

MODEL TEST PAPERS
FOUNDATION COURSE
PAPER 1 - ACCOUNTING

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MODEL TEST PAPER 1
FOUNDATION COURSE
PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- (i) Accounting Standards for non-corporate entities in India are issued by the Central Government.
 - (ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
 - (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (iv) Discount at the time of retirement of a bill is a gain for the drawee.
 - (v) Business of partnership comes to an end on death of a partner.
 - (vi) Receipts and Payments Account highlights total income and expenditure. **(6 Statements x 2 Marks = 12 Marks)**
- (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements. **(4 Marks)**
- (c) The balance of Machinery Account of a firm on 1st April, 2023 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,000 as on 1st April, 2023 was sold on 1st July, 2023 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2023 a new machine was purchased for ₹ 5,60,000. Depreciation is written off @ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2024. **(4 Marks)**
- (12+4+4= 20 Marks)**
2. (a) Mr. Bhatt's trial balance as on 31st March, 2024 did not agree. The difference was put to a Suspense Account.
- During the next trading period, the following errors were discovered:
- (i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

- (ii) A sale of ₹ 462 was entered in the Sales Book as ₹ 642 and posted to the credit of the customer.
- (iii) A return to creditor, ₹ 300 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- (iv) Cash received from Geet, ₹ 895 was posted to debit of Meet.
- (v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- (vi) 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.
- (vii) ₹ 500 due from Mr. Manas was omitted to be taken to the trial balance.
- (viii) Sale of goods to Mr. Deep for ₹ 6,000 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) The Bank Pass Book of Account No.7749 of Ms. Tina showed an overdraft of ₹ 1,34,300 on 31st March 2024. On going through the Pass Book, the accountant found the following:
- (i) A Cheque of ₹4,320 credited in the pass book on 28th March 2024 being dishonoured is debited again in the pass book on 1st April 2024. There was no entry in the cash book about the dishonour of the cheque until 15th April 2024.
 - (ii) Bankers had credited her account with ₹ 11,200 for interest collected by them on her behalf, but the same has not been entered in her cash book.
 - (iii) Out of ₹ 82,000 paid in by Ms. Tina in cash and by cheques on 31st March 2024 cheques amounting to ₹ 30,000 were collected on 7th April, 2024.
 - (iv) Out of Cheques amounting to ₹ 31,200 drawn by her on 27th March, 2024 a cheque for ₹ 10,000 was encashed on 3rd April, 2024.
 - (v) Bankers seems to have given here wrong credit for ₹ 2,000 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 1,200 against her account No.8765.
 - (vi) A cheque for ₹ 4,000 entered in Cash Book but omitted to be banked on 31st March, 2024.
 - (vii) A Bill Receivable for ₹ 20,800 previously dishonoured (Discount ₹ 800) with the Bank had been dishonoured but advice was received on 1st April, 2024.

- (viii) A Bill for ₹ 40,000 was retired /paid by the bank under a rebate of ₹ 700 but the full amount of the bill was credited in the bank column of the Cash Book.
- (ix) A Cheque for ₹ 9,600 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2024.

Prepare Bank Reconciliation Statement as on 31st March, 2024.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are required to prepare his final accounts for the year 2023:

	1.1.2023	31.12.2023
	₹	₹
Debtors	1,02,500	–
Creditors	–	46,000
Stock	50,000	62,500
Bank Balance	–	50,000
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows:

	₹
Received from debtors	3,40,000
Additional capital brought in	5,000
Sale of fixed assets (book value ₹ 2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal drawings	25,000
Purchase of fixed assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000. **(10 Marks)**

- (b) Arun, Varun and Tarun are in partnership, sharing profits and losses equally.

Tarun died on 30th June 2023. The Balance Sheet of Firm as at 31st March 2023 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
Arun	1,00,000	Trade receivables	35,000
Varun	75,000	Less: Provision for doubtful debt	(2,000)
			33,000
Tarun	75,000	Cash in hand	7,000
		Cash at bank	12,000
	<u>2,82,000</u>		<u>2,82,000</u>

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

- Land and Building be valued at ₹ 1,75,000
- Debtors were all good, no provision is required
- Stock is valued at ₹ 13,500
- Goodwill will be valued at one Year's purchase of the average profit of the past five years. Tarun's share of goodwill be adjusted in the account of Arun and Varun.
- Tarun's share of profit from 1st April 2023, to the date of death be calculated on the basis of average profit of preceding three years.
- The profit of the preceding five years ended 1st March were:

2023	2022	2021	2020	2019
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

- Revaluation account
- Capital accounts of the partners and
- Balance sheet of the Firm as at 1st July, 2023. **(10 Marks)**

(10 + 10 = 20 Marks)

- 4 (a) Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2024 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities	₹	Assets	₹
Creditors	80,000	Plant and machinery	60,000
Loan A/c – Amar	20,000	Premises	80,000
Capital A/cs - Amar	1,00,000	Stock	60,000
Akbar	30,000	Debtors	1,20,000
Antony	<u>90,000</u>		<u> </u>
	<u>3,20,000</u>		<u>3,20,000</u>

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2024	₹ 60,000
May 1, 2024	₹ 1,46,000
May 31, 2024	₹ 94,000

Prepare a statement showing how the distribution should be made under maximum loss method.

(10 Marks)

- (b) The following information of M/s. Zara Club are related for the year ended 31st March, 2024:

(1)

Balances	As on 01-04-2023 (₹)	As on 31-3-2024 (₹)
Stock of Sports Material	6,75,000	10,12,500
Amount due for Sports Material	6,07,500	8,77,500
Subscription due	1,01,250	1,48,500
Subscription received in advance	81,000	47,250

(2) Subscription received during the year ₹ 33,75,000

(3) Payments for Sports Material during the year ₹ 20,25,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2024 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2024.

(10 Marks)

(10 + 10 = 20 Marks)

5. (a) From the following information, draw up a Trial Balance in the books of Shri Hari Om as on 31st March, 2024:

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	4,20,000	Purchases	1,08,000
Discount Allowed	3,600	Carriage Inward	26,100
Carriage Outwards	6,900	Sales	1,80,000
Return Inward	900	Return Outwards	2100
Rent and Taxes	3,600	Plant and Machinery	2,42,100
Stock on 1 st April 2023	46,500	Sundry Debtors	60,600
Sundry Creditors	36,000	Investments	10,800
Commission Received	5,400	Cash in Hand	300

Cash at bank	30,300	Motor Cycle	1,03,800
Stock on 31 st March, 2024	61,500		

(5 Marks)

(b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

(i) Following information is provided for M/s. VS Wires for the year ended 31st March, 2024:

	₹
Opening Inventory	6,00,000
Purchases	40,32,000
Carriage Inwards	1,80,000
Wages	3,00,000
Sales	66,00,000
Returns inward	6,00,000
Returns outward	4,32,000
Closing Inventory	12,00,000

You are required to pass necessary closing entries in the journal proper of M/s. VS Wires.

(5 Marks)

OR

(ii) Mr. Mandeep runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2024.

