)
Face value	100
Add: Premium 20%	20
Value at which issued	120

₹9,90,000/ 120 = 8,250 Debentures

20. **(i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(ii) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

(iii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iv) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business.

   (ii) Sale of office furniture should be credited to Profit and Loss Account.

   (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (iv) A partnership firm can acquire fixed assets in the name of the firm.

   (v) Debenture holders enjoy the voting rights in the company.

Theoretical Framework

2. (a) Distinguish between fundamental accounting assumption and accounting policies.

   (b) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) You are required to pass necessary journal entries in the books of Kewal:

   (i) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.

   (ii) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹1,000

   (iii) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.

   (iv) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.

   (v) Purchased second hand machinery from Jawahar for ₹30,000 against a cheque. Goods of ₹ 12,000 (Cost ₹ 9,000) used in repairs of this machinery which is necessary to make it ready for working.

Capital or Revenue Expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) An extension of railway tracks in the factory area.

   (ii) Amount spent on painting the factory.

(iii) Payment of wages for building a new office extension.

(iv) Amount paid for removal of stock to a new site.

(v) Rings and Pistons of an engine were changed to get full efficiency.

Cash Book

4. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2021			₹
April	1	Received ₹ 40,000 for petty cash	
"	2	Paid auto fare	1,000
"	3	Paid cartage	5,000
"	4	Paid for Courier	1,000
"	5	Paid wages	1,200
"	5	Paid for stationery	800
"	6	Paid for the repairs to machinery	3,000
"	6	Bus fare	200
"	7	Cartage	800
"	7	Courier	1,400
"	8	Cartage	6,000
"	9	Stationery	4,000
"	10	Sundry expenses	10,000

Rectification of Errors

(b) The books of accounts of Dime Ltd. for the year ending 31.3.2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

(i) Return outward book was under cast by ₹ 100.

(ii) ₹ 1,500 being the total of discount column on the credit side of the cash book was not posted.

(iii) ₹ 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.

(iv) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customers' A/c. in the sales ledger.

(v) The Sales of ₹ 10,000 was omitted to be recorded.

Pass rectification entries in the next year.

Bank Reconciliation Statement

5. From the following particulars of M/s Swapnil enterprises, prepare a Bank reconciliation statement:

   (1) Bank overdraft as per Pass Book as on 31st March, 2021 was ₹ 8,800

   (2) Cheques deposited in Bank for ₹ 5,800 but only ₹ 2,000 were cleared till 31st March.

   (3) Cheques issued were ₹ 2,500, ₹ 3,800 and ₹ 2,000 during the month. The cheque of ₹ 5,800 is still with supplier.

   (4) Dividend collected by Bank ₹ 1,250 was wrongly entered as ₹ 1,520 in Cash Book.

   (5) Amount transferred from fixed deposit A/c into the current A/c ₹ 2,000 appeared only in Pass Book

   (6) Interest on overdraft ₹ 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2021.

   (7) Direct deposit by M/s Rajesh Trader ₹ 400 not entered in Cash Book.

   (8) Corporation tax ₹ 1,200 paid by Bank as per standing instruction appears in Pass Book only.

Valuation of Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2021 on which date the total cost of goods in his godown came to ₹ 1,50,000. The following facts were established between 31st March and 15th April, 2021.

   (i) Sales ₹ 1,23,000 (including cash sales ₹ 30,000)

   (ii) Purchases ₹ 15,102 (including cash purchases ₹ 5970)

   (iii) Sales Return ₹ 3,000.

   (iv) On 15th March, goods of the sale value of ₹ 30,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

   (v) The trader had also received goods costing ₹ 24,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

   Goods are sold by the trader at a profit of 20% on sales.

   You are required to ascertain the value of Inventory as on 31st March, 2021.

Concept and Accounting of Depreciation

7. M/s. Seven Seas purchased a second-hand machine on 1st April, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

   Another machine was purchased for ₹ 80,000 on 1st Oct, 2017.

   On 1st Oct, 2019, the machine installed on 1st April, 2017 was sold for ₹ 1,00,000. Another machine for ₹30,000 was purchased and was installed on 31st December, 2019.

   Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from 1st April,2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2021.

Bills of Exchange

8. On 1st January 2021, Swapnil draws two bills of exchange for ₹ 32,000 and ₹ 50,000.

   The bill of exchange for ₹ 32,000 is for two months while the bill of exchange for ₹ 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2021, Vishal requests Swapnil to renew the first bill with interest at 15% p.a. for a period of two months. Swapnil agreed to this proposal. On 25th March, 2021, Vishal retires the acceptance for ₹ 50,000, the interest rebate i.e. discount being ₹ 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

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

Consignment

9. On 1.1.2021, Mr. Sam of Kerala consigned to Mr. Alex of Chennai goods for sale at invoice price. Mr. Alex is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 5,00,000 were consigned to Chennai at the invoice price of ₹ 7,50,000. The direct expenses of the consignor amounted to ₹ 50,000. On 31.3.2021, an account sales was received by Mr. Sam from Mr. Alex showing that he had effected sales of ₹ 6,00,000 in respect of 4/5th of the quantity of goods consigned to him. Mr. Alex's direct expenses were ₹ 15,000. Mr. Alex accepted a bill drawn by Mr. Sam for ₹ 5,00,000 and remitted the balance due in cash.

   You are required to prepare the consignment account and the account of Mr. Alex in the books of Mr. Sam.

Sales of goods on approval or return basis

10. S Ltd. sells goods on Sale or Return basis. Customers having the choice of returning the goods within 15 days. During April 2021, the following are the details of the goods sent:

Date of dispatch	Party's name	Amount ₹
April 2	M/s G	20,000
4	M/s H	36,000
16	M/s I	50,000
20	M/s J	16,000
24	M/s K	42,000
28	M/s L	60,000

Within the stipulated time G and I returned the goods while H, J and K informed that they have accepted the goods. Prepare the following in the books of 'S'.

(i) Goods on "sales or return, sold and returned day books".

(ii) Goods on sales or return total account.

Average Due Date

11. Sunder purchases goods on credit. His due dates for payments were as under:

Transaction Date	*₹*	*Due Date*
March 5	1,200	April 08
April 15	800	May 18
May 10	1,100	June 13
June 5	1,600	July 10

Calculate Average due date.

Account current

12. The following are the transactions that took place between X and Y during the period from 1st October, 2020 to 31st March, 2021:

2020		₹
Oct.1	Balance due to X by Y	3,000
Oct 18	Goods sold by X to Y	2,500
Nov. 16	Goods sold by Y to X (invoice dated November, 26)	4,000
Dec.7	Goods sold by Y to X (invoice dated December, 17)	3,500
2021		₹
Jan. 3	Promissory note given by X to Y, at three months	5,000
Feb. 4	Cash paid by X to Y	1,000
Mar. 21	Goods sold by X to Y	4,300
Mar.28	Goods sold by Y to X (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2021 to be rendered by X to Y, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

Final accounts and Rectification of entries

13. Mr. Bansal submitted to you the following trial balance, which he has not been able to agree. Rewrite the trial balance and prepare trading and profit and loss account for the year ended 31.3.2021 and a balance sheet as on that date after giving effect to the undermentioned adjustments:

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Closing stock	-	18,790
Drawings	3,305	-
Returns inward	-	550
Carriage inward	1,240	-
Deposit with X	-	1,400
Returns outward	840	-
Carriage outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	
	46,505	68,665

Adjustments:

1. Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.
2. Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021.

3. Depreciation to be provided on furniture at 10% per annum.

Partnership Accounts

Profit and Loss Appropriation Account

14. (a) A and B are partners in a firm sharing profits and losses equally. On 1st April, 2020 the balance of their Capital Accounts were : A ₹ 50,000 and B ₹ 40,000. On that date the balances of their Current Accounts were: A ₹ 10,000 (credit) and B ₹ 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2020. B is to get annual salary of ₹ 3,000 which had not been withdrawn. Drawings of A and B during the year were ₹ 1,000 and ₹ 2,000 respectively. The profit for the year ended 31st March, 2021 before charging interest on capital but after charging B's salary was ₹ 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2021 and show Capital and Current Accounts of the Partners for the year.

Calculation of goodwill

(b) Tina and Rita are partners in a firm. Their capitals are: Tina ₹ 6,00,000 and Rita ₹ 4,00,000. During the year ended 31st March, 2021 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 3 years purchase of Super Profit.

Admission and Retirement of Partner

15. Acme & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2021 is as under:

Liabilities		₹	Assets	₹
Capitals:			Land	30,000
Mr. A	2,40,000		Buildings	6,00,000
Mr. B	60,000		Plant and machinery	3,90,000
Mr. C	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)		60,000	Inventories	3,90,000
Long Term Debt		9,00,000	Trade receivables	4,17,000
Bank Overdraft		1,32,000		

Trade payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. F will be admitted as a partner with effect from 1st April, 2021. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹3 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Mr. A, Mr. B and Mr. C in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

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

You are required to prepare

(a) Revaluation account;

(b) Partners capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2021.

Financial Statements of Not for Profit Organizations

16. From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	₹	Payments	₹
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
		Drama expenses	500

		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrear for year 2020-21 ₹900 and subscriptions in advance for 2021-22 ₹ 350.
2. Insurance premium outstanding ₹ 40 and Misc. expenses prepaid ₹90.
3. 50% of donation is to be capitalized.
4. Entrance fees are to be treated as revenue income.
5. 8% interest has accrued on investment for five months.
6. Snooker table costing ₹ 30,000 was purchased on 31st March,2020 and ₹22,000 were paid for it.

Issue of Shares

17. On 1st June, 2020, Suraj Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

₹ 20 on application;

₹ 20 on allotment;

First call of ₹ 30 on 1st Dec, 2020; and

Second and final call of ₹ 30 on 1st March, 2021.

By 20th July, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2021

Forfeiture of Shares

18. Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for non-payment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share. Record the journal entries for forfeiture and reissue of shares.

Issue of Debentures

19. On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.

XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2020-21

20. Write short notes on:

(i) Noting Charges.

(ii) Objective of Accounting Standards.

(iii) Retirement of bills of exchange.

(iv) Over-riding Commission.

SUGGESTED ANSWERS

1. **(i)** **True:** The profit on sale of capital assets should not be added to revenue to ascertain profit since it has not been earned due to normal business operations.

(ii) **False**: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

(iii) **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del-credere commission.

(iv) **False:** A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It can acquire fixed assets in the name of its partners.

(v) **False:** Debenture holders do not enjoy voting rights in company.

2. **(a)**

Fundamental Accounting Assumption	Accounting Policies
There are three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
No disclosures is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed.
If fundamental accounting assumption is not followed, it is to be disclosed in the	If the policy is changed in subsequent year, the effect of

financial statements together with the reasons.	such change should be disclosed in the financial statements.
There is no option to choose fundamental accounting assumptions.	The firm has an option to select a particular policy.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a) **In the books of Kewal**

Journal entries

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Bank A/c	Dr.	9,000	
	Discount allowed A/c	Dr.	1,000	
	To Hari Krishan A/c			10,000
	(Amount received from Hari Krishan after allowing discount of 1,000).			
(ii)	Drawings	Dr.	7,000	
	To Purchases A/c			6,000
	To Cash A/c			1,000
	(Goods and cash withdrawn for personal use).			
(iii)	Free Samples/Sales promotion A/c	Dr.	3,000	
	To Purchases A/c			3,000
	(Being the goods distributes as free samples).			
(iv)	Bank A/c	Dr.	10,000	
	To Commission A/c			10,000
	(Commission received).			
	Commission A/c	Dr.	5,000	
	To Commission received in Advance A/c			5,000
	(Commission received in advance adjusted).			
(v)	Machinery A/c	Dr.	30,000	
	To Bank A/c			30,000
	(Machinery purchased from Jawahar)			
	Machinery A/c	Dr.	9,000	

	To Purchases A/c (Goods used in repairs of Machinery).		9,000

(b) (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.

(iv) Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.

(v) Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

4. (a) **PETTY CASH BOOK**

Receipts ₹	Date 2021	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Courier ₹	Wages ₹	Sundries ₹
40,000	April 1		To Cash							
	2	1	By Conveyance	1,000	1,000					
	3	2	By Cartage	5,000		5,000				
	4	3	By Courier	1,000				1,000		
	5	4	By Wages	1,200					1,200	
	5	5	By Stationery	800			800			
	6	6	By Repairs to machine	3,000						3,000
	6	7	By Conveyance	200	200					
	7	8	By Cartage	800		800				
	7	9	By Courier	1,400				1,400		
	8	10	By Cartage	6,000		6,000				
	9	11	By Stationery	4,000			4,000			
	10	12	By Sundry Expenses	10,000						10,000
				34,400	1,200	11,800	4,800	2,400	1,200	13,000
			By Balance c/d	5,600						

40,000				40,000						
5,600			To Balance b/d							
28,800	11		To Cash							

(b) In the Books of Dime Ltd.

	Particulars	Dr. Amount	Cr. Amount
2021		₹	₹
(i)	Suspense A/c Dr.	100	
	To Profit & Loss Adjustment A/c		100
	(Returns outward book was under cast now rectified).		
(ii)	Suspense A/c Dr.	1,500	
	To Profit & Loss Adjustment A/c		1,500
	(Discount received was not recorded, now rectified)		
(iii)	Office Furniture A/c Dr.	6000	
	To Profit & Loss Adjustment A/c		6000
	(Office furniture purchased wrongly debited to Purchase A/c. now rectified.)		
(iv)	Debtors A/c Dr.	90	
	To Suspense A/c		90
	(Debtors account was posted ₹ 670 in place of 760 now rectified.)		
(v)	Debtors A/c Dr.	10,000	
	To Profit & Loss Adjustment A/c		10,000
	(Sales of ₹10,000 omitted to be recorded, now rectified)		

5. **Bank Reconciliation Statement as on 31st March, 2021**

Particulars		**Amount ₹**
Overdraft as per Pass Book		8,800
Add: (i) Cheques issued but not presented till 31st March	5,800	
(ii) Transfer from fixed deposit	2,000	
(iii) Direct deposit by M/s Rajesh Trader	400	8,200
		17,000

Less: (i) Cheques deposited but not cleared (5,800 - 2,000)	3,800	
(ii) Dividend collected excess recorded in Cash Book (1,520-1,250)	270	
(iii) Interest on overdraft debited in Pass Book only	930	
(iv) Corporation tax paid appeared in Pass Book only	1200	6,200
Overdraft as per Cash Book		10,800

6. Statement of Valuation of Stock on 31st March, 2021

		₹	₹
Value of stock as on 15th April, 2021			1,50,000
Add:	Cost of sales during the period from 31st March, 2021 to 15th April, 2021		
	Sales (₹ 1,23,000 – ₹ 3,000)	1,20,000	
	Less: Gross Profit (20% of ₹ 1,20,000)	24,000	96,000
	Cost of goods sent on approval basis (80% of ₹ 18,000)		14,400
			260400
Less:	Purchases during the period from 31st March, 2021 to 15th April, 2021	15,102	
	Unsold stock out of goods received on consignment basis (30% of ₹ 24,000)	7,200	22,302
			2,38,098

7. Machinery Account in the books of M/s. Seven Seas

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2017	To Bank A/c	1,60,000	31.03.2018	By Depreciation A/c (₹ 20,000 + ₹ 4,000)	24,000
	To Bank A/c (Erection charges)	40,000	31.03.2018	By Balance c/d (₹ 1,80,000 + ₹76,000)	2,56,000
1.10.2017	To Bank A/c	80,000			
		2,80,000			2,80,000
1.4.2018	To Balance b/d	2,56,000	31.03.2019	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.03.2019	By Balance c/d (₹ 1,60,000 +₹ 68,000)	2,28,000
		2,56,000			2,56,000
1.4.2019	To Balance	2,28,000	1.10.2019	By Bank A/c	1,00,000

	b/d				
31.12.2019	To Bank A/c	30,000	1.10.2019	By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.03.2020	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
			31.03.2020	By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			2,58,000
1.4.2020	To Balance b/d	89,250	31.3.2021	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
			31.3.2021	By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	*Machine II*	*Machine III*
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2017-18	20,000	4,000	
Written down value as on 31.03.2018	1,80,000	76,000	
Depreciation for 2018-19	20,000	8,000	
Written down value as on 31.03.2019	1,60,000	68,000	
Depreciation for 2019-20 (Mach I- 6 months)	10,000	8,000	750
Written down value as on 01.10.2019	1,50,000		
Written down value as on 31.03.2020		60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **Journal Entries in the books of Swapnil**

2021			*Dr.* (₹)	*Cr.* (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	32,000	
	Bills receivable (No. 2) A/c	Dr.	50,000	

	To Vishal A/c (Being drawing of bills receivable No. 1 due for maturity on 4.3.2021 and bills receivable No. 2 due for maturity on 4.4.2021)			82,000
March 4	Vishal's A/c To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on renewal)	Dr.	32,000	32,000
March 4	Bills receivable (No. 3) A/c To Interest A/c To Vishal 's A/c (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2021 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)	Dr.	32,800	800 32,000
March 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c (Being the amount received on retirement of bills No.2 before the due date)	Dr. Dr.	49,500 500	50,000
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.	32,800	32,800
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.	16,400	16,400
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.	16,400	16,400

9. **In the books of Mr. Sam**

Consignment Account

Date	***Particulars***	₹	***Date***	***Particulars***	₹
2021			**2021**		
Jan. 1	To Goods sent on Consignment A/c (Invoice price)	7,50,000	Jan. 1	By Goods sent on Consignment A/c (Loading) ₹ (7,50,000 – 5,00,000)	2,50,000
	To Bank A/c – Consignor's Expenses	50,000	Mar.31	By Alex – Sales	6,00,000
				By Stock on Consignment A/c 1/5 × ₹ (7,50,000 + 50,000 + 15,000)	1,63,000
Mar.31	To Alex – Expenses	15,000			
	– Commission* (0.05 × ₹ 6,00,000)	30,000			
Mar.31	To Stock Reserve A/c (₹ 2,50,000 × 1/5)	50,000			
	To Profit on Consignment A/c (transferred to Profit and Loss A/c)	1,18,000			
		10,13,000			10,13,000

*Invoice price of goods sold: = 4/5 of ₹ 7,50,000 = ₹ 6,00,000.

