

**PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING**

Question No. 1 is compulsory.

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

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

Working Notes should form part of the answer.

**Question 1**

- (a) State with reasons, whether the following statements are True or False :
- (i) Re-issue of forfeited shares is allotment of shares but not a sale.
  - (ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
  - (iii) The Sale Book is kept to record both the cash and credit sales.
  - (iv) There are two ways of preparing an account current.
  - (v) Consignee will not pass any journal entry in his books at time of receiving of goods from Consignor.
  - (vi) Accounting Standards for non-corporate entities in India are issued by the Central Government. **(6 x 2 = 12 Marks)**
- (b) Define the following terms:
- (i) Capital Commitment
  - (ii) Expired Cost
  - (iii) Floating Charge
  - (iv) Obsolescence **(4 Marks)**
- (c) Prepare a Bank Reconciliation Statement from the following particulars as on 31<sup>st</sup> December, 2020 :

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

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

(4 Marks)

**Answer**

- (a) (i) **False**; Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.
- (ii) **True**; Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
- (iii) **False**; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.
- (iv) **False**; There are three ways of preparing an Account Current: with help of interest table; by means of products and by means of products of balances.
- (v) **True**; Consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He does not pass any entry in his books at the time of receiving goods from consignor.
- (vi) **False**; Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).
- (b) (i) **Capital commitment: Future liability** for capital expenditure in respect of which contracts have been made.
- (ii) **Expired cost**: The portion of the expenditure from which no further benefit is expected. Also termed as expense.
- (iii) **Floating charge**: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.
- (iv) **Obsolescence: Diminution in the value of an asset** by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

(c) **Adjusted Cash Book as on 31<sup>st</sup> December, 2020**

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

**Bank Reconciliation Statement as on 31<sup>st</sup> December, 2020**

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

**Question 2**

- (a) *Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:*
- The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.*
  - A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.*
  - A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.*
  - Cash received from Senu, ₹ 895 was posted to debit of Sethu.*
  - Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.*
  - Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.*
  - ₹ 600 due from Mr. Q was omitted to be taken to the trial balance.*
  - Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.*

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

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

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

**Answer**

**(a) Journal Entries**

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

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

(b)

**Truck A/c**

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

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

**Working Note:****1. Profit on settlement of truck**

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

**2. Calculation of WDV of 10 trucks as on 01.01.2018**

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

**3. Calculation for Depreciation for 2018 and 2019**

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

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

**Question 3**

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

	Cost price	Selling price	Qty consigned
5 Kg. Tin	₹ 100 each	₹ 150 each	1,000 Tins
10 Kg. Tin	₹ 180 each	₹ 250 each	1,000 Tins

- (i) The consignment was booked on freight "To Pay" basis. The freight was charged @ 5% of selling value.
- (ii) C Stores sold 500, 5 kg Tins and 800, 10 kg Tins. It paid insurance of ₹ 10,000 and storage charges of ₹ 20,000.
- (iii) C Stores is entitled to a fixed commission @ 10% on Sales.
- (iv) During transit 50 quantity of 5 kg Tin and 20 quantity of 10 kg Tin got damaged and the transporter paid ₹ 5,000 as damage charge.

Prepare the Consignment Account in the books of A Products Limited. **(10 Marks)**

- (b) From the following particulars prepare an account current, as sent by Mr. Amit to Mr. Piyush as on 31<sup>st</sup> December, 2020 by means of product method charging interest @ 8% p.a.

Date	Particulars	₹
01-09-2020	Balance due from Piyush	900
15-10-2020	Sold goods to Piyush	1,450
20-10-2020	Goods returned by Piyush	250
22-11-2020	Piyush paid by Cheque	1,200
15-12-2020	Received cash from Piyush	600

**(5 Marks)**

- (c) Attempt any ONE of the following two sub-parts i.e. either (i) or (ii)
- (i) From the following information show the journal entries in the books of ABC Limited for the year ended 31st March, 2020:

- (1) 100 units of goods costing ₹ 500 each sent to XYZ Limited on Sales or Return Basis @ ₹ 750 per unit. This transaction was however treated as actual sales in the books of accounts.
- (2) Out of the above 100 units, only 60 units were accepted by XYZ Limited during the year @ ₹ 700 per unit. No information was received about acceptability of balance units by the year end.