Opening work-in-progress (27,000 units)	78,000
Closing work-in-progress (42,000 units)	1,44,000
Opening inventory of Raw Materials	7,80,000
Closing inventory of Raw Materials	9,60,000
Purchases	24,60,000
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	5,40,000
Units produced - 15,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Mandeep for the year ended 31-03-2024.

(5 Marks)

- (c) Face Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31 March, 2023:

Particulars		₹	₹
Shareholder's fund			
(a)	Authorized Share Capital 90,000 equity shares of ₹10 each fully paid up		9,00,000
	Issued, Subscribed & Paid up 60,000 equity shares of ₹ 10 each fully paid up		6,00,000
(b)	Reserve and Surplus		
	Profit & Loss Account	3,24,000	
	Debenture redemption reserve	<u>36,000</u>	3,60,000
Non-current liabilities			
(a)	Long term borrowings 12% Debentures		3,60,000
Current Liabilities			
(a)	Trade Payable		3,45,000
	Total		16,65,000
Non-current Assets			
(a)	Property, Plant and Equipment	3,45,000	
(b)	Non-current Investments (DRR Investment)	<u>54,000</u>	3,99,000
Current Assets			
(a)	Inventories	4,05,000	
(b)	Trade Receivables	2,25,000	
(c)	Cash in Hand	90,000	
(d)	Cash at Bank	<u>5,46,000</u>	12,66,000
	Total		16,65,000

At the AGM on 01.04.2023, it was resolved:

- (a) To give existing equity shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.
- (c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) Avent 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, 2023. 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 :

- (i) ₹ 2 per share payable on application, to be received by 31st May, 2023;
- (ii) Allotment to be made on 10th June, 2023 and a further ₹ 5 per share (including the premium to be payable);
- (iii) The final call for the balance to be made, and the money received by 31st December, 2023.

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 Avent Limited. **(15 Marks)**

- (b) Discuss the factors taken into consideration for calculation of depreciation. **(5 Marks)**

Or

Write short notes on Accommodation bill and Renewal of bill. **(5 Marks)**

(15 + 5 = 20 Marks)

MODEL TEST PAPER 2
FOUNDATION COURSE
PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

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) Accrual concept implies accounting on cash basis.
 - (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (iv) Discount at the time of retirement of a bill is a gain for the drawee.
 - (v) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.
 - (vi) Net income in case of persons practicing vocation is determined by preparing profit and loss account. **(6 Statements x 2 Marks = 12 Marks)**
- (b) Differentiate between provisions and contingent liability **(4 Marks)**
- (c) On 31st March 2024, the Bank Pass Book of Sita showed a balance of ₹ 3,00,000 to her credit while balance as per cash book was ₹ 2,55,500. On scrutiny of the two books, she ascertained the following causes of difference:
- (i) She has issued cheques amounting to ₹ 1,60,000 out of which only ₹ 64,000 were presented for payment.
 - (ii) She received a cheque of ₹ 10,000 which she recorded in her cash book but forgot to deposit in the bank.
 - (iii) A cheque of ₹ 44,000 deposited by her has not been cleared yet.
 - (iv) Bank has credited an interest of ₹ 3,000 while charging ₹ 500 as bank charges.
- Prepare a bank reconciliation statement **(4 Marks)**
- (12 + 4 + 4 = 20 Marks)**
2. (a) Ambiance Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:
- (i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 80,000.

- (ii) On 31st December, stock sheet showed the following discrepancies:
- (a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
- (b) The total of a page had been undercast by ₹ 200.
- (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2023. Invoices entered in April 2024 relating to goods received in March, 2024 totalled ₹ 4,000.
- (iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2024. Of this ₹ 5,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 4,000.
- (v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2024. **(10 Marks)**

- (b) M/s. Surya Lights purchased a second-hand machine on 1st January, 2020 for Rs. 3,20,000. Overhauling and erection charges amounted to Rs. 80,000.

Another machine was purchased for Rs. 1,60,000 on 1st July, 2020.

On 1st July, 2022, the machine installed on 1st January, 2020 was sold for Rs. 1,60,000. Another machine amounted to Rs. 60,000 was purchased and was installed on 30th September, 2022.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2023 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2020 to 2023. **(10 Marks)**

(10 +10 = 20 Marks)

3. (a) The details of Assets and Liabilities of Mr. Jalaj as on 31-3-2022 and 31-3-2023 are as follows:

Particulars	31-3-2023 (Rs.)	31-3-2024 (Rs.)
<u>Assets:</u>		
Furniture	62,500	
Building	1,25,000	
Stock	1,25,000	3,12,500
Sundry Debtors	75,000	1,37,500
Cash in hand	14,000	16,500
Cash at Bank	75,000	93,750
<u>Liabilities:</u>		
Loans	1,12,500	87,500
Sundry Creditors	62,500	1,00,000

Mr. Jalaj decided to provide depreciation on building by 2.5% and furniture by 10% for, the period ended on 31-3-2023. Mr. Jalaj purchased jewellery for Rs.30,000 for his daughter in December 2022. He sold his car on 30-3-2023 and the amount of Rs.50,000 is retained in the business.

You are required to :

- (i) Prepare statement of affairs as on 31-3-2023 & 31-3-2024.
- (ii) Calculate the profit received by Mr. Jalaj during the year ended 31-3- 2024. **(8 Marks)**
- (b) X,Y and Z are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2024 stood as:

Liabilities	₹		Assets	₹	
Capital Accounts			Building		10,00,000
X	8,00,000		Furniture		2,40,000
Y	4,20,000		Office equipments		2,80,000
Z	<u>4,00,000</u>	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	<u>30,000</u>	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		<u>1,50,000</u>
		<u>23,50,000</u>			<u>23,50,000</u>

Y retired on 1st April, 2024 subject to the following conditions:

- (i) Office Equipments revalued at ₹ 3,27,000.
- (ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .
- (iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
- (iv) The surrender value of Joint Life Policy is ₹ 1,50,000
- (v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2020	90,000
2021	1,40,000
2022	1,20,000
2023	1,30,000

- (vi) Amount due to Y is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after Y's retirement. **(12 Marks)**

(8 + 12 = 20 Marks)

4. (a) P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2023 is as follows:

Liabilities	₹	Assets	₹
Capital accounts		Plant and Machinery	1,08,000

P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve Fund		60,000	Cash	60,000
Creditors		<u>48,000</u>		
		<u>3,00,000</u>		<u>3,00,000</u>

They decided to dissolve the business. The following are the amounts realized:

Particulars	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

- Realization Account.
- Partners' Capital Accounts.
- Cash Account.