The goods were sold for ₹ 6,00,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Alex.

Alex's Account

	Particulars	*Amount* ₹		*Particulars*	₹	*Amount* ₹
To	Consignment A/c – Sales	6,00,000	By	Consignment A/c:		
				Expenses	15,000	
				Commission	30,000	45,000
			By	Bills Receivable A/c		5,00,000
			By	Bank A/c (Balancing figure)		55,000
		6,00,000				6,00,000

10. (i) Goods on sales or return, sold and returned day book in the books of 'S'

Date 2021	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2021*	*Sold ₹*	*Returned ₹*
Apr. 2	M/s G		20,000	Apr. 17		20,000
Apr. 4	M/s H		36,000	Apr. 19	36,000	
Apr. 16	M/s I		50,000	May 1		50,000
Apr. 20	M/s J		16,000	May 5	16,000	-
Apr. 24	M/s K		42,000	May 9	42,000	-
Apr. 28	M/s L		60,000	May 13		
			2,24,000		94,000	70,000

(ii) In the books of S Ltd.

Goods on Sales or Return Total Account

2021		*Amount ₹*	2021		*Amount ₹*
Apr.	To Customers for Sale on Approval A/c		May. 31	By Goods sent on sales or return M/s G	20,000
2	Returned by G	20,000		M/s H	36,000
4	Sold to H	36,000		M/s I	50,000
16	Returned by I	50,000		M/s J	16,000
20	Sold to J	16,000		M/s K	42,000
24	Sold to K	42,000		M/s L	60,000
30	To bal c/d	60,000			
		2,24,000			2,24,000

11. Calculation of average due date (Base date: 8th April)

Due Date	*Amount ₹*	*No. of days from base date*	*Product ₹*
8th April	1,200	0	0
18th May	800	40	32,000
13th June	1,100	66	72,600
10th July	1,600	93	1,48,800
	4,700		2,53,400

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

$$= \text{8th April} + 2{,}53{,}400/4{,}700$$

$$= \text{8th April} + 54 \text{ days} = \text{1st June}$$

12. **In the books of G**

H in Account Current with G

(interest to 31st March,2021@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product
2020	2020			₹	₹	2020	2020			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2021	2021					2021	2021				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

$$\text{Interest for the period} = \frac{1{,}81{,}600 \times 10 \times 1}{100 \times 365} = ₹\ 50 \text{ (approx.)}$$

13. **Redrafted Trial Balance of Mr. Bansal as on 31st March,2021**

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Drawings	3,305	-
Returns inward	550	-
Carriage inward	1,240	-
Deposit with X	1,400	-
Returns outward	-	840

Carriage outward	725	-
Rent paid	800	-
Rent outstanding	-	150
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	48,190	48,190

Trading and Profit and Loss Account of Mr. Bansal

for the year ended 31st March,2021

Dr.					*Cr.*
Particulars	₹	₹	*Particulars*	₹	₹
To Opening stock		17,500	By Sales	29,000	
To Purchases	13,000		*Less:* Returns inward	(550)	28,450
Less: Returns outward	(840)	12,160	By Stock destroyed by fire		2,000
To Wages		850	By Closing stock		18,790
To Carriage inward		1,240			
To Gross profit		17,490			
		49,240			49,240
To Carriage outward		725	By Gross profit		17,490
To Rent		800			
To Advertisement		950			
To Bad debts		600			
To Provision for doubtful debts (5% of ₹ 4,400)		220			
To Loss of stock by fire		500			

To Depreciation on furniture (10% of ₹1,500)	150		
To Net profit	13,545		
	17,490		17,490

Balance Sheet of Mr. Bansal

as at 31st March,2021

Liabilities		₹	*Assets*		₹
Capital	16,000				
Add: Net profit	13,545		Furniture	1,500	
	29,545		*Less:* Depreciation	150	1,350
Less: Drawings	3,305	26,240	Deposit with X		1,400
Sundry creditors		2,200	Closing Stock		18,790
Outstanding rent		150	Sundry debtors	5,000	
			Less: Bad debts	600	
				4,400	
			Less: Provision for Doubtful Debts	220	4,180
			Insurance claim receivable		1,500
			Cash		1,370
		28,590			28,590

14 (a) Profit and Loss Appropriation Account

for the year ended 31st March, 2021

		₹	₹			₹
To	Salary - B		3,000	By	Net profit	73,000
To	Interest on Capitals:					
	A	2,500				
	B	2,000	4,500			
To	Reserve (10% of 65,500)		6,550			
To	Partners' current accounts:					
	A	29,475				
	B	29,475	58,950			
			73,000			73,000

Partners' Capital Accounts

Date		A	B	Date		A	B
31.03.21	To Balance c/d	50,000	40,000	01.04.20	By Balance b/d	50,000	40,000
		50,000	40,000			50,000	40,000

Partners' Current Accounts

Date		A	B	Date		A	B
01.04.20	To Balance b/d	-	3,000	01.04.20	By Balance b/d	10,000	
31.03.21	To Drawings A/c	1,000	2,000	31.03.21	By Interest on Capital	2,500	2,000
31.03.21	To Balance c/d	40,975	29,475	31.03.21	By Salary		3,000
				31.03.21	By Profit and Loss App A/c	29,475	29,475
		41,975	34,475			41,975	34,475

Note: Profit before charging interest on Capital and Salary to B = 70,000+3,000 =73,000

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 3,00,000 \times 100}{20} = ₹\ 15,00,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 15,00,000 – ₹ 10,00,000 [i.e., ₹ 6,00,000 + ₹ 4,00,000]

Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 2,00,000

Average Profit = ₹ 3,00,000

Super Profit = Average profit – Normal Profit

=₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000

Goodwill = Super Profit x Number of years purchase

= ₹1,00,000 x 3 = ₹ 3,00,000

15. (a) **Revaluation Account**

Particulars	Amount`	Particulars		Amount`
To Buildings A/c	30,000	By Investments A/c		9,000
To Plant and Machinery A/c	78,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	83,400	A	91,200	
		B	54,720	
		C	36,480	1,82,400
	1,91,400			1,91,400

Partners' Capital A/c

Particulars	A	B	C	F	Particulars	A	B	C	F
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To B's Loan A/c	-	68,280	-	-	By C and F's Capital A/c	30,000	90,000	-	-
To A and B's Capital A/c			60,000	60,000	By Bank A/c (balancing figure)	31,200	-	2,34,480	1,80,000
To Balance c/d	2,40,000	-	2,40,000	1,20,000					
	3,31,200	1,68,000	3,36,480	1,80,000		3,31,200	1,68,000	3,36,480	1,80,000

Bank Account

Particulars	Amount`	Particulars	Amount`
To A's capital A/c	31,200	By Bank Overdraft A/c	1,32,000
To C's capital A/c	2,34,480	By Balance c/d	3,13,680
To F's capital A/c	1,80,000		
	4,45,680		4,45,680

Balance Sheet of Acme & Co.

as at 1st April, 2021

Liabilities		₹	*Assets*	₹
Capital Accounts:			Land	30,000
A	2,40,000		Buildings	5,70,000
C	2,40,000		Plant and Machinery	3,12,000

F 1,20,000	6,00,000	Furniture	1,29,000
Long Term Debts	9,00,000	Inventories	3,90,000
Trade payables	5,10,000	Trade receivables 4,17,000	
Q's Loan Account	68,280	*Less:* Provision for Doubtful Debts (83,400)	3,33,600
		Balance at Bank	3,13,680
	20,78,280		20,78,280

16. Income and Expenditure Account of Pune Club

for the year ended 31st March,2021

Dr. *Cr.*

Expenditure	₹	₹	Income	₹	₹
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	(2,500)	2,500
To Misc expenses	500		By Subscriptions (WN-2)		12,550
Less: Prepaid	(90)	410	By Entrance fees		1,000
To Insurance premium	200		By Interest on investment [8/100x6,000x5/12]		200
Add: Outstanding	40	240	By Interest received from bank		500
To Stationary		150	By Sale of old newspapers		150
To Drama expenses		500	By Sale of drama tickets		1,050
To Surplus-excess of income over expenditure		14,150			
		17,950			17,950

Balance Sheet of Pune Club

as on 31st March,2021

Liabilities	₹	₹	*Assets*	₹
Capital fund (WN-1)			Snooker table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	2,500	52,650	Interest accrued	200

Outstanding insurance premium	40	Prepaid Misc. expenses	90
Subscription received in advance	350	Subscriptions receivable	900
		Cash in hand	2,650
		Cash at bank	7,200
	53,040		53,040

Working Note:

1. Balance Sheet of Pune Club

as on 31st March,2020

Liabilities	₹	*Assets*	₹
Capital fund (balancing figure)	36,000	Snooker table	30,000
Creditors for Snooker table	8,000	Cash in hand	4,000
		Cash at bank	10,000
	44,000		44,000

2. Subscriptions

	₹
Subscription as per Receipt and Payment A/c	12,000
Add: Outstanding for year 2020-21	900
	12,900
Less: Advance for year 2021-22	(350)
	12,550

17. In the books of Suraj Ltd.

Journal Entries

2020			Dr. ₹	Cr. ₹
July 20	Bank Account To Share Application A/c (Application money on 40,000 shares at ₹ 20 per share received.)	Dr.	8,00,000	8,00,000
Aug 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares ₹ 20 on application. Directors' resolution no........ dated ......)	Dr.	8,00,000	8,00,000

	Share Allotment A/c To Share Capital A/c (Being share allotment made due at ₹ 20 per share. Directors' resolution no...... dated ......)	Dr.	8,00,000	8,00,000
Sept 15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	8,00,000	8,00,000
Dec. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 80,000 shares at ₹ 30 as per Directors, resolution no... dated...)	Dr.	12,00,000	12,00,000
Dec. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	12,00,000	12,00,000
2021 March 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 40,000 share at ₹ 30 per share on second and final call, as per Directors resolution no... dated...)	Dr.	12,00,000	12,00,000
March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at ₹ 30 per share.)	Dr.	12,00,000	12,00,000

18. **In the Books of Delta Ltd.**

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1.	Share capital A/c (600 × ₹ 10)	Dr.		6,000	
	Securities Premium A/c (600 × ₹ 1)	Dr.		600	
	To Calls-in-arrears A/c (600 × ₹ 3)				1,800

	To forfeited Shares A/c (600 × ₹ 8)			4,800
	(Being 600 shares forfeited for non-payment of call money)			
2.	Bank A/c (400 × ₹ 9) Dr.		3,600	
	Forfeited Shares A/c (400 × ₹ 1) Dr.		400	
	To Share Capital A/c (400 × ₹ 10)			4,000
	(Being 400 shares re-issued as fully paid-up for ₹ 9 per share)			
3.	Forfeited Shares A/c Dr.		2,800	
	To Capital Reserve A/c			2,800
	(Being the transfer of profit on re-issue of 400 shares to Z)			
4.	Bank A/c (100 × ₹ 11) Dr.		1,100	
	To Share Capital A/c (100 × ₹ 10)			1,000
	To Securities Premium A/c (100 × ₹ 1)			100
	(Being 100 shares re-issued to X as fully paid-up for ₹ 11 per share)			
5.	Forfeited Shares A/c (₹ 4,800 × 100/600) Dr.		800	
	To Capital Reserve A/c			800
	(Being the transfer of profit on re-issue of 100 shares to X)			

19. **Journal Entries**

Date	Particular	L.F	Dr.	Cr.
2020	Sundry Assets A/c Dr.		4,50,000	
April	Goodwill A/c (Bal. fig) Dr.		50,000	
	To Himalayan Ltd. A/c			4,40,000
	To Sundry Liabilities A/c			60,000
	(Being Assets and liabilities taken over for a net consideration of ₹ 4,40,000)			
	Himalyan Ltd. A/c Dr.		4,40,000	
	To 8% Debentures A/c			4,00,000
	To Securities Premium A/c			40,000
	(Being 4000; 8% Debenture of ₹ 100 each issued at a premium of 10%)			

	Bank A/c Dr. To Debenture Application A/c (Being the application money received for 3000, 8% Debenture)		90,000	90,000
	Debenture Application A/c Dr. To 8% Debenture A/c (Being 3000; 8% Debenture allotted)		90,000	90,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)		1,80,000 45,000	2,10,000 15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)		1,80,000	1,80,000
2021 Mar,31	Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)		45,000	45,000

20. (i) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(ii) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

(iii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (a) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (b) The debit notes issued are used to prepare Sales Return Book.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

   (d) If Closing Stock appears in the Trial Balance then the closing inventory is not entered in Trading Account. It is shown only in the balance sheet.

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

   (f) Discount at the time of retirement of a bill is a gain for the drawee.

   (g) 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.

   (h) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

   (i) Partners can share profits or losses in their capital ratio, when there is no agreement.

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

   (k) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

Theoretical Framework

2. (a) Explain Cash and Mercantile system of accounting.

   (b) Define revenue receipts and give examples. How are these receipts treated? Explain.

Journal Entries

3. (a) Prepare Journal Entries for the following transactions in the books of Honey Singh

   (i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Gurupuarb and the same was deducted from their salaries in the subsequent month.

   (ii) Income tax liability of proprietor ₹ 8,500 was paid out of petty cash.

   (iii) Goods costing ₹10,000 distributed as free samples (Sale Price ₹ 1,2000)

(iv) Purchase of goods from Sunny of the list price of ₹ 15,000. He allowed 10% trade discount, ₹ 200 cash discount was also allowed for quick payment.

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Expenses incurred to keep the machine in working condition.

(ii) Registration fees paid at the time of purchase of a building.

(iii) Expenses incurred for advertisement in newspaper.

(iv) Amount spent on renewal fee of patent rights.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Cash book

4. (a) From the following transactions, prepare the Purchases Returns Book of Sulpher & Co. and post them to ledger :

Date	Debit Note No.	Particulars
04.06.2022	101	Returned to Samuel Mills, Surat – 5 Calculator @ ₹ 100.
09.06.2022		James Mills, Kota – accepted the return of calculator (which were purchased for cash) – 5 Kota Calculator @ ₹ 40.
16.06.2022	102	Returned to David Mills, Bangalore –5 Calculator @ ₹ 260.
30.06.2022		Returned one printer (being defective) @ ₹ 3,500 to Lucas & co.