OR

- (ii) Mahesh had the following bill receivables and bills payables against Rajesh. Calculate the average due date, when the payment can be received or made without any loss of interest.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
12-06-20	5,000	3 months	27-05-20	3,700	3 months
10-07-20	6,200	1 month	07-06-20	4,000	3 months
15-07-20	3,500	3 months	10-07-20	5,000	1 month
12-06-20	1,500	2 months			
28-06-20	2,500	2 months			

15th August, 2020 was Public holiday. However, 10th September, 2020 was also suddenly declared as holiday. **(5 Marks)**

Answer

(a)

A Products Ltd.

Dr.			Cr.		
Consignment to Mumbai Account					
Particulars		₹	Particulars		₹
To Goods sent on Consignment A/c			By C Stores		
1,000 5 kg. tins @ Rs 100	1,00,000		500, 5 kg. tins @ ₹ 150	75,000	
1,000 10 kg. tins. @ ₹ 180	1,80,000	2,80,000	800, 10 kg. tins. @ ₹ 250	<u>2,00,000</u>	2,75,000
To C Stores:			By Bank A/c (Damage charges)		5,000
Freight	20,000		By Profit & Loss A/c		-

Insurance	10,000		abnormal loss (Net)	4,225
Storage charge	20,000			
Commission	27,500	77,500	By Inventory on consignment A/c	83,025
To Profit & Loss A/c – Profit		9,750		
		3,67,250		3,67,250

**Working Notes:**

## (i) Calculation of Freight

Sale value of total consignment:

1,000 5 kg. tins @ ₹ 150	1,50,000
1,000 10 kg. tins @ ₹ 250	2,50,000
	<u>4,00,000</u>
Freight @ 5% of above	<u>20,000</u>

## (ii) Inventories at the end:

450, 5 kg. tins @ ₹ 100 (Selling Price ₹ 67,500)	45,000
180, 10 kg. tins. @ ₹ 180 (Selling Price ₹ 45,000)	32,400
	<u>77,400</u>
Add: Freight 5% of (Selling Price ₹ 1,12,500)	<u>5,625</u>
	<u>83,025</u>

## (iii) Loss in transit:

Cost of 50,5 kg. tins @ ₹ 100 & 20, 10 kg tins @ 180	8,600
Freight @ 5% of Selling Price ₹ 12,500	<u>625</u>
Gross abnormal Loss	9,225
Less : Damage charges received	<u>(5,000)</u>
Net abnormal Loss	4,225

**(b) Piyush in Account Current with Amit****for the period ending on 31<sup>st</sup> December, 2020**

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2020		₹			2020		₹		
Sept. 1	To Balance	900	122	1,09,800	Oct.	By Sales	250	72	18,000

Oct. 15	b/d To Sales A/c	1,450	77	1,11,650	20	Returns			
					Nov. 22	By Bank A/c	1,200	39	46,800
Dec. 31	To Interest A/c	32			Dec. 15	By Cash A/c	600	16	9,600
					Dec. 31	By Balance of products			1,47,050
						By Balance c/d	332		
		2,382		2,21,450			2,382		2,21,450

Calculation of interest:

$$\text{Interest} = 1,47,050 / 366 \text{ days} \times 8\% = ₹ 32 \text{ (Rounded off)}$$

**Note:** 366 days taken for interest calculation since 2020 is a leap year. Alternatively, 365 days can also be taken. In that case amount of interest will be ₹ 32.23 (Rounded off ₹ 32) and amount of balance c/d will be ₹ 332.23 (Rounded off ₹ 332).

(c) (i) **In the books of ABC. Ltd.**

**Journal Entries**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
March. 31	Sales A/c (₹ 50 X 60) To XYZ Limited A/c (Being the 60 units of goods accepted by XYZ limited at 700 per unit.)	Dr.	3,000	3,000
	Sales A/c (40 X ₹ 750) To XYZ Limited A/c (Being the cancellation of original entry for sale in respect of 40 units of goods not yet returned or approved by customers)	Dr.	30,000	30,000
March. 31	Inventories with Customers on Sale or Return A/c To Trading A/c (Being the cost of goods sent to customers on approval or return basis not yet approved, adjusted)	Dr.	20,000	20,000

**Note:** Quantity of goods lying with XYZ as on 31.3.2020 = 100-60 = 40

(ii) Let us take 13.08.2020 as Base date.