(8 Marks)

- (b) From the following balances and particulars of Navel College, prepare Income & Expenditure Account for the year ended March, 2024 and a Balance Sheet as on the date :

Particulars	Amount (₹)	Amount (₹)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund	-	19,10,000
Tuition Fee Received	-	8,10,000
Government Grants	-	5,01,000
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)	-	2,05,000
College Stores - Sales	-	7,60,000
Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-

Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :		-
Building	-	4,90,000
Plant & Equipment	-	5,05,000
Furniture & Fittings	-	3,26,000
Cash at Bank	3,16,000	-
Library	3,20,000	
	75,45,000	75,45,000

Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching	₹ 52,000
Research -	₹ 1,45,000
Students Welfare -	₹ 78,000
Games or Sports -	₹ 24,000

(b) Stores selling prices are fixed to give a net profit of 15% on selling price:

(c) Depreciation is provided on straight line basis at the following rates:

Building	5%
Plant & Machinery	10%
Furniture & Fittings	10%
Motor Vehicle	20%

(12 Marks)

(8 + 12 = 20 Marks)

5. (a) M/s. Mangrove Arts were unable to agree the Trial Balance as on 31st March, 2024 and have raised a suspense account for the difference. Next year the following errors were discovered:
- Repairs made during the year were wrongly debited to the building A/c - ₹ 37,500.
 - The addition of the 'Freight' column in the purchase journal was short by ₹ 4,500.
 - Goods to the value of ₹ 3,150 returned by a customer, Leena., had been posted to the debit of Leena. and also to sales returns.
 - Sundry items of furniture sold for ₹ 90,000 had been entered in the sales book, the total of which had been posted to sales account.
 - A bill of exchange (received from Lucky & Co.) for ₹ 60,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes

(5 Marks)

(b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

(i) Following information is provided for M/s. Vikram traders for the year ended 31st March, 2024:

	₹
Opening Inventory	3,00,000
Purchases	20,16,000
Carriage Inwards	90,000
Wages	1,50,000
Sales	33,00,000
Returns inward	3,00,000
Returns outward	2,16,000
Closing Inventory	6,00,000

You are required to pass necessary closing entries in the journal proper of M/s. Vikram traders.

OR

(ii) Mr. Mandeep runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2024.

			₹
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000
Direct expenses	- Royalty on production		1,30,000
		- Repairs and maintenance	2,30,000
		- Depreciation on factory shed	40,000
		- Depreciation on plant & machinery	60,000
By-product at selling price			20,000

You are required to prepare Manufacturing Account of Mr. Mandeep for the year ended on 31.3.2024

(5 Marks)

(c) Following notes pertain to the Balance Sheet of Verma Ltd. as at 31st March, 2023

	₹
Share capital:	
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	<u>30,00,000</u>
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Preference dividend for the year 2022-2023 has already been paid by the entity.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) Woodland Mills Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

(i)	On Application	₹ 1 per share
(ii)	On Allotment	₹ 2 per share
(iii)	On First call	₹ 3 per share
(iv)	On Second and final Call	₹ 4 per share

The issue was fully subscribed. Amar to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Kabir to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Dilip to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Woodland Mills Ltd. **(15 Marks)**

(b) (i) What are the rules of posting of journal entries into the Ledger?

(ii) Explain any 2 differences between Bill of Exchange and Promissory Notes. **(5 Marks)**

(15 + 5 = 20 Marks)

MODEL TEST PAPER 3
FOUNDATION COURSE
PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- i. Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.
 - ii. In the balance sheet of Angel Limited, preliminary expenses amounting to ₹ 15 lakhs and securities premium account of ₹ 105 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
 - iii. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - iv. In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.
 - v. The debit notes issued are used to prepare Sales Return Book.
 - vi. Debenture holders enjoy the voting rights in the company.

(6 Statements x 2 Marks = 12 Marks)

- (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.

(4 Marks)

- (c) A Plant & Machinery costing ₹ 80,00,000 is depreciated on straight line basis assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 3,20,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year.

(4 Marks)

(12 + 4 + 4 = 20 Marks)

2. (a) M/s Manas, Profit and loss account showed a net profit of ₹ 32,00,000, after considering the closing stock of ₹ 30,00,000 on 31st March, 2024. Subsequently the following information was obtained from scrutiny of the books:
- (i) Purchases for the year included ₹ 1,20,000 paid for new electric fittings for the shop.

- (ii) M/s Manas gave away goods valued at ₹ 3,20,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to ₹ 20,00,000 have been entered on 25th March, 2024, but the goods were not included in stock.
- (iv) In March, 2024 goods of ₹ 16,00,000 sold and delivered were taken in the sales for April, 2024.
- (v) Goods costing ₹ 6,00,000 were sent on sale or return in March, 2024 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2024 these were taken as sales for March, 2024.

You are required to determine the adjusted net profit for the year ended on 31.3.2024 and calculate the value of stock on 31st March, 2024.

(10 Marks)

- (b) On 30th September, 2023, the bank account of Akhil, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 16,248. On the same date the bank statement showed a credit balance of ₹ 83,032 in favour of Akhil. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 52,56,000 deposited on 29th September, 2023 was credited by the bank only on 3rd October, 2023
2. A payment by cheque for ₹ 64,000 has been entered twice in the Cash Book.
3. On 29th September, 2023, the bank credited an amount of ₹ 4,69,600 received from a customer of Akhil, but the advice was not received by Akhil until 1st October, 2023.
4. Bank charges amounting to ₹ 2,320 had not been entered in the Cash Book.
5. On 6th September, 2023, the bank credited ₹ 80,000 to Akhil in error.
6. A bill of exchange for ₹ 5,60,000 was discounted by Akhil with his bank. This bill was dishonoured on 28th September, 2023 but no entry had been made in the books of Akhil.
7. Cheques issued upto 30th September, 2023 but not presented for payment upto that date totalled ₹ 53,04,000.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of Akhil, to arrive at the correct balance on 30th September, 2023 and
- (b) to prepare a bank reconciliation statement as on that date.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Praveen related to financial year 2023-24. There are certain figures missing in these accounts.

Raw Material A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	
To Creditors A/c	-	By Closing Stock	-

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		-

Manufacturing A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
to Direct Expenses	2,49,000		

Additional Information:

- (i) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2023 has been omitted, Machinery is chargeable at a depreciation rate of 15%.
- (ii) Wages include the following:

Paid to factory workers	- ₹ 3,15,000
Paid to labour at office	- ₹ 50,000
- (iii) Direct expenses included the following :

Electricity charges	- ₹ 80,000
of which 25% pertained to office	
Fuel charges	- ₹ 25,000
Freight inwards	- ₹ 32,000
Delivery charges to customers	- ₹ 22,000

You are required to prepare revised Manufacturing A/c and Raw Material A/c. **(10 Marks)**

- (b) Ram Lakhan and Bharat are partners in a firm. On 1st April 2022 their fixed capital stood at ₹ 1,50,000, ₹ 75,000 and ₹ 75,000 respectively.

As per the provision of partnership deed:

- (1) Bharat was entitled for a salary of 15,000 p.a.
- (2) All the partners were entitled to interest on capital at 5% p.a.
- (3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2023 of ₹ 99,000 and 31st March, 2024 of ₹ 1,35,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors. **(5 Marks)**

- (c) The profits and losses for the previous years are: 2020 Profit ₹ 10,000, 2021 Loss ₹ 17,000, 2022 Profit ₹ 50,000, 2023 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years. **(5 Marks)**

(10 + 5 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Alpha and Associates consisted of two partners X and Y who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

Liabilities	₹	Assets	₹
X's Capital	4,10,000	Land & Building	3,80,000
Y's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, Z was admitted as a partner on the following terms:

- (a) Z should get 1/5th of share of profits.
- (b) Z brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- (c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.