Rectification of errors

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

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

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

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

(iv) A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobha Traders at ₹ 2,670

Bank Reconciliation Statement

5. The Cash-book of M/s Rajat shows ₹ 1,10,280 as the balance at Bank as on 31st March, 2022. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

   (i) Subsidy ₹ 41,000 received from the government directly by the bank, but not advised to the company.

   (ii) On 15th March,2022 the payments side of the Cash-book was under cast by ₹ 1400.

   (iii) On 20th March,2022 the debit balance of ₹ 8624 as on the previous day, was brought forward as credit balance in Cash-book.

   (iv) A customer of the M/s Rajat, who received a cash discount of 5% on his account of ₹ 80,000, paid to M/s Rajat a cheque on 24th March,2022. The cashier erroneously entered the gross amount in the Cash-Book.

   (v) On 10th March,2022 a bill for ₹ 22,800 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 22,000 only.

   (vi) A cheque issued amounting to ₹ 6,900 returned marked 'out of date'. No entry made in Cash-book.

   (vii) Insurance premium ₹ 3,024 paid directly by bank under a standing order. No entry made in cash-book.

   (viii) A bill receivable for ₹6,120 discounted for ₹ 6,000 with the bank had been dishonoured on 30th March,2022, but advice was received on 1st April,2022.

   (ix) Bank recorded a Cash deposit of ₹ 6,550 as ₹ 6,505.

   Prepare Bank Reconciliation Statement on 31st March,2022.

Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April,2022 on which date the total cost of goods in his godown came to ₹ 2,50,000. The following facts were established between 31st March and 15th April,2022.

   (i) Sales ₹ 2,05,000 (including cash sales ₹ 50,000)

   (ii) Purchases ₹ 25,170 (including cash purchases ₹ 9,950)

   (iii) Sales Return ₹ 5,000

   (iv) On 15th March, goods of the sale value of ₹ 50,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 40,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2022.

Concept and Accounting of Depreciation

7. A Firm purchased an old Machinery for ₹ 37,000 on 1st January,2019 and spent ₹ 3,000 on its overhauling. On 1st July 2020, another machine was purchased for ₹ 10,000. On 1st July 2021, the machinery which was purchased on 1st January 2019, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July,2022, the machine which was purchased on 1st July,2020 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,2020 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,2019

Bill of exchange

8. Mr. Tanu accepted a bill for ₹ 1,00,000 drawn on him by Mr. Manu on 1st August,2021 for 3 months. This was for the amount which Tanu owed to Manu. On the same date Mr. Manu got the bill discounted at his bank for ₹ 98,000.

On the due date, Tanu approached Manu for renewal of the bill. Mr. Manu agreed on condition that ₹ 20,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Tanu should accept a new bill for 3 months. These arrangements were carried through. On 31st December,2021, Tanu became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. Manu.

Consignment

9. Sahu of Shimla consigned 30,000 kgs of Shampoo at ₹ 30 per kg to his agent Harsh at Ooty. He spent ₹ 5 per kg as freight and insurance for sending the Shampoo at Ooty. On the way 200 kgs. of Shampoo lost (which is to be treated as normal loss) and 800 kgs. of Shampoo was destroyed in transit. ₹ 18000 was paid to consignor directly by the Insurance company as Insurance claim.

Harsh sold 15,000 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 Harsh is entitled to 5% commission on sales.

Sales of goods on approval or return basis

10 Mr. Jai sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2022, the Trade Receivables balance stood at ₹ 1,50,000 which included ₹ 13,000 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-

Mr. Narayan ₹ 7,800 and Mr. Ram ₹ 5,200.

Mr. Narayan sent intimation of acceptance on 25th April,2022 and Mr. Ram returned the goods on 15th April, 2022.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March,2022. Show also the entries to be made during April,2022. Value of Closing Inventories as on 31st March,2022 was ₹ 1,00,000.

Average Due Date

11. Karan purchased goods from Arjun, the average due date for payment in cash is 10.08.2021 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,2021

(iii) On 29th July,2021

Account current

12. X has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2021. He has further deposited the following amounts:

Date	Amount (₹)
14-07-2021	1,23,000
18-08-2021	21,000

He withdrew the following amounts:

Date	Amount (₹)
29-07-2021	92,000
09-09-2021	11,500

Show X'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,2021 by means of product of balances method.

Final accounts and Rectification of entries

13. The following is the Trial Balance of Mr. T on 31st March,2022:

	Dr. ₹	Cr. ₹
Capital	-	18,00,000
Drawings	2,10,000	-
Fixed Assets (Opening)	4,20,000	-
Fixed Assets (Additions 01.10.2022)	6,00,000	-
Opening Stock	1,80,000	-
Purchases	48,00,000	-
Purchases Returns	-	2,07,000
Sales	-	66,00,000
Sales Returns	2,97,000	-
Debtors	7,50,000	-
Creditors	-	6,60,000
Expenses	1,50,000	-
Fixed Deposit with Bank	6,00,000	-
Interest on Fixed Deposit	-	60,000
Cash	-	24,000
Suspense A/c	-	6,000
Depreciation	42,000	-
Rent (17 months upto 31.8.2022)	51,000	-
Investments 12% (01.8.2021)	7,50,000	-
Bank Balance	5,07,000	-
	93,57,000	93,57,000

Stock on 31st March,2022 was valued at ₹ 3,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters:

(i) ₹ 60,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 36,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 48,000 was not recorded in the books of account upto 31.03.2022, but the goods were included in stock.

(iii) Purchase returns of ₹ 3,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 18,000 in respect of the period after 31st March,2022.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March,2022.

Partnership Accounts

Profit and Loss Appropriation Account

14. (a) A, B and C entered into partnership on 1.1.2021 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 90,000 in any year. Capitals of A, B and C were ₹ 9,60,000, ₹ 6,00,000 and ₹ 4,80,000 respectively.

Profits for the year ending 31.12.2021 before providing for interest on partners capital was ₹ 4,77,000.

You are required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

(b) Ashu and Suhan are partners in a firm. Their capital are Ashu ₹ 15,00,000 and Suhan ₹ 10,00,000. During the year ended 31st March,2022 the firm earned a profit of ₹ 7,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 5 years' purchase of Super Profit.

Retirement of partner

15 On 31st March,2022, the Balance Sheet of Aadi, Arnav and Aarush sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	1,20,000
Mr. Aadi	80,000	Plant and Machinery	80,000
Mr. Arnav	1,20,000	Stock of goods	48,000
Mr. Aarush	80,000	Sundry debtors	44,000
Sundry Creditors	40,000	Cash and Bank Balances	28,000
	3,20,000		3,20,000

On 1st April, 2022, Aadi desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%. Plant and Machinery be depreciated by 30%.

(ii) Stock of goods to be valued at ₹40,000. Old credit balances of Sundry creditors, ₹8,000 to be written back.

(iii) Provisions for bad debts should be provided at 5%. Joint life policy of the partners surrendered and cash obtained ₹ 30,200.

(iv) Goodwill of the entire firm is valued at ₹56,000 and Aadi's share of the goodwill is adjusted in the A/cs of Arnav and Aarush, who would share the future profits equally. No goodwill account being raised.

(v) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(vi) Amount due to Mr. Aadi is to be settled on the following basis: @ 50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation Account, (b) Capital Accounts of the partners, (c) Cash and Bank Account and (d) Balance Sheet of the new firm M/s Arnav & Aarush as on 1.04.2022.

Financial statements of Not for Profit Organizations

16. From the following information supplied by ABC. Club, prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March 2022.

	01.04.2021 ₹	31.03.2022 ₹
Outstanding subscription	8,40,000	12,00,000
Advance subscription	1,50,000	1,80,000
Outstanding salaries	90,000	1,08,000
Cash in Hand and at Bank	6,60,000	?
10% Investment	8,40,000	4,20,000
Furniture	1,68,000	84000
Machinery	60,000	120000
Sports goods	90,000	150000

Subscription for the year amount to ₹ 18,00,000/-. Salaries paid ₹ 3,60,000. Face value of the Investment was ₹ 10,50,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 84,000. Furniture was sold for ₹ 48,000 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:	₹ 3,00,000
Rent:	₹ 1,44,000 out of which ₹ 12,000 outstanding
Misc. Expenses:	₹ 30,000

Issue and Forfeiture of Shares

17. Radha 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
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 Radha Ltd.

Issue of Debentures

18. Pure Ltd. issues 5,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January,2022. 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.

Short Notes

19. Write short notes on the following:

(i) Going Concern concept.

(ii) Objectives of preparing Trial Balance.

(iii) Retirement of bills of exchange.

(iv) Over-riding Commission.

(v) Trade bill vs. Accommodation bill.

SUGGESTED ANSWERS

1. (a) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (b) **False:** The debit notes issued are used to prepare purchases return book.

   (c) **False:** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

   (d) **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.

   (e) **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.

   (f) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

   (g) **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.

   (h) **False:** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

   (i) **False:** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

   (j) **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.

   (k) **False:** Debenture interest is payable before the payment of any dividend on shares.

2. (a) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

3. (a) **Journal Entries in the books of Honey Singh**

	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Drawings A/c	8,500	
	To Petty Cash A/c		8,500
	(Being the income tax of proprietor paid out of business money)		
(iii)	Sales Promotion A/c	10,000	
	To Purchases A/c		10,000
	(Being the goods costing ₹ 10,000 distributed as free Samples)		
(iv)	Purchase A/c	13,500	
	To Bank A/c		13,300
	To Discount Received A/c		200
	(Being the goods purchased from Sunny for ₹ 15,000 @ 10% trade discount and cash discount of ₹ 200)		

(b) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

4. (a) **Purchase Returns Book**

Date	Debit Note No.	Name of supplier	L.F.	Amount
2022				
Jun. 4	101	Samuel Mills, Surat		500
Jun. 16	102	David Mills, Bangalore		1,300
Jun. 30		Purchases Returns Account (Cr.)		1,800

(b)

S. No.			Debit (₹)	Credit (₹)
(i)	Drawings 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)			
(ii)	Return Inward A/c	Dr.	5,000	
	To Debtors (Personal) A/c			5,000
	(Correction of omission to record return of goods by customers)			
(iii)	Commission A/c	Dr.	4,500	
	To Interest Received			4,500
	(Correcting wrong entry of interest received into commission account)			
(iv)	M/s Sobha Traders A/c	Dr.	90	
	To Suspense A/c			90
	(Being credit sale of ₹ 2,760 posted as ₹ 2,670 i.e. debiting M/s Sobha Traders A/c less by 90, now rectified)			

5. Bank Reconciliation Statement on 31st March,2022 ₹

Bank Balance as per Cash Book				1,10,280
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	41,000	
	(iii)	Debit balance of ₹8624 brought forward as credit balance on 20th March, 2022 in the Cash Book	17,248	
	(vi)	Cheque issued returned marked 'out of date'	6,900	65,148
				1,75,428
Less:	(ii)	Cash Book under cast on 15th March, 2022	1,400	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	400	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	800	
	(vii)	Insurance Premium paid directly by bank under standing instructions	3,024	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	6,120	
	(ix)	Bank recorded short cash deposit	45	11,789
Balance as per Bank Statement				1,63,639

6. Statement of Valuation of Stock on 31st March, 2022

		₹	₹
Value of stock as on 15th April, 2022			2,50,000
Add:	Cost of sales during the period from 31st March,2022 to 15th April, 2022		
	Sales (₹ 2,05,000-5,000)	2,00,000	
	Less: Gross Profit (20% of ₹ 2,00,000)	40,000	1,60,000
	Cost of goods sent on approval basis (80% of ₹ 30,000)		24,000
			4,34,000
Less:	Purchases during the period from 31st March,2022 to 15th April, 2022	25,170	
	Unsold stock out of goods received on consignment basis (30% of ₹ 40,000)	12,000	37,170
			3,96,830

7. **In the books of Firm**

Machinery Account

		₹			₹
1.1.2019	To Bank A/c	37,000	31.12.2019	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2019	By Balance c/d	36,000
		40,000			40,000
1.1.2020	To Balance b/d	36,000	31.12.2020	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2020	To Bank A/c	10,000	31.12.2020	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
		46,000			46,000
1.1.2021	To Balance b/d	39,850	1.7.2021	By Bank A/c(sale)	28,000
1.7.2021	To Bank A/c	25,000	1.7.2021	By Profit and Loss A/c (Loss on Sale – W.N. 1)	305
			31.12.2021	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
1.1.2022	To Balance b/d	30,987	1.7.2022	By Bank A/c (sale)	2,000
			1.7.2022	By Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272
			31.12.2022	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
			31.12.2022	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 2019)			
Depreciation for 2019	4,000		
Written down value as on 31.12.2019	36,000		
Purchase 1.7.2020 (6 months)		10,000	
Depreciation for 2020	5,400	750	
Written down value as on 31.12.2020	30,600	9,250	
Depreciation for 6 months (2021)	2,295		
Written down value as on 1.7.2021	28,305		
Sale proceeds	28,000		
Loss on sale	305		
Purchase 1.7.2021			25,000
Depreciation for 2021 (6 months)		1,388	1,875
Written down value as on 31.12.2021		7,862	23,125
Depreciation for 6 months in 2022		590	
Written down value as on 1.7.2022		7,272	
Sale proceeds		2,000	
Loss on sale		5,272	
Depreciation for 2022			3,469
Written down value as on 31.12.2022			19,656

8. **Journal Entries in the Books of Mr. Manu**

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2021					
Aug.	1	Bills Receivable A/c Dr.		1,00,000	
		To Tanu			1,00,000
		(Being the acceptance received from Tanu to settle his account)			
Aug.	1	Bank A/c Dr.		98,000	
		Discount A/c Dr.		2000	

		To Bills Receivable (Being the bill discounted for ₹ 98,000 from bank)		1,00,000
Nov.	4	Tanu Dr. To Bank A/c (Being the Tanu's acceptance is to be renewed)	1,00,000	1,00,000
Nov.	4	Tanu's A/c Dr. To Interest A/c (Being the interest due from Tanu for 3 months i.e., 80,000x3/12× 12%=240)	2400	2400
Nov.	4	Bank A/c Dr. Bills Receivable A/c Dr. To Tanu A/c (Being amount and acceptance of new bill received from Tanu)	22,400 80,000	1,02,400
Dec.	31	Tanu A/c Dr. To Bills Receivable A/c (Being Tanu became insolvent)	80,000	80,000
Dec.	31	Bank A/c Dr. Bad debts A/c Dr. To Tanu (Being the amount received and written off on Tanu's insolvency)	32,000 48,000	80,000

9. Consignment Account

	₹			₹
To Goods sent on consignment A/c (30,000 kg x ₹ 30)	9,00000	By Consignee's A/c-Sales (15000 kg x ₹ 60)		9,00,000
To Cash A/c (Expenses 30,000 kg x ₹ 5)	1,50,000	By Abnormal Loss A/c (Insurance claim - WN)	18,000	
To Consignee's A/c: Advertisement & Recurring expenses	33,000	Add: Abnormal Loss (WN) (Profit and Loss Account)	10,000	28,000
Commission @ 5% on ₹ 90,0000	45,000	By Consignment Stock A/c		4,93,380

To Profit and loss A/c (Profit on Consignment)	2,93,380		
	14,21,380		14,21,380

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 800 kg	
Total cost (800 x ₹ 30)	24,000
Add: expenses incurred by the consignor @ ₹ 5 per kg	4,000
Gross Amount of abnormal loss	28,000
Less: Insurance claim	(18,000)
Net abnormal loss	10,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (₹)
Total Cost (30,000 kg x ₹30)	30,000	9,00,000
Add: Expenses incurred by the consignor		1,50,000
Less: Value of Abnormal Loss – 800 kgs (WN 1)	(800)	(28,000)
	29,200	10,22,000
Less: Normal Loss	(200)	
	29,000	10,22,000
Less: Quantity of Sampoo sold	(15,000)	
Quantity of Closing Stock	14,000	
Value of 14,000 kgs – (10,22,000/29,000) x 14,000		4,93,380

10.