**Bills receivable**

Bill Date	Tenure	Due date	No. Of days from 13.08.2020	Amount	Product
12/06/19	3 months	15/09/2020	33	5,000	1,65,000
10/07/19	1 month	13/8/2020	0	6,200	0
15/07/19	3 months	18/10/2020	66	3,500	2,31,000
12/06/19	2 months	14/08/2020	1	1,500	1,500
28/06/19	2 months	31/8/2020	18	<u>2,500</u>	<u>45,000</u>
				<u>18,700</u>	<u>4,42,500</u>

**Bills payable**

Bill Date	Tenure	Due date	No. Of days from 13.08.2020	Amount	Product
27/05/19	3 months	30/08/2020	17	3,700	62,900
07/06/19	3 months	11/09/2020	29	4,000	1,16,000
10/07/19	1 month	13/08/2020	0	<u>5,000</u>	<u>0</u>
				<u>12,700</u>	<u>1,78,900</u>

Excess of products of bills receivable over bills payable = 4,42,500 - 1,78,900 = 2,63,600

Excess of bills receivable over bills payable = 18,700 – 12,700 = 6,000

Number of days from the base date to the date of settlement is  $2,63,600 / 6,000 = 43.94$  (approx.)

Hence date of settlement of the balance amount is 44 days after 13.08.2020 i.e. **26<sup>th</sup> September, 2020.**

On **26<sup>th</sup> September, 2020**, Rajesh has to pay Mahesh ₹ 6,000 to settle the account.

**Question 4**

- (a) The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:
- (i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

- (ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.
- (iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.
- (iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.
- (v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
- (vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn ₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017	Profit ₹ 29,340
2018	Profit ₹ 26,470
2019	Loss ₹ 8,320
2020	Profit ₹ 13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years. **(10 Marks)**

- (b) Dr. Deku started private practice on 1st April, 2019 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	Payments	₹
Own Capital	2,00,000	Medicines Purchased	2,45,000
Loan	3,00,000	Surgical Equipment	2,50,000
Prescription Fees	6,60,000	Motor Car	3,20,000
Visiting Fees	2,50,000	Motor Car Expenses	1,20,000
Lecture Fees	24,000	Wages and Salaries	1,05,000

<i>Pension Received</i>	3,00,000	<i>Rent of Clinic</i>	60,000
		<i>General Charges</i>	49,000
		<i>Household Expenses</i>	1,80,000
		<i>Household Furniture</i>	25,000
		<i>Expenses on Daughter's Marriage</i>	2,15,000
		<i>Interest on Loan</i>	36,000
		<i>Balance at Bank</i>	1,10,000
		<i>Cash in Hand</i>	19,000
	17,34,000		17,34,000

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2020 was valued at ₹ 95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2020. Ignore depreciation on fixed assets.

(10 Marks)

Answer

(a)

**P's Capital Account**

2020		₹	2020		₹
Sep. 30	To Current A/c (30,000 - 5000)	25,000	Jan. 1	By Balance b/d	30,000
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	3,000	Dec. 31	By Profit and Loss A/c : Interest on Capital	2,400
Dec. 31	To Balance Transferred to P's Executor's A/c	38,465	Dec. 31	Share of Profit Q&R (Goodwill)	4,735 11,830
		66,465	Dec. 31	Insurance Policies A/c	17,500
					66,465

**Working Notes:****(i) Valuation of Goodwill**

Year	Profit before Interest on fixed capital ₹	Interest ₹	Profit after interest ₹
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	<u>47,490</u>	<u>12,000</u>	<u>35,490</u>
			₹

Average	11,830
Goodwill at two years purchase of average net profits	23,660
Share of P in the goodwill	11,830

**(ii) Profit on Separate Life Policy:**

P's policy	25,000
Q and R's policy @ 20% of ₹ 50,000	<u>10,000</u>
	<u>35,000</u>
Share of P (1/2)	17,500

**(iii) Share in profit for 2020:**

Profit for the year	13,470
Less : Interest on capitals	<u>(4,000)</u>
	<u>9,470</u>
P's share in profit (1/2)	4,735