- (d) Immediately after Z's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of

old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of Z.

(10 Marks)

- (b) Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.2023	As on 31.3.2024
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?

Analysis of his bank pass book reveals the following information:

- Payment to creditors ₹ 7,00,000
- Payment for business expenses ₹ 1,20,000
- Receipts from debtors ₹ 7,50,000
- Loan from Laxman ₹ 1,00,000 taken on 1.10.2023 at 10% per annum
- Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

Prepare:

- Trading and Profit and Loss Account for the year ended 31.3.2024.
- Balance Sheet as at 31st March, 2024. **(10 Marks)**

(10 + 10 = 20 Marks)

5. (a) M/s. VB wires were unable to agree the Trial Balance as on 31st March, 2024 and have raised a suspense account for the difference. Next year the following errors were discovered:
- Repairs made during the year were wrongly debited to the building A/c - ₹ 37,500.

- (ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 4,500.
- (iii) Goods to the value of ₹ 3,150 returned by a customer, Seven & Co., had been posted to the debit of Seven & Co. and also to sales returns.
- (iv) Sundry items of furniture sold for ₹ 90,000 had been entered in the sales book, the total of which had been posted to sales account.
- (v) A bill of exchange (received from Comfort & Co.) for ₹ 60,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

(5 Marks)

- (b) From the following information supplied by Fazilka Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2024.

	01.04.2023 ₹	31.03.2024 ₹
Outstanding subscription	70,000	1,00,000
Advance subscription	12,500	15,000
Outstanding salaries	7,500	9,000
Cash in Hand and at Bank	55,000	?
10% Investment	70,000	35,000
Furniture	14,000	7,000
Machinery	5,000	10,000
Sports goods	7,500	12,500

Subscription for the year amount to ₹ 1,50,000/-. Salaries paid ₹ 30,000. Face value of the Investment was ₹ 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 7,000. Furniture was sold for ₹ 4000 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: ₹ 25,000

Rent: ₹ 12,000 out of which ₹ 1,000 outstanding

Misc. Expenses: ₹ 2,500

(15 Marks)

(5+15 = 20 Marks)

6. (a) Amar Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on

first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. **(15 Marks)**

- (b) Write short notes on any two of the following:
- (i) Bill of exchange and the various parties to it.
 - (ii) Retirement of bills of exchange.

OR

Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(5 Marks)**

(15 + 5 = 20 Marks)

ANSWER OF MODEL TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a) (i) **False** - Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).
- (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) **True** - In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
- (iv) **True** - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (v) **False** - Surviving partners may continue to carry on the business in case of partnership.
- (vi) **False** - Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.
- (b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:
- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
 - Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
 - Accounting ignores changes in some money factors like inflation etc.
 - There are occasions when accounting principles conflict with each other.
 - Certain accounting estimates depend on the sheer personal judgement of the accountant.
 - Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) Calculation of depreciation for the year ended 31.3.24

	Machine I (28,54,000 - 2,16,000) ₹	Machine II Purchased on 1 st July ₹	Machine III Purchased on 1 st Nov ₹	Depreciation on sold machine IV ₹
Book value as on 1 st April, 2023	26,38,000	4,80,000	5,60,000	2,16,000
Depreciation @15%	3,95,700 (for full year)	54,000 (for 9 months)	35,000 (for 5 months)	8,100 (for 3 months)

Total depreciation (I + II + III + IV) ₹ 4,92,800

2. (a)

	Particulars		L.F.	Dr. ₹	Cr. ₹
(i)	Suspense Account To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year)	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 ₹ 180 (b) customer was credited by ₹642 instead of being debited by ₹ 462)	Dr. Dr.		180 1,104	1,284
(iii)	Suspense Account To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹ 300 instead of Returns Outwards Account being credited by ₹ 300)	Dr.		600	600
(iv)	Suspense Account To Geet Account To Meet Account	Dr.		1,790	895 895

	(Removal or wrong debit to Meet and giving credit to Geet from whom cash was received)			
(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/ Manas's Account To Suspense Account (₹500 due by Manas not taken into trial balance, now rectified)	Dr.	500	500
(ix)	Deep's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to Deep omitted, now rectified)	Dr.	6,000	6,000
(x)	Profit & Loss Adjustment A/c To Bhatt's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.	8,436	8,436

(b) Bank Reconciliation Statement as on 31st March, 2024

Particulars	₹
Bank balance (Debit i.e. overdraft) as per Bank Pass book	1,34,300
(i) No adjustment required as there would be no difference on 31.3.24	
(ii) <i>Add:</i> No entry in Cash book for interest collection by Bank	11,200
(iii) <i>Less:</i> Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(30,000)

(iv) <i>Add:</i> Cheque credited in cash book but not debited in pass book	10,000
(v) <i>Add:</i> Reversal of wrong Credit	2,000
<i>Less:</i> Reversal of wrong debit	(1,200)
(vi) <i>Less:</i> Cheque of ₹ 1,000 entered in cash book but omitted to be banked	(4,000)
(vii) <i>Less:</i> Discounted dishonored but no entry in Cash book	(20,800)
(viii) <i>Add:</i> Rebate on bill retired not entered in cash book	700
(viii) <i>Add:</i> Cheques deposited in bank not yet recorded in cash book	<u>9,600</u>
Balance (Cr. i.e. overdraft) as per Cash book	<u>1,11,800</u>

Note: A cheque of ₹ 4,320 credited in Pass Book on 28th March, 2024 and later debited in Pass Book on 1st April, 2024 has no effect on Bank Reconciliation statement as at 31st March, 2024.

**3. (a) Trading and Profit and Loss Account
for the year ended 31st December, 2023**

	<i>Amount</i>		<i>Amount</i>
	₹		₹
To Opening stock	50,000	By Sales	3,25,000
To Purchases (balancing figure)	2,72,500	(₹ 2,60,000 × 125/ 100)	
To Gross profit c/d (₹ 2,60,000 × 25/ 100)	<u>65,000</u>	By Closing stock	62,500
	<u>3,87,500</u>		
To Expenses	49,250	By Gross profit b/d	65,000
To Loss on sale of fixed assets	750		
To Depreciation on fixed assets (W.N.1)	1,000		
To Net profit	<u>14,000</u>		
	<u>65,000</u>		<u>65,000</u>

Balance Sheet as on 31st December, 2023

	<i>Amount</i>		<i>Amount</i>
<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital (W.N. 5)	1,69,000	Fixed assets	9,000
<i>Add:</i> Additional capital	5,000	Debtors (W.N. 3)	87,500

Net profit	<u>14,000</u>		Stock	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	<u>(25,000)</u>	1,63,000		
Creditors		<u>46,000</u>		
		<u>2,09,000</u>		<u>2,09,000</u>

Working Notes:

1. Fixed assets account

	₹		₹
To Balance b/d	7,500	By Bank (sale)	1,750
To Bank	5,000	By Loss on sale of fixed asset (2,500-1,750)	750
		By Depreciation (balancing figure)	1,000
		By Balance c/d	<u>9,000</u>
	<u>12,500</u>		<u>12,500</u>