Date	Particulars		L.F.	₹	₹
2021	Sales A/c	Dr.		13,000	
March 31	To Trade receivables A/c				13,000
	(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.		10,000	
	To Trading A/c (Note 1)				10,000

	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April 25	Trade receivables A/c	Dr.		7,800	
	To Sales A/c				7,800
	(Being goods costing worth ₹ 7800 sent to Mr. Narayan on sale or return basis has been accepted by him)				

Balance Sheet of Mr. Jain as on 31st March, 2022 (Extracts)

Liabilities	₹	Assets	₹	₹
		Trade receivables (1,50,000-13,000)		1,37,000
		Inventories-in-trade	1,00,000	
		Add: Inventories with customers on Sale or Return	10,000	1,10,000
				2,47,000

Notes:

(1) Cost of goods lying with customers = 100/130 x ₹ 13,000 = ₹ 10,000

(2) No entry is required on 15th April, 2022 for goods returned by Mr. Ram. Goods should be included physically in the Inventories.

11.

A	B	C	D = B $\pm$ 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. 2021		
	₹ 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 2021 to 28th Aug. 2021	₹ 1,77,100
(iii)	Payment on 29th July, 2021		
	₹ 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 29.7.2021 to 10.8.2021	₹ 1,74,933

12. X's Current Account with Partnership firm (as on 30.9.2021)

Date	Particulars	Dr. (₹)	Cr. (₹)	Balance (₹)	Dr. or Cr.	Days	Dr. Product (₹)	Cr. Product (₹)
01.07.21	To Bal b/d	85,000		85,000	Dr.	14	11,90,000	
14.07.21	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.21	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.21	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.21	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.21	To Interest A/c	941						
30.09.21	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	1,89,441				39,75,000	5,70,000

Interest Calculation:

On₹ 39,75,000 x 10% x 1/365 = 1,089

On ₹ 5,70,000 x 8% x 1/365 = ₹ 125

Net interest to be debited = 1,214

13. Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	36,000	
	To Drawings			36,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	48,000	
	To Creditors			48,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	6,000	
	To Purchase Returns A/c			3,000
	To Sales Returns A/c			3,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	18,000	
	To Expenses A/c			18,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of Mr. T

for the year ending 31st March, 2022

Dr.					Cr.
		₹			₹
To Opening Stock		1,80,000	By Sales	66,00,000	
To Purchases	48,00,000		Less: Sales Return		
Add: Amount not recorded	48,000		(2,97,000– 3,000)	2,94,000	63,06,000
	48,48,000		By Closing Stock		3,00,000
Less: Purchases Returns					
(2,07,000+3,000)	210,000	46,38,000			
To Gross Profit c/f		17,88,000			
		66,06,000			66,06,000
To Expenses (1,50,000 – 18,000 + 36,000)		1,68,000	By Gross Profit		17,88,000
To Rent (51,000 – 15,000)		36,000	By Interest on Fixed Deposit		60,000
To Depreciation	42,000		By Interest on Investments		60,000
Add: Further Depreciation $(6,00,000 \times \frac{10}{100} \times \frac{6}{12})$	30,000	72,000	$(7,50,000 \times \frac{12}{100} \times \frac{8}{12})$		
To Net Profit		16,32,000			
		19,08,000			19,08,000

Balance Sheet as on 31st March, 2022

Liabilities		₹	Assets		₹
Capital	18,00,000		Fixed Assets	4,20,000	
Add: Net Profit	16,32,000		Additions	6,00,000	
Less: Drawings				10,20,000	
(2,10,000–36,000)	1,74,000	32,58,000	Less: Depreciation	30,000	9,90,000
Creditors	6,60,000		Stock		3,00,000
Add: Purchases not recorded	48,000		Debtors		7,50,000
		7,08,000	Investments		7,50,000
Overdraft		24,000	Interest accrued		60,000
			Bank fixed deposit		6,00,000

			Prepaid Expenses (18,000+15,000)		33,000
			Bank		5,07,000
		39,90,000			39,90,000

14. (a) **Profit and Loss Appropriation Account**

for the year ended 31st December, 2021

Dr. Cr.

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	4,77,000
	A (5% of ₹ 9,60,000)	48,000				
	B (5% of ₹ 6,00,000)	30,000				
	C (5% of ₹ 4,80,000)	24,000	1,02,000			
To	Partners' capital accounts: [profit transferred (₹4,77,000 - 1,02,000)					
	A ($\frac{5}{10}$ of ₹ 3,75,000)	187,500				
	Less: Transferred to C	15,000	1,72,500			
	B ($\frac{3}{10}$ of ₹ 3,75,000)		1,12,500			
	C ($\frac{2}{10}$ of ₹ 3,75,000)	75,000				
	Add: Transferred from A	15,000	90,000			
			4,77,000			4,77,000

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{7{,}50{,}000 \times 100}{20} = ₹\ 37{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 37,50,000 – ₹ 25,00,000 [i.e., ₹ 15,00,000+10,00,000]

Goodwill = ₹ 12,50,000

(ii) **Super Profit Method:**

Normal Profit = Capital Employed x 20/100=25,00,000 x 20/100= ₹ 5,00,000

Average Profit = ₹ 7,50,000

Super Profit = Average profit – Normal Profit

=7,50,000-5,00,000=2,50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 5 = ₹ 12,50,000

15. **Revaluation Account**

Date		Particulars	₹	Date		Particulars	₹
2022				2022			
April	To	Plant & Machinery	24,000	April	By	Land and building	24,000
	To	Stock of goods	8,000		By	Sundry creditors	8,000
	To	Provision for bad and doubtful debts	2,200		By	Cash & Bank - Joint life Policy surrendered	30,200
	To	Capital accounts (profit on revaluation transferred)					
		Mr. Aadi (2/7) 8,000					
		Mr. Arnav(3/7) 12,000					
		Mr. Aarush (2/7) 8,000	28,000				
			62,200				62,200

(b) **Partners' Capital Accounts**

Dr.									Cr.
Particulars		Aadi	Arnav	Aarush	Particulars		Aadi	Arnav	Aarush
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	Aadi's Capital A/c - goodwill	-	4,000	12,000	By	Balance b/d	80,000	1,20,000	80,000
To	Cash & bank A/c - (50% dues paid)	52,000	-	-	By	Revaluation A/c	8,000	12,000	8,000

To	Aadi's Loan A/c - (50% transfer)	52,000	-	-	By	Arnav & Aarush's Capital A/cs - goodwill	16,000	-	-
To	Balance c/d	-	140,000	1,40,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	12,000	64,000
		1,04,000	1,44,000	1,52,000			1,04,000	1,44,000	1,52,000

(c) **Cash and Bank Account**

Particulars		₹	Particulars		₹
To	Balance b/d	28,000	By	Aadi's Capital A/c - 50% dues paid	52,000
To	Revaluation A/c – surrender value of joint life policy	30,200	By	Balance c/d	82,200
To	Arnav's Capital A/c	12,000			
To	Aarush's Capital A/c	64,000			
		1,34,200			1,34,200

(d) **Balance Sheet of M/s Arnav & Aarush as on 01.04.2022**

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	1,20,000	
Mr. Arnav	1,40,000		Add: Appreciation 20%	24,000	1,44,000
Mr. Aarush	1,40,000	2,80,000	Plant & Machinery	80,000	
Mr. Aadi's Loan account		52,000	Less: Depreciation 30%	24,000	56,000
Sundry Creditors		32,000	Stock of goods	48,000	
			Less: revalued	8,000	40,000
			Sundry Debtors	44,000	
			Less: Provision for bad debts 5%	2,200	41,800
			Cash & Bank balances		82,200
		3,64,000			3,64,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	56,000
Mr. Aadi's Share (2/7)	16,000
Gaining ratio of Arnav & Aarush;	
Arnav = ½ - 3/7 = 1/14	
Aarush = ½ - 2/7 = 3/14	
Arnav: Aarush = 1:3	

Therefore, Arnav will bear – ¼ × 16000 or ₹4,000

Aarush will bear = ¾ × 16000 or ₹12,000

16. Receipts and Payments Account for the year ended 31-03-2022

Receipts	₹	Payments	₹
To balance b/d		By Salaries	3,60,000
Cash and bank	6,60,000	By Purchase of sports goods	60,000
To Subscription received (W.N.1)	14,70,000	₹ (1,50,000-90,000)	
To Sale of investments (W.N.2)	4,20,000	By Purchase of machinery	60,000
To Interest received on investment	84,000	₹ (1,20,000-60,000)	
To Sale of furniture	48,000	By Sports expenses	3,00,000
		By Rent paid	1,32,000
		₹ (1,44,000-12,000)	
		By Miscellaneous expenses	30,000
		By Balance c/d	
		Cash and bank	17,40,000
	26,82,000		26,82,000

Income and Expenditure account for the year ended 31-03-2022

Expenditure	₹	₹	Income	₹	₹
To Salaries	3,60,000		By Subscription		18,00,000
Add: Outstanding for 2022	1,08,000		By Interest on Investment		
	4,68,000		Received	84,000	
Less: Outstanding for 2022	(90,000)	3,78,000	Accrued (W.N.5)	21,000	1,05,000
To Sports expenses		3,00,000			

To Rent		1,44,000			
To Miscellaneous exp.		30,000			
To Loss on sale of furniture (W.N.3)		36,000			
To Depreciation (W.N.4)					
Furniture	8,400				
Machinery	9,000				
Sports goods	13,500	30,900			
To Surplus		9,86,100			
		19,05,000			19,05,000

Working Notes:

1. Calculation of Subscription received during the year 2021-22

	₹
Subscription due for 2021-22	18,00,000
Add: Outstanding of 2021	8,40,000
Less: Outstanding of 2022	(12,00,000)
Add: Subscription of 2022 received in advance	1,80,000
Less: Subscription of 2021 received in advance	(1,50,000)
	14,70,000

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

Face value of investment sold: ₹ 10,50,000 × 50% = ₹ 5,25,000

Sales price: ₹ 5,25,000 × 80% = ₹ 4,20,000

Cost price of investment sold: ₹ 8,40,000 × 50% = ₹4,20,000

Profit/loss on sale of investment: ₹ 4,20,000 - ₹ 4,20,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2021	1,68,000
Value of furniture as on 31-03-2022	84,000
Value of furniture sold at the beginning of the year	84,000
Less: Sales price of furniture	(48,000)
Loss on sale of furniture	36,000

4. Depreciation

Furniture -	₹ 84,000 × 10%	=	8,400
Machinery -	₹ 60,000 × 15%	=	9,000
Sports goods –	₹ 90,000 × 15%	=	13500

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2021	10,50,000
Interest @ 10%	1,05,000
Less: Interest received during the year	(84,000)
Interest accrued during the year	21,000

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

17. **In the books of Radha 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)			
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)			

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

18. Total amount of discount comes to ₹ 3,00,000 (₹ 0.6 X 5, 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	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
2nd	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
3rd	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
4th	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000
5th	₹ 50, 00,000	1/5th of ₹ 3,00,000 =	₹ 60,000

19. (i) **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.

(ii) **Objectives of preparing Trial Balance**

The preparation of trial balance has the following objectives:

1 Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. Summarized ledger: Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

(v) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) Prior period items need not be separately disclosed in the current statement of profit and loss.

   (ii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

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

   (iv) The sale value of by-product is credited to Trading Account.

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

   (vi) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

   (vii) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

   (viii) "Listed company" means a company which has its securities only listed with National stock exchange.

   (ix) Partners can share profits or losses in their capital ratio, when there is no agreement.

Theoretical Framework

2. (a) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

   (b) Distinguish between Going concern and cost concept.

Journal Entries

3. (a) Pass a journal entries in the following cases.

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 12,000, Land ₹ 24,000, Furniture ₹ 6,000, Stock ₹ 12,000, Creditors ₹ 6,000, Bank Overdraft ₹ 12,000.

   (ii) Goods distributed by way of free samples, ₹ 6,000.

   (iii) Purchase of goods from Naveen of the list price of ₹ 12,000. He allowed 10%

trade discount, ₹ 300 cash discount was also allowed for quick payment.

(iv) Income tax liability of proprietor ₹ 10,200 was paid out of petty cash.

(v) Sumit became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 3,600.

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Insurance claim received on account of inventory damaged by fire.

(ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.

(iii) Travelling expenses of the chief financial officer on trips abroad for purchase of special machinery.

(iv) Dividend received from XYZ limited during the year.

Cash book

4. (a) Prepare a Triple Column Cash Book for the month of April 2022 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	9,000
1	Cash at bank	36,000
2	Paid into bank	3,000
5	Bought furniture and issued cheque	4,500
8	Purchased goods for cash	1500
12	Received cash from Ms. Kamini	2,940
	Discount allowed to her	60
14	Cash sales	15,000
16	Paid to Ms. Shikha by cheque	4,350
	Discount received	150
19	Paid into Bank	1500
20	Sales through Credit Card	4,000
23	Withdrawn from Bank for Private expenses	1,800
24	Received cheque from Ms. Reema	4,290
	Allowed her discount	60
26	Deposited Ms. Reema's cheque into Bank	

28	Withdrew cash from Bank for Office use	6,000
30	Paid rent by cheque	2,400
30	Bank Charged 1% commission on sale through debit/credit card	

Rectification of errors

(b) Mr. Anirudh 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 ₹ 16,000.

(ii) Sale of goods to Mr. Rahim for ₹ 5,000 was omitted to be recorded.

(iii) Receipt of cash from Mr. Ashok was posted to the account of Mr. Anubhav ₹ 1,200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repairs to Machinery was debited to Machinery Account ₹ 6,100.

(vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries.

Bank Reconciliation Statement

5. On 31st October, 2022, the Cash Book of Mr. Shankar showed an overdrawn position of ₹ 13,530 although his Bank Statement showed only ₹ 9,600 overdrawn. An examination of the two records showed the following errors:

(i) The debit side of the Cash Book was undercast by ₹ 1,200.

(ii) A cheque for ₹ 4,800 in favour of Hari suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.

(iii) A cheque for ₹ 561 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 516 but was shown correctly in the Bank Statement.

(iv) A cheque for ₹ 1,275 from Mr. Satpal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

(v) The Bank had debited a cheque for ₹ 450 to Mr. Shankar Account by mistake, it should have been debited by them to Mr. Kar's Account.

(vi) A dividend of ₹ 300 was collected by the bank but not entered in the Cash Book.

(vii) Cheques totalling ₹ 3,900 drawn on October was not presented for payment.

(viii) Cheque for ₹ 3,600 deposited on 30th October was not credited by the Bank.

(ix) Interest amounting to ₹ 900 was debited by the Bank but yet to be entered in the Cash Book.

You are required to prepare a Bank Reconciliation Statement on 31st October, 2022.

Inventories

6. Raj Ltd. prepared their accounts financial year ended on 31st March 2022. Due to unavoidable circumstances actual stock has been taken on 10th April 2022, when it was ascertained at ₹ 5,00,000. 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.

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

(iii) Sales between 1st April 2022 to 9th April 2022 amounting to ₹ 80,000 as per Sales Day Book.

(iv) Free samples for business promotion issued during 1st April 2022 to 9th April 2022 amounting to ₹ 16,000 at cost.

(v) Purchases during 1st April 2022 to 9th April 2022 amounting to ₹ 40,000 but goods amounts to ₹ 8,000 not received till the date of stock taking.

(vi) Invoices for goods purchased amounting to ₹ 80,000 were entered on 28th March 2022 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, 2022.

Concept and Accounting of Depreciation

7. 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.

Bill of exchange

8. Priya owed ₹5,00,000 to Pratika. On 1st October, 2022, Priya accepted a bill drawn by Pratika for the amount at 3 months. Pratika got the bill discounted with his bank for ₹4,95,000 on 3rd October, 2022. Being unable to pay the amount on due date, Priya approached Pratika for renewal of the bill. Pratika agreed on the conditions that ₹ 2,50,000 be paid immediately together with interest on the remaining amount at 10% per annum for 3 months and for the balance, Priya should accept a new bill at three months. These arrangements were carried out. But afterwards, Priya became insolvent and 60% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Pratika.