**(b) Income and Expenditure Account  
for the year ended 31<sup>st</sup> March, 2020**

	₹		₹
To Medicines consumed		By Prescription fees	6,60,000
Purchases	2,45,000		
Less: Stock on 31.3.20	<u>(95,000)</u>	By Visiting fees	2,50,000
To Motor car expense	80,000	By Fees from lectures	24,000

To Wages and salaries (1,05,000 – 30,000)	75,000		
To Rent for clinic	60,000		
To General charges	49,000		
To Interest on loan	36,000		
To Net Income	<u>4,84,000</u>		
	<u>9,34,000</u>		<u>9,34,000</u>

**Capital Account**for the year ended 31<sup>st</sup> March, 2020

	₹		₹
To Drawings:		By Cash/bank	2,00,000
Motor car expenses	40,000	By Cash/ bank (pension)	3,00,000
(one-third of ₹ 1,20,000)		By Net income from practice	4,84,000
Household expenses	1,80,000	(derived from income and	
Daughter's marriage	2,15,000	expenditure A/c)	
exp.			
Wages of domestic	30,000		
servants			
Household furniture	25,000		
To Balance c/d	<u>4,94,000</u>		
	<u>9,84,000</u>		<u>9,84,000</u>

**Question 5**

(a) From the following particulars ascertain the value of inventories as on 31st March, 2020 :

Inventory as on 1st April, 2019	₹ 3,50,000
Purchase made during the year	₹ 12,00,000
Sales	₹ 18,50,000
Manufacturing Expenses	₹ 1,00,000
Selling and Distribution Expenses	₹ 50,000
Administration Expenses	₹ 80,000

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 20,000 was written off on a particular item which was originally purchased for ₹ 55,000 and was sold during the year for ₹ 50,000.

Except the above mentioned transaction, gross profit earned during the year was 20 on sales. **(5 Marks)**

- (b) Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below:

On 1<sup>st</sup> April, 2019 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21- During the year 2019-20 he made cash sales of ₹ 7,50,000.

You are required to compute :

- (i) Total income for the year 2019-20.
- (ii) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is ₹ 2,55,000. **(5 Marks)**
- (c) From the following Income and Expenditure Account and additional information of A TK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.

Income and Expenditure Account for the year ending 31st March, 2020

Expenditure	₹	Income	₹
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		8,40,000

Additional Information:

Particulars	As on 31st March, 2019	As on 31st March, 2020
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600

Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000
Value of Sports Equipment	2,08,000	2,52,000
Value of Club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

(10 Marks)

**Answer****(a) Statement of Inventory in trade as on 31st March, 2020**

	₹	₹
Inventory as on 31st March, 2019	3,50,000	
Less: Book value of abnormal inventory		
(₹ 55,000 - ₹ 20,000)	<u>35,000</u>	3,15,000
Add: Purchases		12,00,000
Manufacturing Expenses		<u>1,00,000</u>
		16,15,000
Less: Cost of goods sold:		
Sales as per books	18,50,000	
Less: Sales of abnormal item	<u>50,000</u>	
	18,00,000	
Less: Gross Profit @ 20%	<u>3,60,000</u>	<u>14,40,000</u>
Inventory in trade as on 31st March, 2020		<u>1,75,000</u>

**(b) (i) Computation of Income for the year 2019-20:**

	₹
Money received during the year related to 2019-20	7,50,000
Add: Money received in advance during previous years	2,25,000
Total income of the year 2019-20	9,75,000

(ii) **Advance from Customers A/c**

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2019	By Balance b/d	3,00,000
31.3.20	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		4,80,000			4,80,000

So, total money received during the year is:

	₹
Cash Sales during the year	7,50,000
Add: Advance received during the year	1,80,000
Total money received during the year	9,30,000

(c) **ATK Club****Receipts and Payments Account  
for the year ended 31st March, 2020**

RECEIPTS	₹	₹	PAYMENTS	₹	₹
To Balance b/d (balancing figure)		54,400	By Salaries Paid (W.N. 2)		4,72,000
To Subscriptions Received (W.N.1)	6,53,600		By Audit fee (W.N. 3)		8,000
To Entrance Fees	16,000		By Telephone		6,000
To Misc. Income	1,44,000		By Stationery & Printing		24,000
			By Postage		2,000
			By Office expense		48,000
			By Bank Interest		22,000
			By Annual general meeting expenses		1,00,000