2. Bank account

	₹		₹
To Balance b/d (balancing figure)	62,500	By Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250
To Capital	5,000	By Drawings	25,000
To Sale of fixed assets	1,750	By Fixed assets	5,000
		By Balance c/d	<u>50,000</u>
	<u>4,09,250</u>		<u>4,09,250</u>

3. Debtors account

	₹		₹
To Balance b/d	1,02,500	By Bank	3,40,000
To Sales	3,25,000	By Balance c/d (balancing figure)	87,500
(₹ 2,60,000 × $\frac{125}{100}$)			
	<u>4,27,500</u>		<u>4,27,500</u>

4. Creditors account

	₹		₹
To Bank	2,80,000	By Balance b/d (balancing figure)	53,500
To Balance c/d	46,000	By Purchases (from trading account)	2,72,500
	<u>3,26,000</u>		<u>3,26,000</u>

5. Balance Sheet as on 1st January, 2023

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Creditors (W.N. 4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance (W.N. 2)	<u>62,500</u>
	<u>2,22,500</u>		<u>2,22,500</u>

(b) Revaluation Account

Particulars	₹	Particulars	₹
To Stock	1,500	By Land & Building	25,000
To revaluation profit		By Provision for doubtful debt	2,000
Arun	8,500		
Varun	8,500		
Tarun	8,500		
	<u>27,000</u>		<u>27,000</u>

Partners' Capital Accounts

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

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

Balance Sheet of Firm as on 1st July, 2024

Particulars	₹	Particulars	₹
Arun	1,08,125	Land & Building	1,75,000
Varun	83,125	Investment	65,000
Tarun 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 Tarun's share

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

31.3.2019	28,750
31.3.2020	35,000
31.3.2021	22,500
31.3.2022	20,000
31.3.2023	<u>25,000</u>
Total	<u>1,31,250</u>
Average profit	26,250

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

Tarun's Share of Goodwill = ₹ 26,250 X 1/3
= ₹ 8,750

Which is contributed by Arun and Varun in their gaining Ratio

Arun = ₹ 8,750 X 1/2 = ₹ 4375

Varun = ₹ 8,750 X 1/2 = ₹ 4375

4. (a) Statement of Distribution of Cash by 'Maximum Loss Method'

	Creditors ₹	Amar's Loan ₹	Amar ₹	Akbar ₹	Antony ₹
Balance due	80,000	20,000	1,00,000	30,000	90,000
15 th April 2024 realised ₹ 60,000					
Paid to creditors	<u>(60,000)</u>	-	-	-	-
Balance due	20,000	20,000	1,00,000	30,000	90,000
1 st May, 2024 realised ₹ 1,46,000					
Paid to creditors (₹ 20,000)	20,000	-	-	-	-
Paid to Amar's loan (₹ 20,000)	-	<u>20,000</u>	-	-	-
Balance due (1)	Nil	Nil	1,00,000	30,000	90,000
Balance ₹ 1,06,000					
Maximum Loss (1,00,000 + 30,000 + 90,000 - 1,06,000) = ₹ 1,14,000 shared in Profit & Loss ratio 5:3:2			<u>(57,000)</u>	<u>(34,200)</u>	<u>(22,800)</u>
			43,000	(4,200)	67,200
Akbar's deficiency shared by Amar & Antony in capital ratio 100:90			<u>(2,210)</u>	<u>4,200</u>	<u>(1,990)</u>
Cash paid [2]			<u>40,790</u>	-	<u>65,210</u>
Balance due (3) [1-2]			59,210	30,000	24,790
31 st May 2024 realised ₹ 94,000					

Maximum Loss [59,210 + 30,000 + 24,790 - 94,000] = ₹ 20,000 shared in 5:3:2				
		<u>(10,000)</u>	<u>(6,000)</u>	<u>(4,000)</u>
Cash paid (4)		<u>49,210</u>	<u>24,000</u>	<u>20,790</u>
Balance/Loss* on realisation (3-4)		<u>10,000</u>	<u>6,000</u>	<u>4,000</u>

(b) Subscription for the year ended 31.3.2024

		₹
Subscription received during the year		33,75,000
Less: Subscription receivable on 1.4.2023	1,01,250	
Less: Subscription received in advance on 31.3.2024	<u>47,250</u>	<u>(1,48,500)</u>
		32,26,500
Add: Subscription receivable on 31.3.2024	1,48,500	
Add: Subscription received in advance on 1.4.2023	<u>81,000</u>	<u>2,29,500</u>
Amount of Subscription appearing in Income & Expenditure Account		<u>34,56,000</u>

Sports material consumed during the year end 31.3.2024

	₹
Payment for Sports material	20,25,000
Less: Amounts due for sports material on 1.4.2023	<u>(6,07,500)</u>
	14,17,500
Add: Amounts due for sports material on 31.3.2024	<u>8,77,500</u>
Purchase of sports material	<u>22,95,000</u>
Sports material consumed:	
Stock of sports material on 1.4.2023	6,75,000
Add: Purchase of sports material during the year	<u>22,95,000</u>
	29,70,000
Less: Stock of sports material on 31.3.2024	<u>(10,12,500)</u>
Amount of Sports Material appearing in Income & Expenditure Account	<u>19,57,500</u>

Balance Sheet of M/s Zara Club For the year ended 31st March, 2024(An extract)

Liabilities	₹	Assets	₹
Unearned Subscription	47,250	Subscription receivable	1,48,500
Amount due for sports material	8,77,500	Stock of sports material	10,12,500

5. (a) **Trial Balance of Shri. Hari Om as on 31st March, 2024**

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		4,20,000
Purchases	1,08,000	
Discount Allowed	3,600	
Carriage Inward	26,100	
Carriage Outwards	6,900	
Sales		1,80,000
Return Inward	900	
Return Outwards		2,100
Rent and taxes	3,600	
Plant and Machinery	2,42,100	
Stock on 1 st April,2023	46,500	
Sundry Debtors	60,600	
Sundry Creditors		36,000
Investments	10,800	
Commission Received		5,400
Cash in Hand	300	
Cash at Bank	30,300	
Motor Cycle	1,03,800	
	6,43,500	6,43,500

Note: Stock as on 31st March,2024 will not appear in trail balance.