Consignment

9. Katen of Pilani consigns 1000 cases of goods costing ₹ 1,500 each to Bharat of Jaipur. Katen pays the following expenses in connection with the consignment:

Particulars	₹
Carriage	30,000
Freight	90,000
Loading Charges	30,000

Bharat sells 700 cases at ₹ 2,100 per case and incurs the following expenses:

Clearing charges	*47,500*
Warehousing and Storage charges	*25,000*
Packing and selling expenses	*7,000*

It is found that 200 cases were lost in transit (which is an abnormal loss) and another 50 cases were in transit. Bharat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Bharat's Account in the books of Katen.

Sales of goods on approval or return basis

10. Anupam supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2022	M/s PQR Co.	20,000	No information till 31.12.2022
12.12.2022	M/s XYZ Co	25,000	Returned on 16.12.2022
15.12.2022	M/s STV Co	22,000	Goods worth ₹ 12,000 returned on 20.12.2022
20.12.2022	M/s XYZ Co	26,000	Goods Retained on 24.12.2022
25.12.2022	M/s PQR Co	21,000	Good Retained on 28.12.2022
30.12.2022	M/s STV Co	23,000	No information till 31.12.2022

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'Anupam' are closed on the 31st December, 2022.

Prepare the following account in the books of 'Anupam'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

Average Due Date

11. (a) A accepted the following bills drawn by B.

On 8th March, 2022 ₹ 16,000 for 4 months.

On 16th March, 2022 ₹ 20,000 for 3 months.

On 7th April, 2022 ₹ 24,000 for 5 months.

On 17th May, 2022 ₹ 20,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and A wants to save ₹ 628 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 628.

Account current

(b) From the following particulars prepare an Account Current to be rendered by X to Y at 31st December, reckoning interest @ 10% p.a.

2022		₹	2022		₹
July 1	Balance owing from Y	600	Sept. 01	Y accepted X's Bill at 3 months date	250
July 17	Goods sold to Y	50	Oct.22	Goods bought from Y	30
Aug. 1	Cash received from Y	650	Nov. 12	Goods sold to Y	20
Aug. 19	Goods sold to Y	700	Dec. 14	Cash received from Y	80
Aug. 30	Goods sold to Y	40			
Sept. 1	Cash received from Y	350			

Final accounts

12. The following is the trial balance of Prakesh as at 31st December, 2022:

	Dr.	Cr.
	₹	₹
Prakesh's capital account		3,83,450
Stock 1st January, 2022	2,34,000	-
Sales	-	19,48,000
Returns inward	43,000	-
Purchases	16,08,500	-
Returns outward	-	29,000

Carriage inwards	98,000	-
Rent & taxes	23,500	-
Salaries & wages	46,500	-
Sundry debtors	1,20,000	-
Sundry creditors	-	74,000
Bank loan @ 14% p.a.	-	1,00,000
Bank interest	5,500	-
Printing and stationary expenses	72,000	-
Bank balance	40,000	-
Discount earned	-	22,200
Furniture & fittings	25,000	-
Discount allowed	9,000	-
General expenses	57,250	-
Insurance	6,500	-
Postage & telegram expenses	11,650	-
Cash balance	1,900	-
Travelling expenses	4,350	-
Drawings	1,50,000	-
	25,56,650	25,56,650

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 15,000 due from Ravi and included among the creditors ₹ 5,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Prakash amounting to ₹ 3,000 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 2,000 had been omitted from the books.

(8) Stock on 31.12.2022 was ₹ 3,93,000.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2022 and (ii) Balance sheet as on 31st December, 2022.

Partnership Accounts

13. P, Q and R were partners in a firm sharing profits in the ratio of 1:2:2. After division of the profits for the year ended 3.03.2022 their capitals were: P Rs. 1,50,000. Q Rs. 1,80,000 and R Rs. 2,10,000. During the year they withdraw Rs. 20,000 each. The profit of the year was Rs. 60,000. The partnership deed provided that interest on capital will be allowed @ 10% p.a. While preparing the final accounts, interest on partners' capital was not allowed.

    You are required to pass the necessary adjustment entity for providing interest on capital.

Calculation of goodwill

14. The profits and losses for the previous years are: 2019 Profit ₹ 15,000, 2020 Loss ₹ 25,500, 2021 Profit ₹ 75,000, 2022 Profit ₹ 1,12,500. The average Capital employed in the business is ₹ 3,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 9,000 p.a. Calculate the value of goodwill on the basis of 3 years' purchases of Super Profits based on the average of 4 years.

Admission of partner

15 Shyam, Sunder and Girdhar are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2022 is as below:

Liabilities		(₹)	Assets	(₹)
Trade payables		56,250	Land & Buildings	92,500
Outstanding Liabilities		5,500	Furniture & Fixtures	18,000
General Reserve		19,500	Closing stock	31,500
Capital Accounts:			Trade Receivables	26,750
Dinesh	37,500		Cash in hand	7,000
Ramesh	37,500		Cash at Bank	5,500
Naresh	25,000	1,00,000		
		1,81,250		1,81,250

The partners have agreed to take Hari as a partner with effect from 1st April, 2022 on the following items:

(i) Hari shall bring ₹ 20,000 towards his capital.

(ii) The value of stock to be increased to ₹ 35,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Provision for bad and doubtful debts should be provided at 2% of the trade receivables.

(iv) The value of Land & Buildings to be increased by ₹ 14,000 and the value of the goodwill be fixed at ₹ 45,000.

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

The outstanding liabilities include ₹ 1,750 due to Aman which has been paid by Shyam. 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 Hari.

Financial statements of Not for Profit Organizations

16. A Doctor Ankur after retiring from Govt. service, started private practice on 1st April, 2021 with ₹ 1,50,000 of his own and ₹ 2,25,000 borrowed at an interest of 12% per annum 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:

Receipts	₹	*Payments*	₹
Own capital	1,50,000	Medicines purchased	1,83,750
Loan	2,25,000	Surgical equipments	1,87,500
Prescription fees	4,95,000	Motor car	2,40,000
Visiting fees	1,87,500	Motor car expenses	90,000
Fees from lectures	18,000	Wages and salaries	78,750
Pension received	2,25,000	Rent of clinic	45,000
		General charges	36,750
		Household expenses	1,35,000
		Household Furniture	18,750
		Expenses on daughter's marriage	1,61,250
		Interest on loan	27,000
		Balance at bank	82,500
		Cash in hand	14,250

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 22,500 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2022 was valued at ₹ 71,250.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2022 and balance sheet as on that date. Ignore depreciation of fixed assets.

Issue of Shares

17. Finopolis Limited is a company with an authorized share capital of ₹ 4,00,00,000 in equity shares of ₹ 10 each, of which 30,00,000 shares had been issued and fully paid on 30th June, 2022. The company proposed to make a further issue of 2,60,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

    (i) ₹ 2 per share payable on application, to be received by 1st July, 2022;

    (ii) Allotment to be made on 10th July, 2022 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 31th March, 2023.

    Applications were received for 8,40,000 shares and were dealt with as follows:

    (1) Applicants for 40,000 shares received allotment in full;

    (2) Applicants for 2,00,000 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 6,00,000 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 Finopolis limited.

Forfeiture of Shares

18. Give necessary journal entries for the forfeiture and re-issue of shares:

    (i) Avtar Ltd. forfeited 900 shares of ₹ 10 each fully called up, held by Varun 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 Nitesh for ₹ 8 per share.

    (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.

Issue of Debentures

19. Somya Limited issued 30,000 12% Debentures of the nominal value of ₹15,00,00,00 as follows:

    (a) To sundry persons for cash at 90% of nominal value of ₹ 75,00,000.

(b) To a vendor for purchase of fixed assets worth ₹ 30,00,000 – ₹ 37,50,000 nominal value.

(c) To the banker as collateral security for a loan of ₹ 30,00,000 – ₹ 37,50,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

20. Write short notes on the following:

(i) Accounting conventions.

(ii) Trade bill vs. Accommodation bill.

(iii) Machine Hour Rate method of calculating depreciation

(iv) Journal

(v) Periodic Inventory System Vs Perpetual Inventory System

SUGGESTED ANSWERS/HINTS

1. (i) **False:** Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived

(ii) **True:** Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(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:** The sale value of the by-product is credited to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

(v) **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.

(vi) **True:** No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

(vii) **False:** Net income is determined by preparing income and expenditure in case of persons practicing vacation.

(viii) **False:** As per Section 2 (52) of the Companies Act, 2013,"listed company" means a company which has any of its securities listed on any recognised stock exchange.

(ix) **False:** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners..

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

- 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.
- 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 long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(b) **Going Concern concept:** The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue its 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, it should be disclosed in the financial statements.

Cost concept: It means that 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.

3. (a)

S No.	Particulars		Amount (Dr)	Amount (Cr)
(i)	Cash A/c	Dr.	12,000	
	Land A/c	Dr.	24,000	
	Furniture A/c	Dr.	6,000	
	Stock A/c	Dr.	12,000	
	To Creditors			6,000

	To Bank overdraft		12,000
	To Capital A/c		36,000
	(Being commencement of business by mohan by taking over a running business.)		
(ii)	Advertisement Expenses A/c Dr.	6,000	
	To Purchases A/c		6,000
	(Being goods distributed as free samples)		
(iii)	Purchase A/c Dr.	10,800	
	To Cash A/c		10,500
	To Discount Received A/c		300
	(Being the goods purchased from Naveen for ₹ 12,000 @ 10% trade discount and cash discount of ₹ 300)		
(iv)	Drawings A/c Dr.	10,200	
	To Petty Cash A/c		10,200
	(Being the income tax of proprietor paid out of business money)		
(v)	Cash A/c Dr.	1,800	
	Bad Debts A/c Dr.	1,800	
	To Sumit		3,600
	(Being Sumit became insolvent 50 paise in a rupee could be recovered)		

(b) (i) Revenue receipt.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue receipt.

4. (a) **Triple Column Cash Book**

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2022			₹	₹	₹	2022			₹	₹	₹
April 1	To	Balance b/d		9,000	36,000	April 2	By	Bank (C)		3,000	
April 2	To	Cash (C)			3,000	April 5	By	Furniture A/c			4,500
April 12	To	Ms. Kamini	60	2,940		April 8	By	Purchase A/c		1500	

April 14	To	Sales A/c		15,000		April 16	By	Ms. Shikha	150		4,350
April 19	To	Cash (C)			1500	April 19	By	Bank (C)		1500	
April 20	To	Sales			4000	April 23	By	Drawings A/c			1800
April 24	To	Ms. Reema (Note 2)	60	4,290		April 26	By	Bank (C)		4,290	
April 26	To	Cash (C)			4,290	April 28	By	Cash (C)			6,000
April 28	To	Bank (C)		6000		April 30	By	Rent A/c			2,400
						April 30	By	Commission			40
						April 30	By	Balance c/d		26,940	29,700
			120	37,230	48,790				150	37,230	48,790
May 1	To	Balance b/d		26,940	29,700						

Note:

(1) Discount allowed and discount received ₹ 120 and ₹ 150 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) **Journal Entries in the books of Mr. Anirudh**

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
(i)	Profit & Loss Adjustment A/c	Dr.	16,000	
	To Suspense*A/c			16,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	5,000	
	To Profit & Loss Adjustment A/c			5,000
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anubhav's Account	Dr.	1,200	
	To Ashok's Account			1,200
	(Amount received from Ashok wrongly posted to the account of Anubhav 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.	6,100	

	To Machinery A/c (Repairs to machinery was wrongly debited to machinery account, now rectified)			6,100
(vi)	Profit & Loss Adjustment A/c To Mr. Paul Account Credit purchase of goods from Mr. Paul sale last year, now rectified)	Dr.	6,000	6,000
(vii)	Anirudh's Capital A/c To Profit and Loss Adjustment Account (Being balance in P & L Adjustment Account transferred to Anirudh's Capital A/c – Refer W.N. 1)	Dr.	23,550	23,550
(viii)	Suspense A/c To Anirudh's Capital A/c (Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)	Dr.	16,450	16,450

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

Working Notes

1. Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	16,000	By Rahim's A/c	5,000
To Suspense A/c	450	By Anirudh's Capital A/c (Bal. Transfer)	23,550
To Machinery A/c	6,100		
To Mr. Paul's A/c	6,000		
	28,550		28,550

2. Suspense Account

	₹		₹
To Anirudh's Capital A/c	16,450	By P & L Adj. A/c	16,000
(Balance Transfer)		By P & L Adj. A/c	450
	16,450		16,450

5. (a) Bank Reconciliation Statement as on 31st October, 2022

Particulars			₹	₹
Bank Overdraft as per Bank Statement				9,600
Add:	(i)	Debit side of the Cash Book was undercast	1,200	
	(ii)	Cheque issued but debited by the Bank to another customer's account by mistake	4,800	
	(vi)	Dividend directly collected by the Bank but not entered in the Cash Book	300	
	(vii)	Cheque issued but yet to be presented for payment	3,900	10,200
				19,800
Less:	(iii)	Cheque issued for ₹ 561 posted in the Cash Book as ₹ 516	45	
	(iv)	Cheque dishonoured but not recorded in the Cash Book	1,275	
	(v)	Wrong debit by the Bank to Shankar's A/c	450	
	(viii)	Cheque deposited but yet to be credited	3,600	
	(ix)	Interest debited by the Bank and yet to be entered in the Cash Book	900	6,270
Bank overdraft as per the Cash Book (Cr.)				13,530

6. Statement of Valuation of Physical Stock as on 31st March,2022

	₹	₹
Value of stock as on 10th April, 2022		5,00,000
Add: Cost of sales during the intervening period		
Sales made between 1.4.2022 and 9.4.2022	80,000	
Less: Gross profit @20% on sales	(16,000)	64,000
Free sample		16,000
		5,80,000
Less: Purchases actually received during the intervening period:		
Purchases from 1.4.2022 to 9.4.2022	40,000	
Less: Goods not received upto 9.4.2022	(8,000)	(32,000)
		5,48,000

Add: Purchases during March, 2022 but not recorded in stock		80,000
Value of physical stock as on 31.3.2022		6,28,000

7. In the books of Firm

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.

8. In the books of Pratika

Journal Entries

	Particulars		*Dr.* ₹	*Cr.* ₹
01-10-2022	Bills Receivable A/c	Dr.	5,00,000	
	To Priya A/c			5,00,000
	(Being a 3 month's bill drawn on Priya for the amount due)			
03-10-2022	Bank A/c	Dr.	4,95000	
	Discount A/c	Dr.	5,000	
	To Bills Receivable A/c			5,00,000
	(Being the bill discounted)			
04-01-2023	Priya A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being the bill cancelled up due to Priya's inability to pay it)			
04-01-2023	Priya A/c	Dr.	6,250	
	To Interest A/c			6,250
	(Being the interest due on ₹ 2,50,000 @ 10% for 3 months)			

04-01-2023	Bank A/c To Priya A/c (Being the receipt of a portion of the amount due on the bill together with interest)	Dr.	2,56,250	2,56,250
04-01-2023	Bills Receivable A/c To Priya A/c (Being the new bill drawn for the balance)	Dr.	2,50,000	2,50,000
07-03-2023	Priya A/c To Bills Receivable A/c (Being the dishonour of the bill due to Priya's insolvency)	Dr.	2,50,000	2,50,000
07-03-2023	Bank A/c Bad Debts A/c To Priya A/c (Being the receipt of 60% of the amount due on the bill from Priya's estate)	Dr. Dr.	1,50,000 1,00,000	 2,50,000

9. **In the books of Katen**

Consignment to Bharat of Jaipur Account

Particulars	₹	*Particulars*	₹
To Goods sent on Consignment	15,00,000	By Bharat (Sales)	14,70,000
To Bank (Expenses: 30,000+90,000+30,000)	1,50,000	By Goods lost in Transit 200 cases @ ₹ 1,650 each (WN1)	3,30,000
To Bharat (Expenses: 47,500+25,000+7,000)	79,500	By Consignment Inventories: In hand 50 @ ₹ 1,700 each (WN2)	8,50,000
To Bharat (Commission)	1,47,000	By Consignment Inventories:	
To Profit on Consignment ts/f to Profit & Loss A/c	8,56,000	In transit 50 @ ₹ 1,650 each (WN3)	82,500
	27,32,500		27,32,500

Bharat's Account

Particulars	₹	*Particulars*	₹
To Consignment to Jaipur A/c	14,70,000	By Consignment A/c (Expenses)	79,500
		By Consignment A/c(Commission)	1,47,000
		By Balance c/d	12,43,500
	14,70,000		14,70,000

Working Notes:

1. Consignor's expenses on 1000 cases amounts to ₹ 1,50,000; it comes to ₹ 150 per case. The cost of cases lost will be computed at ₹ 1,650 per case i.e. 1,500+150.
2. Bharat has incurred ₹ 47,500 on clearing 950 cases, i.e., ₹ 50 per case; while valuing closing inventories with the agent ₹ 45 per case has been added to cases in hand with the agent i.e. 1,500+150+50.
3. 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 i.e. 1,500+150 =1,650.
4. It has been assumed that balance of ₹ 12,43,500 is not yet paid.

