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 1.4.2018

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	3,00,000
To Manoj's A/c – Selling expenses	10,000	(3000 × ₹ 100)	
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 Promissiory 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			23,99,400
					Mar.31	By Bank	8,842		
		85,642		45,38,400			85,642		45,38,400

Working Note:

Calculation of interest:

Interest = = 23,99,400/366 x 10/100 = ₹655.57 (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 Rose 24,000 Lilly 36,000 Lotus 48,000	1,08,000	Add: Drawings of Lotus wrongly debited as salaries 10,000	3,44,600
To Net Profit transferred to		By Interest on drawings 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 31st 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	Dr.		50,00,000	
	To Equity Share Application A/c				50,00,000
	(Money received on applications for 2,00,000 shares @₹ 25 per share)				
	Equity Share Application A/c	Dr.		50,00,000	
	To Equity Share Capital A/c				50,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		60,00,000	
	To Equity Share Capital A/c				60,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 30 per share)				
	Bank A/c	Dr.		60,00,000	
	To Equity Share Allotment A/c				60,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		40,00,000	
	To Equity Share Capital A/c				40,00,000
	(Being first call made due on 2,00,000 shares at ₹ 20 per share)				
	Bank A/c	Dr.		50,00,000	
	To Equity Share First Call A/c				40,00,000
	To Calls in Advance A/c				10,00,000
	(Being first call money received along with calls in advance on 2,00,000 shares at ₹25 per share)				
	Equity Share Final Call A/c	Dr.		50,00,000	
	To Equity Share capital A/c				50,00,000
	(Being final call made due on 2,00,000 shares at ₹25 each)				
	Bank A/c	Dr.		39,00,000	
	Calls in Advance A /C	Dr.		10,00,000	
	Calls in Arrears A/c	Dr.		1,00,000	
	(Being final call received for 1,56,000				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)	Dr.	9,00,000	
To Preference Share Allotment A/c			3,00,000
To Preference Share First Call A/c			3,00,000
To Forfeited Share A/c			3,00,000
(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.....)			
Bank A/c (10,000 x ₹65)	Dr.	6,50,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			7,50,000
(Being re-issue of 10,000 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 (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.