(b) (i) (1) **Journal Proper in the Books of M/s. VS Wires**

Date 2024	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account)	Dr.	4,32,000	4,32,000
	Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account)	Dr.	6,00,000	6,00,000
	Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account)	Dr.	60,00,000	60,00,000

Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)	Dr.	46,80,000	6,00,000 36,00,000 3,00,000 1,80,000
Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory)	Dr.	12,00,000	12,00,000
Trading A/c To Gross Profit (Being the amount of gross profit calculated)	Dr.	25,20,000	25,20,000
Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)	Dr.	25,20,000	25,20,000

OR

**(ii) In the Books of Mr. Mandeep
Manufacturing Account for the Year ended 31.03.2024**

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		27,000	78,000	By Closing Work-in-Process	42,000	1,44,000
To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	15,00,000	58,00,800
Opening Inventory	7,80,000					
Add: Purchases	24,60,000					
	32,40,000					
Closing Inventory	(9,60,000)		22,80,000			
To Direct Wages – W.N. (1)			12,16,800			
To Direct expenses: Hire charges						

on Machinery – W.N. (2)			10,50,000			
To Indirect expenses:						
Hire charges of Factory			7,80,000			
Repairs & Maintenance			<u>5,40,000</u>			
			59,44,800			<u>59,44,800</u>

Working Notes:

(1) Direct Wages – 1,500,000 units @ ₹0.80 = ₹ 12,00,000
42,000 units @ ₹0.40 = ₹ 16,800
₹ 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ ₹ 0.70 =
₹ 10,50,000

(c)

Sr. No.	Particulars		Dr (₹)	Cr (₹)
(i)	Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being 15,000 Equity Shares Issued at a premium of ₹ 5)	Dr.	2,25,000	1,50,000 75,000
(ii)	Securities Premium A/c Profit & Loss A/c To Bonus to Equity Shareholders A/c (Being amount transferred for issue of Bonus Shares to ESH in the ratio of 1:5)	Dr Dr	75,000 75,000	1,50,000
(iii)	Bonus to Equity Shareholders A/c To Equity Share Capital A/c (Being bonus shares issued)	Dr.	1,50,000	1,50,000
(iv)	12% Debentures A/c Premium on Redemption A/c To Debenture Holders A/c (Being amount payable to debenture holders)	Dr Dr	3,60,000 10,800	3,70,800
(v)	Profit & Loss A/c To Premium on Redemption A/c	Dr	10,800	10,800

	(Being premium on redemption transferred to P&L)			
(vi)	Debenture Redemption Reserve A/c To General Reserve (Being DRR transferred to General Reserve)	Dr	36,000	36,000
(vii)	Bank A/c To DRR Investment A/c (Being DRR Investment sold)	Dr	54,000	54,000
(viii)	Debenture Holders A/c To Bank A/c (Being Debenture Holders paid)		3,70,800	3,70,800

6. (a) **Journal of Avent Limited**

Date 2023	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	Dr.	6,75,000	1,35,000 5,40,000

Dec. 31	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....)			
	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
TOTAL	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

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) Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.
2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.
3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Or

- (b)** Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. When bills are used for such a purpose, they are known as accommodation bills.

When the acceptor of a bill finds himself in financial straits to honour the bill on the due date, then he may request the drawer to cancel the original bill and draw on him a fresh bill for another period. And if the drawer agrees, a new bill in place of the original bill may be accepted by the drawee for another period. This is called the renewal of bill.

ANSWER OF MODEL TEST PAPER 2

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (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:** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
- (iii) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
- (iv) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (v) **False:** If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.
- (vi) **False:** Net income is determined by preparing income and expenditure in case of persons practicing vacation.

(b)

Provision	Contingent liability
Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
A provision meets the recognition criteria.	A contingent liability fails to meet the same.
Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.

If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability.
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(c) **Bank Reconciliation Statement as on 31st March, 2024**

Particulars	Details (₹)	Amount (₹)
Balance as per Pass Book (Cr.)		3,00,000
Add: Cheque deposited but not yet cleared	44,000	
Add: Cheque recorded in Cash Book but not yet deposited	10,000	
Add: Bank Charges debited by bank	500	54,500
Less: Cheque issued but not yet presented	96,000	
Less: Interest allowed by bank	3,000	99,000
Balance as per Cash Book		2,55,500

2. (a) **Valuation of Physical Stock as at March 31, 2024**

		₹
Stock at cost on 31.12.2023		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2024 ₹ (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return ₹ (1,000 – 200)	<u>800</u>	<u>72,000</u>
		1,52,000
Less: (1) Overcasting of a page total ₹ (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January – March, 2024 ₹ (90,000 – 5,000 + 4,000)	89,000	
Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$	<u>17,800</u>	<u>72,200</u>
Value of stock as on 31st March, 2024	<u>71,200</u>	<u>79,800</u>

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 4,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2023-2024 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2023-2024.

(b)

In the books of M/s. Surya Lights

Machinery Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.2020	To Bank A/c	3,20,000	31.12.2020	By Depreciation A/c	96,000
	To Bank A/c (Erection charges)	80,000		(₹80,000+ ₹ 16,000)	
1.7.2020	To Bank A/c	1,60,000	31.12.2020	By Balance c/d	4,64,000
				(₹3,20,000+ ₹1,44,000)	
		<u>5,60,000</u>			<u>5,60,000</u>
01.01.21	To Balance b/d	4,64,000	31.12.2021	By Depreciation A/c	1,12,000
				(₹80,000+ ₹ 32,000)	
			31.12.2021	By Balance c/d	3,52,000
				(₹ 2,40,000 + ₹ 1,12,000)	
		<u>4,64,000</u>			<u>4,64,000</u>
01.01.22	To Balance b/d	3,52,000	01.07.2022	By Bank A/c	1,60,000
30.9.22	To Bank A/c	60,000		By Profit and Loss A/c (Loss on Sale – W.N.)	40,000
			31.12.2022	By Depreciation A/c	75,000
				(₹ 40,000 + ₹ 32,000 + ₹ 3,000)	
				By Balance c/d	1,37,000
				(₹ 80,000 + ₹ 57,000)	
		<u>4,12,000</u>			<u>4,12,000</u>
01.01.23	To Balance b/d	1,37,000	31.12.2023	By Depreciation A/c	20,550
				(₹ 12,000 + ₹ 8,550)	
				By Balance c/d	1,16,450
				(₹ 68,000 + ₹ 48,450)	
		<u>1,37,000</u>			<u>1,37,000</u>

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	₹	₹	₹
Cost	4,00,000	1,60,000	60,000
Depreciation for 2020	<u>80,000</u>	<u>16,000</u>	
Written down value as on 31.12.2020	3,20,000	1,44,000	
Depreciation for 2021	<u>80,000</u>	<u>32,000</u>	
Written down value as on 31.12.2021	2,40,000	1,12,000	
Depreciation for 2022	<u>40,000</u>	<u>32,000</u>	<u>3,000</u>
Written down value as on 31.12.2022	2,00,000	<u>80,000</u>	<u>57,000</u>
Sale proceeds	<u>1,60,000</u>		
Loss on sale	<u>40,000</u>		

3. (a)

In the books of Mr. Jalaj

Statement of Affairs

Liabilities	31.3.23	31.3.24	Assets	31.3.23	31.3.24
Capital (bal fig)	3,01,500	5,50,875	Furniture	62,500	56,250
Loans	1,12,500	87,500	Building	1,25,000	1,21,875
Creditors	62,500	1,00,000	Stock	1,25,000	3,12,500
			Debtors	75,000	1,37,500
			Cash in hand	14,000	16,500
			Cash at bank	75,000	93,750
	<u>4,76,500</u>	<u>7,38,375</u>		<u>4,76,500</u>	<u>7,38,375</u>

Capital A/c

Particulars	₹	Particulars	₹
To Cash (drawings)	30,000	By Bal b/d	3,01,500
To Bal c/d	5,50,875	By Cash	50,000
		By Profit (bal fig)	2,29,375
	<u>5,80,875</u>		<u>5,80,875</u>

(b)