10. **In the books of 'Anupam'**

Goods on sales or return, sold and returned day book

Date 2022	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2022*	*Sold ₹*	*Returned ₹*
Dec.10	M/s PQR		20,000	Dec. 25	20,000	-
Dec.12	M/s XYZ		25,000	Dec. 16	-	25,000
Dec.15	M/s STV		22,000	Dec. 20	10,000	12,000
Dec.20	M/s XYZ		26,000	Dec. 24	26,000	-
Dec.25	M/s PQR		21,000	Dec. 28	21,000	-
Dec.30	M/s STV		23,000	-		
			1,37,000		77,000	37,000

Goods on Sales or Return Total Account

2022		Amount ₹	2022		Amount ₹
Dec. 31	To Returns	37,000	Dec. 31	By Goods sent	
	To Sales	77,000		on sales or return	1,37,000
	To Balance c/d	23,000			
		1,37,000			1,37,000

11. (a) **Taking 19.6.2022 as a Base date**

Transaction Date	Due Date	Amount	No of days	
8.3.2022	11.7.2022	16,000	22	3,52,000
16.3.2022	19.6.2022	20,000	0	0
7.4.2022	10.9.2022	24,000	83	19,92,000
17.5.2022	20.8.2022	20,000	62	12,40,000
		80,000		35,84,000

$$\text{Average Due Date} = \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$$

= 19.6.2022 + ₹ 35,84000/₹80,000

= 19.6.2022 + 44.8 days (or 45 days approximately)

= 3.8.2022

A wants to save interest of ₹ 628. The yearly interest is ₹ 80,000 × 18%

= ₹ 14,400.

Assume that days corresponding to interest of ₹ 628 are Y.

Then, 14,400 × Y/365 = ₹ 628

or Y = 628 × 365/14,400 = 15.9 days or 16 days (Approx.)

Hence, if A wants to save ₹ 628 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, he should make the payment on 18.7.2022 (3.8.2022 – 16 days)

(b) **Y in Account Current with X**

(Interest from Due Date to Dec.31, 2022 @ 10% p.a.)

Dr. *Cr.*

Date		*Particulars*	*Due Date*	*Amount (₹)*	*Days*	*Product*	*Date*		*Particulars*	*Due Date*	*Amount (₹)*	*Days*	*Product*
July 1	To	Balance b/d	July 1	600	184	1,10,400	Aug. 1	By	Cash A/c	Aug. 1	650	152	98,800
July 17	To	Sales A/c	July 17	50	167	8,350	Sept. 1	By	Cash A/c	Sept. 1	350	121	42,350
Aug. 19	To	Sales A/c	Aug 19	700	134	93,800	Sept. 1	By	Bills Receivable A/c	Dec. 4	250	27	6,750
Aug.30	To	Sales A/c	Aug. 30	40	123	4,920	Oct. 22	By	Purchases A/c	Oct. 22	30	70	2,100
Nov.12	To	Sales A/c	Nov. 12	20	49	980	Dec. 14	By	Cash A/c	Dec. 14	80	17	1,360
Dec.31	To	Interest A/c ₹ (67,090 × 0.1 / 365)		18.38			Dec. 31	By	Balance c/d		68.38		67,090
				1428.38		2,18,450					1428.38		2,18,450

12. **Trading and Profit and Loss Account of Mr. Prakash**

for the year ended 31st December, 2022

	₹	₹		₹	₹
To Opening stock		2,34,000	By Sales	19,48,000	
To Purchases	16,08,500		*Less:* Returns	43,000	19,05,000
Add: Omitted invoice	2000		By Closing stock		3,93,000
	16,10,500				
Less: Returns	29,000				
	15,81,500				
Less: Drawings	3000	15,78,500			
To Carriage		98,000			
To Gross profit c/d		3,87,500			
		22,98,000			22,98,000
To Rent and taxes		23,500	By Gross profit b/d		3,87,500
To Salaries and wages		46,500	By Discount		22,200
To Bank interest	5,500				
Add: Due	8,500	14,000			

To Printing and stationary	72,000			
Less: Prepaid (1/4)	18,000	54,000		
To Discount allowed		9,000		
To General expenses		57,250		
To Insurance		6,500		
To Postage & telegram expenses		11,650		
To Travelling expenses		4350		
To Provision for bad debts [W.N.(ii)]		5,750		
To Provision for discount on debtors [W.N.(iii)]		2185		
To Depreciation on furniture & fittings		2,500		
To Net profit		1,72,515		
		4,09,700		4,09,700

Balance Sheet of Prakash as at 31st December, 2022

Liabilities	₹	₹	*Assets*	₹	₹
Capital	3,83,450		Furniture & fittings	25,000	
Add: Net profit	1,72,515		*Less:* Depreciation	2,500	22,500
	5,55,965		Sundry debtors (W.N.1)	115,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 1,50,000			& doubtful debts (W.N.2)	5,750	
Goods 3000	1,53,000	4,02,965		1,09,250	
Bank loan		1,00,000	*Less:* Provision for		
Bank interest due		8,500	Discount (W.N.2)	2,185	1,07,065
Sundry creditors (W.N.3)		71,000	Stock		3,93,000
			Prepaid expenses:		
			Printing & stationary		18,000
			Bank balance		40,000
			Cash balance		1900
		5,82,465			5,82,465

Working Notes:

(1)	**Sundry debtors**	
	Balance as per trial balance	1,20,000
	Less: Due to Ravi	5,000
		1,15,000
(2)	**Provision for bad & doubtful debts:**	
	@ 5% on ₹ 1,15,000	5,750
	Provision for discount:	
	2% on ₹ 1,09,250 (1,15,000 -5,750)	2,185
(3)	**Sundry creditors**	
	Balance as per trial balance	74,000
	Less: Set off in respect of Ravi	5,000
		69,000
	Add: Purchase invoice omitted	2,000
		71,000

13. Calculation of Capital as on 01.04.2021

Particulars	P (₹)	Q (₹)	R (₹)	Total
Closing Capital	1,50,000	1,80,000	2,10,000	5,40,000
Add: Drawings	20,000	20,000	20,000	60,000
Less: Share of Profit	12,000	24,000	24,000	60,000
Capitals as on 01.04.2021	1,58,000	1,76,000	2,06,000	5,40,000

Particulars	P (₹)	Q (₹)	R (₹)	Total
Share of profit already credited (A)	12,000	24,000	24,000	60,000
II. Amount which should have been credited:				
Interest on Capital @ 10%	15,800	17,600	20,600	54,000
Share of Profit (out of the balance amount) (60,000 – 54,000)	1,200	2,400	2,400	6,000
(B)	17,000	20,000	23,000	60,000
III. Difference [(A)-(B)]	-5000	4,000	1,000	-

Journal entry

Particulars		L.F.	Dr. (₹)	Cr. (₹)
Q's Capital A/c	Dr.		4,000	
R's Capital A/c	Dr.		1,000	
To P's Capital A/c				5,000
(Being the omission of interest on capital rectified)				

14. Total Profit for 4 years = ₹ 15,000+ ₹ (25,500) +₹ 75,000+₹ 1,12,500= ₹ 1,77,000.

Average profits $= \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{₹1,77,000}{4} = ₹44,250$

Average Profits for Goodwill = ₹ 44,250 – Proprietor Remuneration

= ₹ 44,250 – ₹ 9,000 = ₹ 35,250

Normal Profit = Interest on Capital employed

= ₹ 30,000 (i.e. ₹ 3,00,000 x10/100) = ₹ 30,000

Super Profit = Average Profit-Normal Profit = ₹ 35,250 – ₹ 30,000 = ₹ 5,250

Goodwill = Super Profit x No of years purchases = ₹ 5,250 x 3 =₹ 15,750

15. **Revaluation Account**

2022			₹	2022		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	3,500
	To Furniture and fittings		1,800		By Land and Building	14,000
	To Capital A/cs: (Profit on revaluation transferred)					
	Shyam	7582.5				
	Sundar	5055.00				
	Girdhar	2527.5	15,165			
			17,500			17,500

Partners' Capital Accounts

Particulars	Shyam ₹	Sundar ₹	Girdhar ₹	Hari ₹	Particulars	Shyam ₹	Sundar ₹	Girdhar ₹	Hari ₹
To Shyam & Sundar			3,750	11,250	By Balance b/d	37,500	37,500	25,000	–
					By General Reserve	9,750	6,500	3,250	
To Balance c/d	67,832.5	52,805	27027.5	8,750	By Cash	–	–	–	20,000
					By Girdhar & Hari	11,250	3,750	–	–
					By Outstanding Liabilities (Aman)	1750	–	–	
					By Revaluation A/c	7,582.5	5055	2527.5	-
	67,832.5	52,805	30,775.5	20,000		67,832.5	52,805	30,775.5	20,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Shyam	¼	3/6	6/24	
Sundar	¼	2/6	2/24	
Girdhar	¼	1/6		2/24
Hari	¼			6/24

Entry for goodwill adjustment

Shyam (2/24 of ₹45,000)	Dr.	3,750	
Sundar (6/24 of ₹45,000)	Dr.	11,250	
To Girdhar (6/24 od ₹45,000)			11,250
To Hari (2/24 of ₹45,000)			3,750

Balance Sheet of Shyam, Sundar, Girdhar and Hari as on 1st April,2022

Liabilities ₹	₹	*Assets* ₹	₹
Trade payables	56,250	Land and Buildings	1,06,500
Outstanding Liabilities (5,500-1,750)	3,750	Furniture	16,200
Capital Accounts of Partners:		Inventory of goods	35,000

Mr. Shyam	67,832.50		Trade receivables	26,750	
Mr. Sundar	52,805.00		*Less:* Provisions	(535)	26,215
Mr. Girdhar	27,027.50		Cash in hand		7,000
Mr. Hari	8,750.00	1,56,415	Cash at Bank (5,500+20,000)		25,500
		2,16,415			2,16,415

16. **Income and Expenditure Account**

for the year ended 31st March, 2022

		₹		₹
To Medicines consumed			By Prescription fees	4,95,000
Purchases	1,83,750		By Visiting fees	1,87,500
Less: Closing Stock	(71,250)	1,12,500	By Fees from lectures	18,000
To Motor car expense (90,000 x 2/3)		60,000		
To Salaries (₹ 78,750 – ₹ 22,500)		56,250		
To Rent for clinic		45,000		
To General charges		36,750		
To Interest on loan		27,000		
To Excess of Income over expenditure		3,63,000		
		7,00,500		7,00,500

Capital Account
for the year ended 31st March, 2022

	₹		₹
To Drawings:		By Cash/bank	1,50,000
Motor car expenses	30,000	By Cash/bank (pension)	2,25,000
Household expenses	1,35,000	By Net income from practice (derived from income and expenditure a/c)	3,63,000
Marriage expenses	1,61,250		
To Salary of domestic servants	22,500		
To Household furniture	18,750		
To Balance c/d	3,70,500		
	7,38,000		7,38,000

Balance Sheet as on 31st March, 2022

Liabilities	₹	*Assets*	₹
Capital	3,70,500	Motor car	2,40,000
Loan	2,25,000	Surgical equipment	1,87,500
		Stock of medicines	71,250
		Cash at bank	82,500
		Cash in hand	14,250
	5,95,500		5,95,500

17. Journal of Finopolis Limited

Date 2022	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3)	Dr.	16,80,000	
	To Equity Share Application A/c			16,80,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	16,80,000	
	To Equity Share Capital A/c			5,20,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			8,00,000
	To Bank A/c (Note 1–Column 6)			3,60,000
	(Being application money on 2,60,000 shares transferred to Equity Share Capital Account; on 4,00,000 shares adjusted with allotment and on 1,80,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	13,00,000	
	To Equity Share Capital A/c			7,80,000
	To Securities Premium a/c			5,20,000
	(Being allotment money due on 2,60,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			

	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	5,00,000	 5,00,000
	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 2,60,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)	Dr.	13,00,000	 13,00,000
March 31st	Bank A/c To Equity Share Final Call A/c (Being final call money on 2,60,000 shares @ ₹ 5 each received)	Dr.	13,00,000	 13,00,000

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)	40,000	40,000	80,000	80,000	Nil	Nil	2,00,000	2,00,000
(ii)	2,00,000	1,00,000	4,00,000	2,00,000	2,00,000	Nil	5,00,000	3,00,000
(iii)	6,00,000	1,20,000	12,00,000	2,40,000	6,00,000	3,60,000	6,00,000	Nil
TOTAL	**8,40,000**	**2,60,000**	**16,80,000**	**5,20,000**	**8,00,000**	**3,60,000**	**13,00,000**	**5,00,000**

18. (i) Journal Entries in the books of Avtar Ltd.

Date			***Dr.* ₹**	***Cr.* ₹**
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (900 x ₹ 3) To Equity Share Final Call A/c (900 x ₹ 4)	Dr.	9,000	 2,700 3,600

	To Forfeited Shares A/c (900 x ₹ 3)			2,700
	(Being the forfeiture of 900 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No…………….dated……………..)			
(b)	Bank A/c (900 x 8)	Dr.	7,200	
	Forfeited Shares A/c (900x 2)	Dr.	1,800	
	To Equity Share Capital A/c			9,000
	(Being the re-issue of 900 forfeited shares @ ₹ 8 each as fully paid up to Nitesh as per Board's resolution No……….dated……………..)			
(c)	Forfeited Shares A/c	Dr.	900	
	To Capital Reserve A/c			900
	(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 A/c	Dr.	900	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No……….dated…………..)			
(c)	Forfeited Shares A/c	Dr.	150	
	To Capital Reserve A/c			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

19. In the books of Somya Ltd.

Journal Entries

Date	*Particulars*		*Dr.* ₹	*Cr.* ₹
(a)	Bank A/c	Dr.	67,50,000	
	To Debentures Application A/c			67,50,000
	(Being the application money received on 15,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	67,50,000	
	Discount on issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			75,00,000
	(Being the issue of 15,000 12% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Fixed Assets A/c	Dr.	30,00,000	
	To Vendor A/c			30,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	30,00,000	
	Discount on Issue of Debentures A/c	Dr.	7,50,000	
	To 14% Debentures A/c			37,50,000
	(Being the issue of debentures of ₹ 37,50,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	30,00,000	
	To Bank Loan A/c (See Note)			30,00,000
	(Being a loan of ₹ 30,00,000 taken from bank by issuing debentures of ₹37,50,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

20. (i) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(ii) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(iii) Machine Hour Rate method of calculating depreciation: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

(iv) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

(v)

	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.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:

   (i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

   (ii) M/s Raj Yog & 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 25 to 28. The total expenditure incurred was ₹ 50,000 and was treated as a revenue expenditure.

   (iii) 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.

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

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

   (vi) The additional commission paid to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (vii) A Partnership firm cannot own any Assets.

   (viii) Goodwill is intangible asset therefore it cannot be valued.

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

   (x) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

Theoretical Framework

2. (a) Distinguish between money measurement concept and matching concept.

   (b) Differentiate between provision and contingent liability

Journal Entries

3. (a) M/s Puneet & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

   (i) A purchase of ₹ 5,600 from M/s Ajeet & Co. was recorded in the accounts of M/s Amit & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.

   (ii) A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.

(iii) Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of ₹ 90 to M/s Sapna Bros. has been omitted.

(iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Capital or Revenue Receipt or Expenditure

(b) Classify the following expenditures as capital or revenue receipt or capital or revenue expenditure:

(i) Traveling expenses of the chief executive officer for trips abroad for purchase of capital assets.

