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.	Cr.
		Amount (₹)	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:		Add: Abnormal Loss (WN)	10,000	28,000
Advertisement & Recurring expenses	33,000	(Profit and Loss Account)		
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 To Sales A/c (Being goods costing worth ₹ 7800 sent to Mr. Narayan on sale or return basis has been accepted by him)	Dr.		7,800	7,800

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 $(7,50,000 \times \frac{12}{100} \times \frac{8}{12})$		60,000
Add: Further Depreciation $(6,00,000 \times \frac{10}{100} \times \frac{6}{12})$	30,000	72,000			
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 Outstanding	Debentures	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.