Revaluation Account

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000

To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
X 2,31,000			
Y 1,54,000			
Z <u>77,000</u>	<u>4,62,000</u>		
	<u>5,62,000</u>		<u>5,62,000</u>

Partners' Capital Accounts

	X ₹	Y ₹	Z ₹		X ₹	Y ₹	Z ₹
To Y's capital A/c	90,000	-	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To Y's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation A/c	2,31,000	1,54,000	77,000
				By X's capital A/c		90,000	
				By Z's capital A/c		30,000	
	<u>12,11,000</u>	<u>8,14,000</u>	<u>5,37,000</u>		<u>12,11,000</u>	<u>8,14,000</u>	<u>5,37,000</u>

Balance Sheet as on 1.4.2024 (After Y's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
X	11,21,000		Furniture		2,00,000
Z	<u>5,07,000</u>	16,28,000	Office equipment		3,27,000
Y's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	<u>(15,000)</u>	2,85,000
			Cash at bank		3,00,000
		<u>28,12,000</u>			<u>28,12,000</u>

Working Notes:

Calculation of goodwill:

- Average of last 4 year's profit

$$= (90,000 + 1,40,000 + 1,20,000 + 1,30,000)/4$$

$$= ₹ 1,20,000$$
- Goodwill at three years' purchase

$$₹ 1,20,000 \times 3 = ₹ 3,60,000$$

Goodwill adjustment

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
X	1,80,000	2,70,000	90,000 (Dr.)
Y	1,20,000	-	1,20,000 (Cr.)
Z	60,000	90,000	30,000 (Dr.)

Note: Alternatively Joint Life Policy can also be routed through Partners Capital Account.

4. (a) Realization Account

Particulars	₹	Particulars	₹
To Debtors	48,000	By Creditors	48,000
To Stock	60,000	By Cash A/c (Assets realized):	
To Fixtures	24,000	Plant and Machinery	1,02,000
To Plant and machinery	1,08,000	Fixtures	18,000
To Cash A/c (Creditors)	45,600	Stock	84,000
To Cash A/c (GST)	4,200	Sundry Debtors	<u>44,400</u>
To Cash A/c (Realization expenses)	1,500	By Q (Unrecorded asset)*	4,800
To Profit on Realization			
P	3,960		
Q	3,960		
R	<u>1,980</u>		
	9,900		
	<u>3,01,200</u>		<u>3,01,200</u>

Partners' Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
	₹	₹	₹		₹	₹	₹
To Realization A/c (unrecorded asset)		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash (Bal. Fig.)	1,47,960	71,160	37,980	By Reserve fund	24,000	24,000	12,000
				By Realization A/c (Profit)	3,960	3,960	1,980
	<u>1,47,960</u>	<u>75,960</u>	<u>37,980</u>		<u>1,47,960</u>	<u>75,960</u>	<u>37,980</u>

Cash Account

* An unrecorded asset is in the nature of gain hence realization account is credited. Since this asset has been taken over by Q, therefore, his account has been debited.

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Realization A/c (Creditors)	45,600
To Realization A/c (Assets)	2,48,400	By Realization A/c (Expenses)	1,500
		By Realization A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
	3,08,400		3,08,400

(b) **Navel College**

**Income and Expenditure Account
for the year ending 31st March, 2024**

Expenditure	₹	₹	Income	₹	₹
To Salaries: Teaching		8,75,000	By Tutions & other fee		8,10,000
Research		1,25,000	By Govt. Grants		5,01,000
To Material & Supplies Consumed			By Income from Investments		1,75,000
Teaching		52,000	By Hostel room Rent		1,65,000
Research		1,45,000	By Mess Receipts		2,05,000
			By Profit-stores sales		1,14,000
To Sports & Games Expenses					
Cash	52,000				
Materials	<u>24,000</u>	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	<u>78,000</u>	1,15,000			
To Scholarships		85,000			
To Depreciation: Building		77,500			
Plant & Machinery		85,000			
Furniture & Fittings		54,000			
Motor Vehicle		48,000			

To Excess of Income over Expenditure		2,32,500		
		19,70,000		19,70,000

Navel College
Balance Sheet as on 31st March, 2024

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	13,08,000		Land		1,50,000
Add: Excess of Income over Expenditure	<u>2,32,500</u>	15,40,500	Building Cost	15,50,000	
Building Fund		19,10,000	Less: Dep.	<u>(5,67,500)</u>	9,82,500
Current Liabilities:			Plant & Machinery Cost	8,50,000	
Outstanding Expenses		2,35,000	Less: Dep.	<u>(5,90,000)</u>	2,60,000
Security Deposit		1,55,000	Furniture & Fittings:		
			Cost	5,40,000	
			Less: Dep.	<u>(3,80,000)</u>	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	<u>(48,000)</u>	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Cash in hand & at Bank		<u>3,16,000</u>
		<u>38,40,500</u>			<u>38,40,500</u>

Working Notes:

(1)	Material & Supplies-Closing Stock		₹	₹
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	Opening Stock			3,10,000
	Purchases			<u>8,20,000</u>
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		<u>2,99,000</u>	<u>(9,45,000)</u>
	Balance			<u>1,85,000</u>
(2)	Provisions for Depreciation			
		Building	Plant & Equipment	Furniture & Fitting
		₹	₹	₹
	Opening Balance	4,90,000	5,05,000	3,26,000
	Addition	<u>77,500</u>	<u>85,000</u>	<u>54,000</u>
	Closing Balance	<u>5,67,500</u>	<u>5,90,000</u>	<u>3,80,000</u>

5. (a) **Rectification entries in the books of M/s Mangrove Arts**

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified)		37,500	37,500
2.	Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		4,500	4,500
3.	Suspense Account Dr. To Leena Account (Goods returned by Leena had been posted wrongly to the debit of her account, now rectified)		6,300	6,300
4.	Profit and Loss Adjustment Account Dr. To Furniture Account (Being sale of furniture wrongly entered in sales book, now rectified)		90,000	90,000
5.	Lucky & Co. Dr. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		60,000	60,000

(b) (i) (1) **Journal Proper in the Books of M/s. Vikram Traders**

Date 2024	Particulars		Amount ₹	Amount ₹
Mar. 31	Returns outward A/c	Dr.	2,16,000	
	To Purchases A/c (Being the transfer of returns to purchases account)			2,16,000
	Sales A/c	Dr.	3,00,000	
	To Returns Inward A/c (Being the transfer of returns to sales account)			3,00,000
	Sales A/c	Dr.	30,00,000	
	To Trading A/c (Being the transfer of balance of sales account to trading account)			30,00,000
	Trading A/c	Dr.	23,40,000	
	To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts)			3,00,000 18,00,000 1,50,000 90,000
Closing Inventory A/c	Dr.	6,00,000		
To Trading A/c (Being the incorporation of value of closing Inventory)			6,00,000	
Trading A/c	Dr.	12,60,000		
To Gross Profit (Being the amount of gross profit)			12,60,000	
Gross profit	Dr.	12,60,000		
To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account)			12,60,000	

OR

(ii) **In the Books of Mr. Mandeep**

Manufacturing Account for the year ended on March 31,2024

Particulars	₹	Amount ₹	Particulars	Amount ₹
To Opening W.I.P.		3,90,000	By Closing W-I-P	5,07,000
To Raw Material Consumed:			By products	20,000

Opening inventory	3,02,000		By Trading A/c-	17,81,000
Purchases	12,10,000		Cost of finished	
	15,12,000		goods	
Less: Return	(18,000)		transferred	
	14,94,000			
Less: Closing inventory	(3,10,000)	11,84,000		
To Direct Wages		2,10,000		
To Direct expenses:				
Royalty		1,30,000		
To Manufacturing				
Overhead:				
Indirect Material	16,000			
Indirect Wages	48,000			
Repairs & Maintenance	2,30,000			
Depreciation on				
Factory Shed	40,000			
Depreciation on Plant &				
Machinery	60,000	3,94,000		
		23,08,000		23,08,000

(c)

Journal Entries in the books of Verma Ltd.