(ii) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(iii) Insurance claim received on account of inventory damaged by fire.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Cash Book

4. (a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2022			₹
Sep.	1	Cash in hand	18,000
	1	Cash at bank	72,000
	2	Paid into bank	6,000
	5	Bought furniture and issued cheque	9,000
	8	Purchased goods for cash	3,000
	12	Received cash from Mohan	5,880
		Discount allowed to him	120
	14	Cash sales	30,000
	16	Paid to Amar by cheque	8,700
		Discount received	300
	19	Paid into Bank	3,000
	23	Withdrawn from Bank for Private expenses	3,600

	24	Received cheque from Parul	8,580
		Allowed him discount	120
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	12,000
	30	Paid rent by cheque	4,800

Rectification of Errors

(b) Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹15,000 returned by Mr. X were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹22,500 entered in the Sales Returns Book, has been posted to the debit of Mr. Shiv, who returned the goods;

(3) A sale of ₹60,000 made to Mr. Amit was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Sumit as ₹ 6,000;

(4) Bad Debts aggregating ₹45,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of October, 2022 amounting to ₹37,500 was not posted.

Bank Reconciliation Statement

5. On 30th September, 2022, the bank account of Vikrant, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Vikrant. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 26,28,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022
2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2022, the bank credited an amount of ₹ 2,34,800 received from a customer of Vikrant, but the advice was not received by Vikrant until 1st October, 2022.
4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
5. On 6th September, 2022, the bank credited ₹ 40,000 to Vikrant in error.
6. A bill of exchange for ₹ 2,80,000 was discounted by Vikrant with his bank. This bill was dishonoured on 28th September, 2022 but no entry had been made in the books of Vikrant.

7. Cheques issued upto 30th September, 2022 but not presented for payment upto that date totalled ₹ 26,52,000.

You are required:

(a) to show the appropriate rectifications required in the Cash Book of Vikrant, to arrive at the correct balance on 30th September, 2022 and

(b) to prepare a bank reconciliation statement as on that date.

Valuation of Inventories

6. Stock taking of ABC Stores for the year ended 31st March, 2023 was completed by 10th April, 2023, the valuation of which showed a stock figure of ₹ 3,35,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 13,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 18,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 600 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 2,250 which should be taken at ₹ 1,050 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 3,100 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 2,500 on 31st March, 2023.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2023. Closing stock is valued by ABC Stores on generally accepted accounting principles.

Concept and Accounting of Depreciation

7. A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2019 and spent ₹ 3,000 on its overhauling. On 1st July 2020, another machine was purchased for ₹ 10,000. On 1st July 2021, the machinery which was purchased on 1st January 2019, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2022, the machine which was purchased on 1st July, 2020 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, 2020 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, 2019.

Bills of Exchange

8. Mr. Y accepted a bill for ₹ 40,000 drawn on him by Mr. X on 1st August, 2022 for 3 months. This was for the amount which Y owed to X. On the same date Mr. A got the bill discounted at his bank for ₹ 39,200.

On the due date, Y approached X for renewal of the bill. Mr. X agreed on condition that ₹ 8,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Y should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2022, Y became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. X

Consignment

9. Rajesh of Noida consigned to Mahesh of Pushkar, goods to be sold at invoice price which represents 125% of cost. Mahesh is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Rajesh were ₹ 15,000. The account sales received by Rajesh shows that Mahesh has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Pushkar godown. Mahesh remitted the balance in favour of Rajesh.

   You are required to prepare consignment account in the books of Rajesh along with the necessary calculations.

Sales of goods on approval or return basis

10. Mr. Kamal sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2022.

    December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - ₹2,40,000

    December 10th - Goods returned by customers ₹ 1,05,000

    December 17th - Received letters from customers for approval ₹ 1,05,000

    December 23rd - Goods with customers awaiting approval ₹ 45,000

    Mr. Kamal records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Kamal assuming that the accounting year closes on 31st Dec. 2022.

Average Due Date

11. Two Traders Amit and Sumit 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 Amit to Sumit (₹)		Goods sold by Sumit to Amit (₹)
April,18	12,000	April, 23	10,600
May, 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 Amit or Sumit.

Account current

12. From the following prepare an account current, as sent by A to B on 31st March, 2023 by means of products method charging interest @ 5% per annum:

Date	Particulars	Amount (₹)
2023 January 1	Balance due from B	1,800
January 10	Sold goods to B	1,500
January 15	B returned goods	650
February 12	B paid by cheque	1,000
February 20	B accepted a bill drawn by A for one month	1,500
March 11	Sold goods to B	720
March 14	Received cash from B	800

Final Accounts

13. The following are the balances extracted from the books of Shri Shrinivas as on 31.03.2023, who carries on business under the name and style of M/s Shrinivas and Associates at Chennai:

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

Insurance premium	48,000	
Electricity charges	14,000	
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 31.03.2022	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**

Prepare Trading and Profit and Loss Account for the year ended 31.03.2023 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 01.07.2022

(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 01.04.2022 to 30.06.2023.

Partnership Accounts

Calculation of Goodwill

14. Ved, Jain and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2022 was as follows:

Balance Sheet of M/s Ved, Jain & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	15,00,000
Ved	2,55,000	Inventory	3,00,000
Jain	9,45,000	Trade receivables	1,50,000
Agrawal	6,75,000	Bank	15,000
Trade payables	90,000		
	19,65,000		19,65,000

The partnership earned profit ₹ 6,00,000 in 2022 and the partners withdrew ₹ 4,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

Retirement of Partner

15 A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2023 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

B retired on 1st April, 2023 subject to the following conditions:

(i) Office Equipment's revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 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	₹
2019	90,000
2020	1,40,000
2021	1,20,000
2022	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.

Financial Statements of Not for Profit Organizations

16. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2022, and Balance Sheet as at that date of the Amar Leela Hospital:

Receipts and Payments Account for the year ended 31 December, 2022

	RECEIPTS	₹			PAYMENTS		₹
To	Balance b/d			By	Salaries:		
	Cash	2,400			(₹ 21,600 for 2021)		93,600
	Bank	15,600	18,000	By	Hospital Equipment		51,000
To	Subscriptions:			By	Furniture purchased		18,000
	For 2021		15,300	By	Additions to Building		150,000
	For 2022		73,500	By	Printing and Stationery		7,200
	For 2023		7200				
To	Government Grant:			By	Diet expenses		46,800
	For building		2,40,000	By	Rent and rates		
	For maintenance		60,000		(₹ 900 for 2023)		6,000
	Fees from sundry			By	Electricity and water		
	Patients		14,400		charges		7,200

To	Donations (not to be capitalized)		24,000	By	office expenses		6,000
				By	Investments		60,000
To	Net collections from benefit shows		18,000	By	Balances:		
					Cash	4,200	
					Bank	20,400	24,600
			4,70,400				4,70,400

Additional information:	₹
Value of building under construction as on 31.12.2022	4,20,000
Value of hospital equipment on 31.12.2022	1,53,000
Building Fund as on 1.1. 2022	2,40,000
Subscriptions in arrears as on 31.12.2021	19,500
Investments in 8% Govt. securities were made on 1st July, 2022.	

Issue and Forfeiture of Shares

17. Laxman Prasad Limited registered with an authorised equity capital of ₹ 8,00,000 divided into 8,000 shares of ₹ 100 each, issued for subscription of 4,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 4,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 400 shares held by him and another shareholder with 200 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Issue of Debentures

18. On 1st January 2022 Samar 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 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 2022.

19. Write **short notes** on the following:

    (i) Rules of posting of journal entries into Ledger.

    (i) Importance of bank reconciliation statement to an industrial unit.

    (iii) Bill of exchange and various parties to it.

    (iv) Fundamental Accounting Assumptions.

    (v) Accounting conventions.

SUGGESTED ANSWERS/HINTS

1. (i) **False:** Goods taken by the proprietor for personal use should be credited to Purchases Account since less goods are left in the business for sale.

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

   (iii) **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".

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

   (v) **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.

   (vi) **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

   (vii) **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.

   (viii) **False**: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

   (ix) **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

   (x) **False:** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received towards nominal value on shares forfeited.

2. (a) (i) **Distinction between Money measurement concept and matching concept**

   As per **Money Measurement 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 should 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.

   In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(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.

3. (a) (i) Journal Proper of Puneet & Co.

Rectification Entries

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	M/s Amit & Co. A/c	6,500	
	To M/s Ajeet & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated….as ₹ 6,500 in M/s Amit & Co.'s Account in place of M/s Ajeet & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900

	(Rectification of sale entry for ₹ 9,800 dated ....as ₹ 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Sapna Bros. A/c		90
	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated....).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated.... is being rectified).		

Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications have not done.

(b) (i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Receipt.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

4. (a) **Triple Column Cash Book**

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2022			₹	₹	₹	2022			₹	₹	₹
Sep. 1	To	Balance b/d	-	18,000	72,000	Sep. 2	By	Bank (C)	-	6,000	-
Sep. 2	To	Cash (C)	-	–	6,000	Sep. 5	By	Furniture A/c	-	-	9,000
Sep. 12	To	Mohan	120	5,880	0	Sep. 8	By	Purchase A/c	-	3,000	-
Sep. 14	To	Sales A/c	-	30,000	0	Sep. 16	By	Amar	300	-	8,700
Sep. 19	To	Cash (C)	-	-	3000	Sep. 19	By	Bank (C)	-	3,000	-
Sep. 24	To	Parul (Note 2)	120	8,580	0	Sep. 23	By	Drawings A/c	-	-	3,600
Sep. 26	To	Cash (C)	-	-	8,580	Sep. 26	By	Bank (C)	-	8,580	-
Sep. 28	To	Bank (C)	-	12,000	0	Sep. 28	By	Cash (C)	-	-	12,000
						Sep. 30	By	Rent A/c	-	-	4,800
						Sep. 30	By	Balance c/d		53,880	51,480

			240	74,460	89,580				300	74,460	89,580
Oct. 1	To	Balance b/d		53,880	51,480						

Note:

(1) Discount allowed and discount received ₹ 240 and ₹ 300 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) (i)

	Particulars		**L.F.**	**Dr. ₹**	**Cr. ₹**
(1)	Sales Account	Dr.		15,000	
	Sales Returns Account	Dr.		15,000	
	To Suspense Account				30,000
	(The value of goods returned by Mr. X wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		45,000	
	To Mr. Shiv				45,000
	(Wrong debit to Mr. Shiv for goods returned by him, now rectified)				
(3)	Mr. Amit	Dr.		60,000	
	To Mr. Sumit				6,000
	To Suspense Account				54,000
	(Omission of debit to Mr. Amit and wrong credit to Mr. Sumit for sale of ₹ 60,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				

(5)	Discount Account To Suspense Account (The total of Discount allowed during October, 2022 not posted from the Cash Book; error now rectified)	Dr.		37,500	37,500

5. (i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2022		₹	**2022**		
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

(ii) Bank Reconciliation Statement as on 30th September, 2022

Particulars	Amount (₹)
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2022	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2022	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Vikrant by 40,000 in error on 6th September, 2022. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

6. Statement showing the valuation of stock as on 31st March, 2023

		₹
A	Value of Stock as on 10th April, 2023	3,35,000
B	Add: Cost of sales after 31st March, till stock taking	10,312

	(₹ 13,750 – ₹ 3,438)	
C	Less: Purchases for the next period (net)	16,200
D	Less: Cost of Sales Returns	450
E	Less: Loss on revaluation of slow moving inventories	1200
F	Less: Reduction in value on account of default	600
G	Value of Stock on 31st March, 2023	3,26,862

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. **In the books of Firm**

Machinery Account

		₹			₹
1.1.2019	To Bank A/c	37,000	31.12.2019	By Depreciation A/c	4,000
	To Bank A/c (overhauling charges)	3,000	31.12.2019	By Balance c/d	36,000
		40,000			40,000
1.1.2020	To Balance b/d	36,000	31.12.2020	By Depreciation A/c (₹ 5,400 + ₹ 750)	6,150
1.7.2020	To Bank A/c	10,000	31.12.2020	By Balance c/d (₹ 30,600 + ₹ 9,250)	39,850
		46,000			46,000
1.1.2021	To Balance b/d	39,850	1.7.2021	By Bank A/c(sale)	28,000
1.7.2021	To Bank A/c	25,000	1.7.2021	By Profit and Loss A/c (Loss on Sale – W.N. 1)	305
			31.12.2021	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
1.1.2022	To Balance b/d	30,987	1.7.2022	By Bank A/c (sale)	2,000
			1.7.2022	By Profit and Loss A/c (Loss on Sale – W.N. 1)	5,272

			31.12.2022	By Depreciation A/c (₹ 590 + ₹ 3,469)	4,059
			31.12.2022	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 2019)			
Depreciation for 2019	4,000		
Written down value as on 31.12.2019	36,000		
Purchase 1.7.2020 (6 months)		10,000	
Depreciation for 2020	5,400	750	
Written down value as on 31.12.2020	30,600	9,250	
Depreciation for 6 months (2021)	2,295		
Written down value as on 1.7.2021	28,305		
Sale proceeds	28,000		
Loss on sale	305		
Purchase 1.7.2021			25,000
Depreciation for 2021 (6 months)		1,388	1,875
Written down value as on 31.12.2021		7,862	23,125
Depreciation for 6 months in 2022		590	
Written down value as on 1.7.2022		7,272	
Sale proceeds		2,000	
Loss on sale		5,272	
Depreciation for 2022			3,469
Written down value as on 31.12.2022			19,656

8. **Journal Entries in the Books of Mr. X**

Date		Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2022					
August	1	Bills Receivable A/c Dr.		40,000	
		To Y			40,000
		(Being the acceptance received from Y to settle his account)			
August	1	Bank A/c Dr.		39,200	
		Discount A/c Dr.		800	
		To Bills Receivable			40,000
		(Being the bill discounted for ₹ 39,200 from bank)			
November	4	Y Dr.		40,000	
		To Bank Account			40,000
		(Being the Y's acceptance is to be renewed)			
November	4	Y Dr.		960	
		To Interest Account			960
		(Being the interest due from Y for 3 months i.e., 32,000x3/12× 12% = 960)			
November	4	Cash A/c Dr.		8,960	
		Bills Receivable A/c Dr.		32,000	
		To Y			40,960
		(Being amount and acceptance of new bill received from Y)			
December	31	Y A/c Dr.		32,000	
		To Bills Receivable A/c			32,000
		(Being Y became insolvent)			
December	31	Cash A/c Dr.		12,800	
		Bad debts A/c Dr.		19,200	
		To Y			32,000
		(Being the amount received and written off on Y's insolvency)			

9. In the Books of Rajesh

Consignment to Pushkar Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Mahesh (Expenses)	12,000	By Mahesh (Sales)	1,50,000
To Mahesh (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. Calculation of value of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹ 18,750

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

   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

   Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. Calculation of abnormal loss (10%):

   Abnormal Loss at Invoice price = ₹ 18,750.

   Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000

   Add: Proportionate expenses of Rajesh (10 % of ₹ 15,000) = ₹ 1,500

   ₹ 16,500

3. **Calculation of closing Inventories (15%):**

   Rajesh's Basic Invoice price of consignment = ₹ 1,87,500

   Rajesh's expenses on consignment = ₹ 15,000

   ₹ 2,02,500

   Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375

   Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625

   Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

   Invoice price of the goods sold= 75% of ₹ 1,87,500 = ₹ 1,40,625

Excess of selling price over invoice price = ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)

Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

= ₹ 14,062.5 + ₹ 2,343.75 = ₹ 16,406

10. **In the books of Mr. Kamal**

Journal Entries

Date	Particulars		L.F.	Dr. (in ₹)	Cr. (in ₹)
2022					
Dec. 2	Trade receivables A/c	Dr.		2,40,000	
	To Sales A/c				2,40,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		1,05,000	
	To Trade receivables A/c				1,05,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		45,000	
	To Trade receivables A/c				45,000
	(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.		36,000	
	To Trading A/c (Note 3)				36,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

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 = ₹ 45,000 x 100/125 = ₹ 36,000

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

11. Taking May 21 as the zero or base date

For Sumit'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 Amit		42,000	Sum of products	13,36,000

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

Excess of Sumit's products over Amit's = ₹ 13,36,000 – ₹ 4,23,000

= ₹ 9,13,000

Excess amount due to Amit ₹ 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. Sumit has to pay Amit, ₹ 21,400 to clear the account.