		By Sports Equipment's (W.N.4)	72,000
		By Balance c/d	<u>1,14,000</u>
	8,68,000		8,68,000

**Balance Sheet of ATK Club as at March31, 2020**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Club Premises		7,60,000
Balance as per previous Balance Sheet	8,82,400		Sport Equipment		2,52,000
Add: Surplus for 2020	<u>1,20,000</u>	10,02,400	Subscription Outstanding		72,000
Bank Loan		1,20,000	Cash in hand		1,14,000
Subscription received in advance		33,600			
Audit Fee Outstanding		10,000			
Salaries Outstanding		32,000			
		<u>11,98,000</u>			<u>11,98,000</u>

**Balance Sheet of ATK Club as at 31st March, 2019**

Liabilities	₹	Assets	₹
Subscriptions received in advance	52,000	Club Premises	7,60,000
Salaries Outstanding	24,000	Sports Equipment	2,08,000
Audit fees payable	8,000	Subscriptions Outstanding	64,000
Bank Loan	1,20,000	Cash in hand	54,400
Capital Fund (balancing figure)	<u>8,82,400</u>		
	<u>10,86,400</u>		<u>10,86,400</u>

**Working Notes:**

1. Subscription received in 2019-20

Add: Subscription for 2019-20 on accrual basis

6,80,000

Add: Amount received in advance on 31.03.2020	33,600
Outstanding as on 01.04.2019 received in 2019-20	<u>64,000</u>
	7,77,600
Less: Outstanding to be received on 31.03.2020	72,000
Amount of 2019-20 received in 2018-19	<u>52,000</u>
	Rs <u>6,53,600</u>
2. Salary paid in 2019-20	
Salary for 2019-20 on accrual basis	4,80,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	24,000
Less: Outstanding to be paid on 31.03.2020	<u>32,000</u>
	Rs <u>4,72,000</u>
3. Audit Fees paid in 2019-20	
Audit Fees for 2019-20 on accrual basis	10,000
Add: Outstanding as on 01.04.2019 paid in 2019-20	8,000
Less: Outstanding to be paid on 31.03.2020	<u>10,000</u>
	₹ <u>8,000</u>
4. Sports Equipment purchased during 2019-20	
WDV as on 31.03.2020	2,52,000
Add: Depreciation	28,000
Less: WDV as on 31.03.2019	<u>2,08,000</u>
	Rs <u>72,000</u>

**Question 6**

(a) A Limited is a company with an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2020. The company proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :

- ₹ 2 per share payable on application, to be received by 31st May, 2020;
- Allotment to be made on 10th June, 2020 and a further ₹ 5 per share (including the premium to be payable);
- The final call for the balance to be made, and the money received by 31st December, 2020.

Applications were received for 5,60,000 shares and dealt with as follows:

- (1) Applicants for 10,000 shares received allotment in full;
- (2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
- (3) Applicants for 5,00,000 shares received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
- (4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of A Limited. **(15 Marks)**

- (b) Discuss the rules if there is no Partnership Agreement. **(5 Marks)**

### Answer

(a) **Journal of A Limited**

Date 2020	Particulars		Dr. ₹	Cr. ₹
May 31	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 5,60,000 shares @ ₹ 2 per share)	Dr.	11,20,000	11,20,000
June 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1–Column 6) (Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No.....dated...)	Dr.	11,20,000	2,70,000 5,50,000 3,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No....dated....)	Dr.	6,75,000	1,35,000 5,40,000

Dec. 31	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	1,25,000	1,25,000
	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,35,000 shares @ ₹ 7 per share as per Board's Resolution No.....dated....)	Dr.	9,45,000	9,45,000
	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ ₹ 7 each received)	Dr.	9,45,000	9,45,000

**Working Note:**

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 – (4 + 5)]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
<b>TOTAL</b>	<b>5,60,000</b>	<b>1,35,000</b>	<b>11,20,000</b>	<b>2,70,000</b>	<b>5,50,000</b>	<b>3,00,000</b>	<b>6,75,000</b>	<b>1,25,000</b>

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) X ₹2

(ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

(b) As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6% p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.