PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

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

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

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

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

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

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

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

(6 Statements x 2 Marks = 12 Marks)

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

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

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

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

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

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

Answer

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

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

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

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

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

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

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

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

(c)

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

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

Question 2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Answer

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

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

(b) **In the books of Firm**

Machinery Account

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

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

Working Note:

Book Value of machines

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

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

Question 3

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

The following expenses were incurred in connection with above transaction -

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

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

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

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

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

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

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

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

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

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

OR

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

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

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

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

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

Answer

(a) **Ledgers Accounts**

Joint Bank Account

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

Joint Venture Account

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

R's Account

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

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

S's Account

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

(b) Journal Entries in the books of Akshay

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

	(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	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

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

For Yusuf's payments:

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

For Yogesh's payments

Taking same base date i.e. May 21

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

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

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

= ₹ 9,13,000

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

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

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

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

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

(ii) Statement showing amount of Royalty Payable

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

Question 4

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

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

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

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

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

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

(iii) Stock is valued at ₹ 13,500

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

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

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

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

You are required to prepare:

(1) Revaluation account

(2) Capital accounts of the partners and

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

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

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

Other information :

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

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

(iii) Commission received in advance is ₹ 100.

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

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

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

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

(10 + 10 = 20 Marks)

Answer

(a) Revaluation Account

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

Partners' Capital Accounts

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

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

Balance Sheet of Firm as on 1.7.2018

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

Calculation of goodwill and Zoya's share

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

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

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

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

= ₹ 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹ 8750X1/2 =₹ 4375

Yedhant =₹ 8750X1/2 = ₹ 4375

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

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

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

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

Balance Sheet of Mr. Sandeep as on 31.3.2018

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

Question 5

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

(i) *Inventory Turnover Ratio: 4 Times.*

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

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

(iv) Gross Profit Ratio 25%.

(v) Current Liabilities ₹ 40,000.

(vi) Quick Ratio 0.75.

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

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

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

Following Expenses were made during the year:

Sports Expenses: ₹ 50,000

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

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

Answer

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

(ii) Calculation of Current Assets

Quick ratio = 0.75

Quick ratio = Quick Assets/Current liability

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

Cost of goods sold = Sales-Gross profit

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

= ₹ 2,25,000

Inventory turnover ratio = Cost of goods sold/ Average Inventory

Average Inventory = ₹ 2,25,000/4

= ₹ 56,250

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

₹ 56,250 x 2 = x + x + ₹ 20,000

₹ 1,12,500 =2 x + ₹ 20,000

₹ (1,12,500 - 20,000) =2x

₹ 92,500 =2x

X= ₹ 46,250 i.e. (Opening Inventory)

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

Current Assets = Quick Assets + Closing Inventory

= ₹ (30,000 + 66,250)

Current Assets = ₹ 96,250

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

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

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

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

Working Notes:

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

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

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

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

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

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

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

3. Loss on sale of furniture

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

4. Depreciation

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

5. Interest accrued on investment

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

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

Question 6

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

The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share

On first and final call - ₹ 2 per share

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

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

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

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

Pass necessary journal entries for the accounting year 2018.

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

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

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

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

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

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

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

Rate of Gross Profit is 25% on cost.

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

Answer

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

Journal Entries

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

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	

(b) Journal Entries

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

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

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

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

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