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

12. **B in Account Current with A**

for the period ending on 31st March 2023

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2023		₹			2023		₹		
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.

13. **M/s Shrinivas & Associates**

Trading Account for the year ended 31st March 2023

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 Inwards		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Shrinivas & Associates

Profit and Loss Account for the year ended 31st March 2023

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			
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 Shrinivas & Associates as at 31st March 2023

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

14.

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2022	18,75,000
	Add: 1/2 of the amount withdrawn by partners	2,25,000
		21,00,000
	Less: 1/2 of the profit earned in 2022	(3,00,000)
		18,00,000
(2)	Super Profit:	
	Profit of M/s Ved, Jain & Agrawal	6,00,000
	Normal profit @ 30% on ₹ 18,00,000	5,40,000
	Super Profit	60,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (₹ 60,000 × 5)	₹ 3,00,000

15. 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

*Alternatively JLP A/c of Rs. 10,000 can be debited to Partners Capital A/c in the profit sharing ratio. In that case, the revaluation Profit will become 4,72,000/- and credited to Partners Capital A/c in profit sharing ratio.

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 A/c	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 1.4.2023 (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
			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.)

16. **Amar Leela Hospital**
Income & Expenditure Account
for the year ended 31 December, 2022

Expenditure	(₹)	Income	(₹)
To Salaries	72,000	By Subscriptions	73,500
To Diet expenses	46,800	By Govt. Grants (Maintenance)	60,000
To Rent & Rates	5,100	By Fees from Sundry Patients	14,400
To Printing & Stationery	7,200	By Donations	24,000
To Electricity & Water-charges	7,200	By Benefit shows (net collections)	18,000
To Office expenses	6,000	By Interest on Investments	2,400
To Excess of Income over expenditure transferred to Capital Fund	48,000		
	1,92,300		1,92,300

Balance Sheet as at 31st Dec., 2022

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	1,47,900		Opening balance	2,70,000	
Excess of Income			Addition	1,50,000	4,20,000
Over Expenditure	48,000	1,95,900	Hospital Equipment :		
Building Fund :			Opening balance	1,02,000	
Opening balance	2,40,000		Addition	51,000	1,53,000

Add : Govt. Grant	2,40,000	4,80,000	Furniture		18,000
Subscriptions received in advance		7,200	Investments - 8% Govt. Securities		60,000
			Subscriptions receivable		4,200
			Accrued interest		2,400
			Prepaid expenses (Rent)		900
			Cash at Bank		20,400
			Cash in hand		4,300
		6,83,100			6,83,100

Working Notes:

(1) Balance sheet as at 31st Dec., 2021

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	1,47,900	Building	2,70,000
		Equipment	1,02,000
Building Fund	2,40,000	Subscription Receivable	19,500
Creditors for Expenses:		Cash at Bank	15,600
Salaries payable	21,600	Cash in hand	2,400
	4,09,500		4,09,500

			₹
(2)	**Value of Building**		
	Balance on 31st Dec. 2022		4,20,000
	Paid during the year		1,50,000
	Balance on 31st Dec. 2021		2,70,000
(3)	**Value of Equipment**		
	Balance on 31st Dec. 2022		1,53,000
	Paid during the year		(51,000)
	Balance on 31st Dec. 2021		1,02,000

(4) Subscription due for 2021			
Receivable on 31st Dec. 2021			19,500
Received in 2022			15,300
Still Receivable for 2021			4,200

17. Journal Entries in the books of Laxman Prasad Ltd.

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c Dr.		1,00,000	
To Equity Share Application A/c			1,00,000
(Money received on application for 4,000 shares @ ₹ 25 per share)			
Equity Share Application A/c Dr.		1,00,000	
To Equity Share Capital A/c			1,00,000
(Transfer of application money on 4,000 shares to share capital)			
Equity Share Allotment A/c Dr.		1,20,000	
To Equity Share Capital A/c			1,20,000
(Amount due on the allotment of 4,000 shares @ ₹ 30 per share)			
Bank A/c Dr.		1,20,000	
To Equity Share Allotment A/c			1,20,000
(Allotment money received)			
Equity Share First Call A/c Dr.		80,000	
To Equity Share Capital A/c			80,000
(First call money due on 4,000 shares @ ₹ 20 per share)			
Bank A/c Dr.		72,000	
Calls-in-Arrears A/c Dr.		8,000	
To Equity Share First Call A/c			80,000

To Calls-in-Advance A/c (First call money received on 3,600 shares and calls-in-advance on 200 shares @ ₹ 25 per share)			5,000

18. **Books of Samar Ltd.**

Journal

			Dr. (₹)	*Cr. (₹)*
1-1-2022	Bank A/c	Dr.	18,00,000	
	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)			
30-6-2022	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)			
31-12-2022	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
	(For transfer of debenture interest to profit and loss account at the end of the year)			

	Profit and Loss A/c To 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

19. (i) Rules regarding posting of entries into ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

(iii) A **bill of exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The **drawer**, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The **drawee**, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The **payee**, the person who is to receive the payment. The drawer in many cases is also the payee.

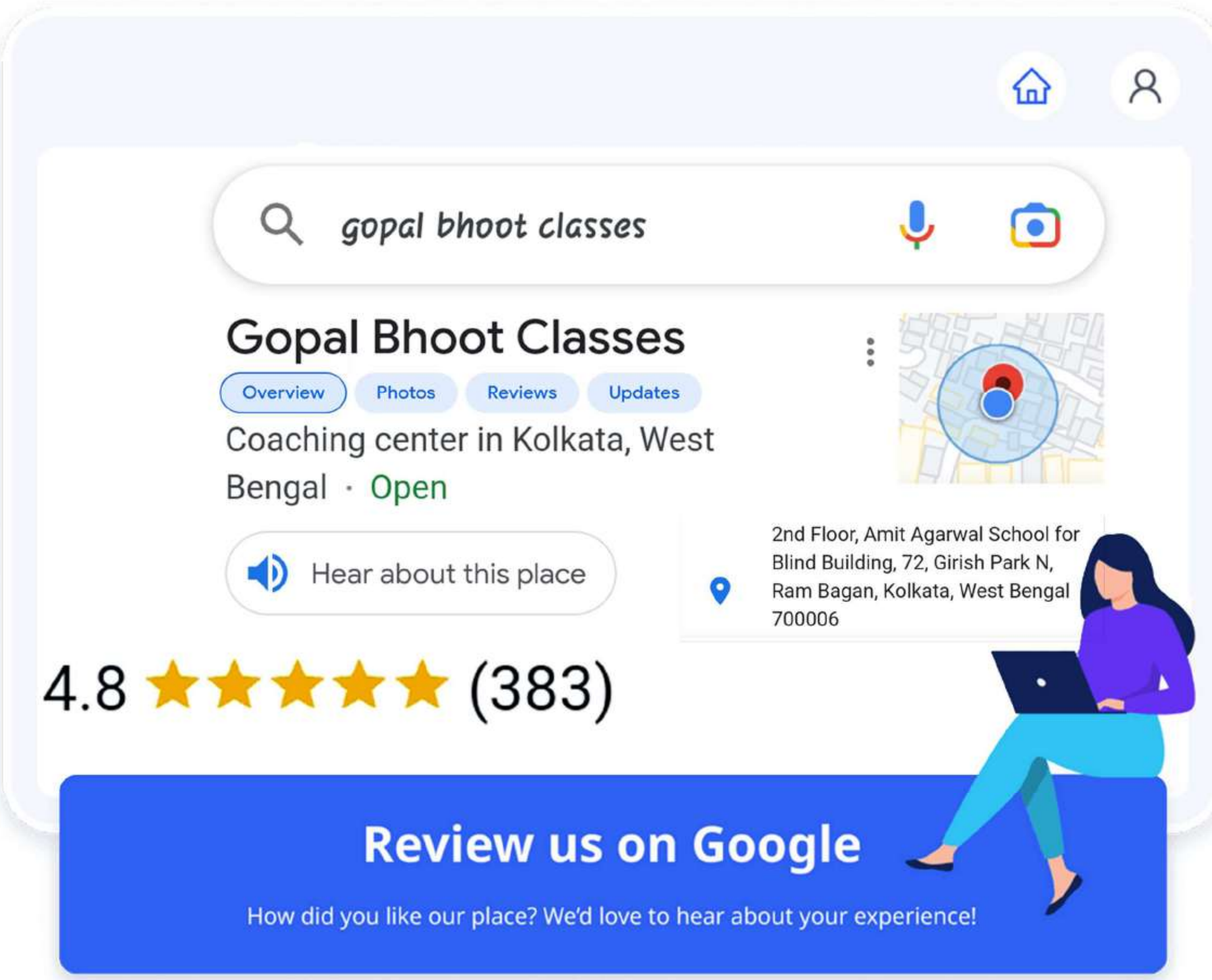
(iv) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. Going concern: The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. Consistency: It is assumed that accounting policies are consistent from one period to another.

3. Accrual: Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(v) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.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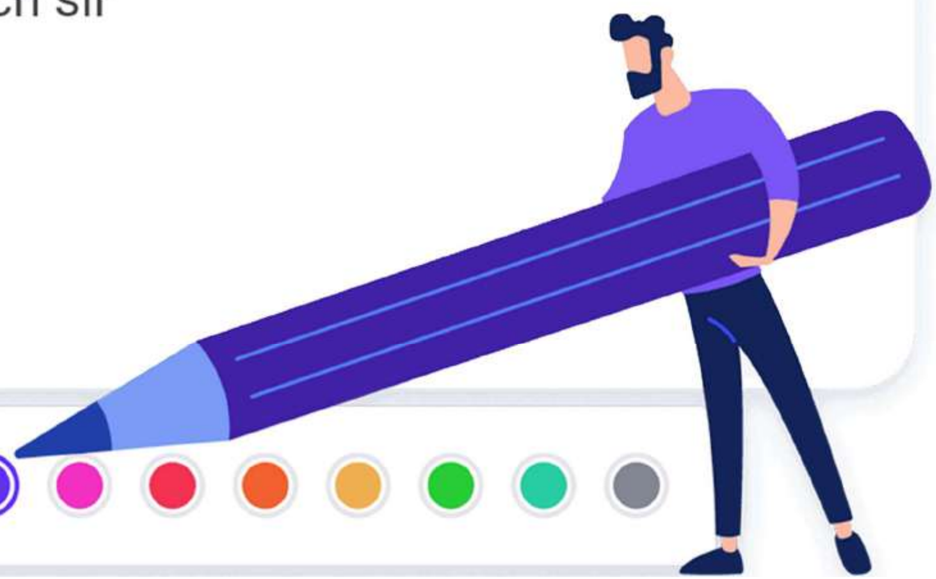

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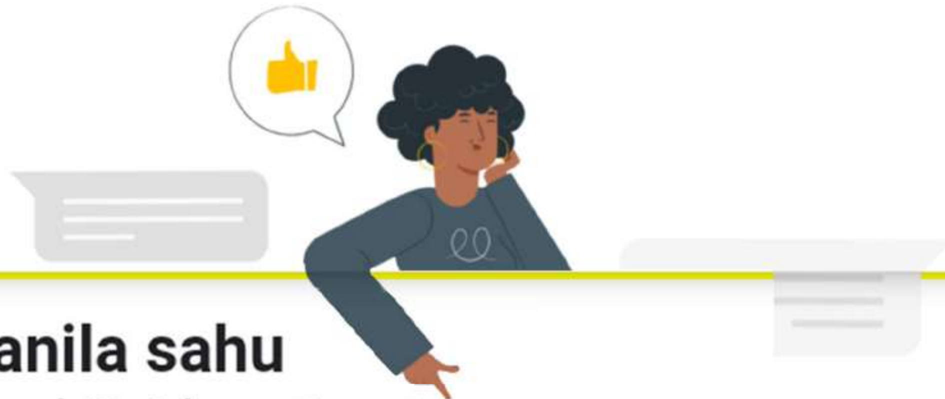

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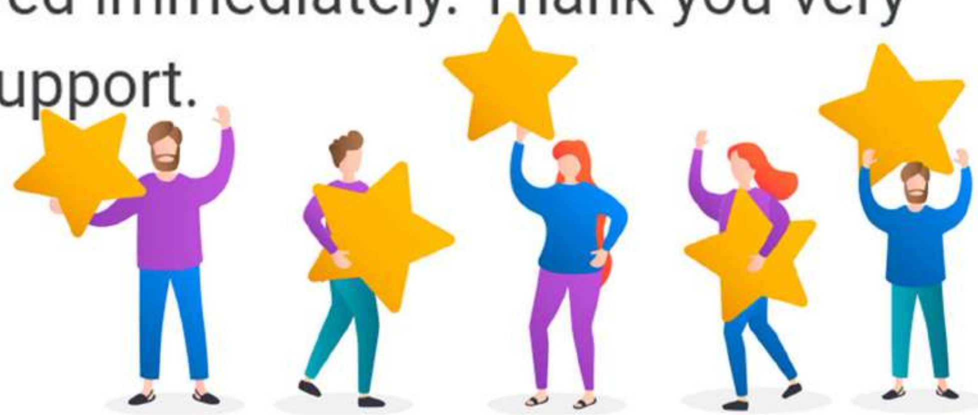

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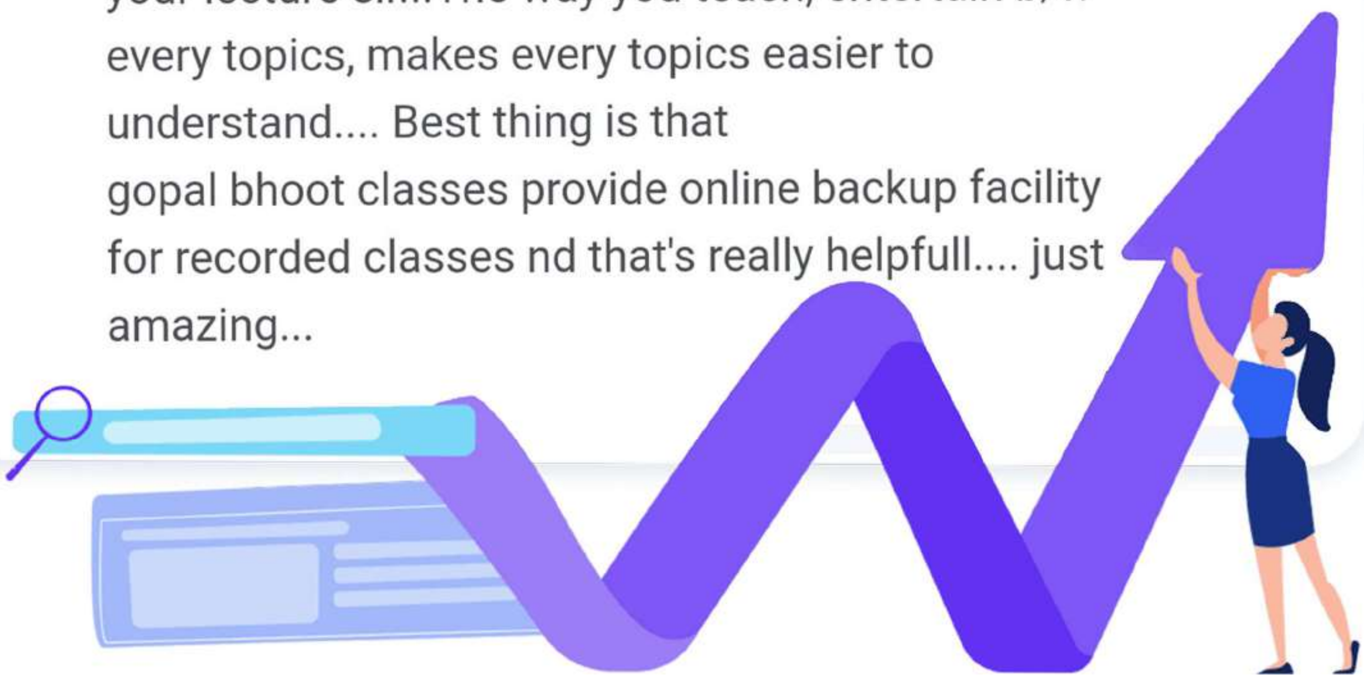

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