			₹	₹
1-4-2023	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)			
20-4-2023	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital Redemption Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to equity shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			

	Bonus to equity shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr.	6,75,000	6,75,000
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Extract of Balance Sheet as at 30th April, 2023 (after bonus issue)

		₹
Share Capital		
Authorised Capital		
30,000 12% Preference shares of ₹10 each		3,00,000
3,37,500 Equity shares of ₹10 each (refer working note below)		<u>33,75,000</u>
Issued and subscribed capital		
24,000 12% Preference shares of ₹10 each, fully paid		2,40,000
3,37,750 Equity shares of ₹10 each, fully paid (Out of above, 67,500 equity shares @ ₹10 each were issued by way of bonus)		33,75,000
Reserves and surplus		
Securities Premium	75,000	
Less: Utilised for bonus issue	<u>(75,000)</u>	NIL
Capital Redemption Reserve	1,20,000	
Less: Utilised for bonus issue	<u>(1,20,000)</u>	NIL
General Reserve	3,60,000	
Less: Utilised for bonus issue	<u>(3,60,000)</u>	NIL
Profit and Loss Account	6,00,000	
Less: Utilised for bonus issue	<u>(1,20,000)</u>	4,80,000

Working Notes:

- Number of Bonus shares to be issued- ₹
(2,70,000 shares / 4) X 1 = 67,500 shares
- The authorised capital should be increased as per details given below:
Existing issued Equity share capital 27,00,000
Add: Issue of bonus shares to equity shareholders 6,75,000
33,75,000

**6. (a) In the books of Woodland Mills Ltd.
Journal Entries**

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c To Equity Share Application A/c	Dr.	10,000	10,000

(Money received on applications for 10,000 shares @ ₹ 1 per share)			
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on allotment of 10,000 shares)	Dr.	10,000	10,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ ₹ 2 per share)	Dr.	20,000	20,000
Bank A/c To Equity Share Allotment A/c (Allotment money received on 9,900 shares)	Dr.	19,800	19,800
OR			
Bank A/c Calls in arrears A/c To Equity Share Allotment A/c (Allotment Amount received except 100 shares)	Dr. Dr.	19,800 200	20,000
Equity Share Capital A/c To Share Forfeiture A/c To Equity Shares Allotment A/c (100 Shares of Amar forfeited)	Dr.	300	100 200
OR			
Equity Share Capital A/c To Shares Forfeiture A/c To Calls in arrears A/c (100 shares forfeited due to non-payment of allotment money)	Dr.	300	100 200
Equity Share First Call A/c To Equity Share Capital A/c (First call made due on 9,900 shares at ₹ 3 per share)	Dr.	29,700	29,700
Bank A/c To Equity Share First Call A/c (First call money received on 9,750 shares at ₹ 3 per share)	Dr.	29,250	29,250
OR			
Bank A/c Calls in arrears A/c To Equity Share First Call A/c (First Call money received except 150 shares)	Dr. Dr.	29,250 450	29,700
Equity Share Capital A/c To Share Forfeiture A/c	Dr.	900	450

To Equity Share First Call A/c (150 Shares of Kabir forfeited)			450
OR			
Equity Share Capital A/c	Dr.	900	
To Share Forfeiture A/c			450
To Calls in arrears A/c			450
(150 shares forfeited due to non - payment of First call money)			
Equity Share Second and Final Call A/c	Dr.	39,000	
To Equity Share Capital A/c			39,000
(Second and Final call made due on 9,750 shares at ₹ 4 per share)			
Bank A/c	Dr.	38,800	
To Equity Share Second and Final Call A/c			38,800
(Second and Final call money received on 9,700 shares at ₹ 4 per share)			
OR			
Bank A/c	Dr.	38,800	
Calls in arrears A/c	Dr.	200	
To Equity Shares Second and Final call A/c			39,000
(Second and Final call money received except 50 shares)			
Equity Share Capital A/c	Dr.	500	
To Share Forfeiture A/c			300
To Equity Share Second and Final Call A/c			200
(50 Shares of Dilip forfeited)			
OR			
Equity Share Capital A/c	Dr.	500	
To Shares Forfeiture A/c			300
To Calls in arrears A/c			200
(50 shares forfeited due to non-payment of Second and final call money)			
Bank A/c	Dr.	2,700	
Share Forfeiture A/c	Dr.	300	
To Equity Share Capital A/c			3,000
(300 shares reissued at ₹ 9 per share)			
Share Forfeiture A/c	Dr.	550	
To Capital Reserve A/c (W.N.1)			550
(Profit on re-issue transferred to Capital Reserve)			

Working Note-1: Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Amar forfeited	₹ 100
Surplus out of 150 shares of Kabir forfeited	₹ 450
Surplus out of 50 shares of Dilip forfeited	<u>₹ 300</u>

	₹ 850
Less: Loss on re-issue of shares	<u>₹ 300</u>
Transferred to Capital Reserve	<u>₹ 550</u>

(b) Rules regarding posting of entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(c)

Bills of Exchange	Promissory Note
There are three parties involved drawer, drawee and payee.	There are only two parties involved promissory (maker) and Payee.
it is drawn by the creditor.	It is drawn by the debtor.

ANSWER OF MODEL TEST PAPER 3

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a) (i) **True:** Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.
- (ii) **True:** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 15 lakhs.
- (iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- (iv) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- (v) **False:** The debit notes issued are used to prepare purchases return book.
- (vi) **False:** Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.
- (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.

(c) **Calculation of depreciation for 5th year**

Depreciation per year charged for four years = ₹ 80,00,000 / 10 = ₹ 8,00,000

WDV of the machine at the end of fourth year = ₹ 80,00,000 – ₹ 8,00,000 × 4 = ₹ 48,00,000.

Depreciable amount after revaluation = ₹ 48,00,000 + ₹ 3,20,000 = ₹ 51,20,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ₹ 51,20,000 / 8 = ₹ 6,40,000.

2. (a) **Profit and Loss Adjustment A/c**

	₹		₹
To Advertisement (samples)	3,20,000	By Net profit	32,00,000

To Sales (goods approved in April to be taken as April sales)	8,00,000	By Electric fittings	1,20,000
		By Samples	3,20,000
		By Stock (Purchases of March not included in stock)	20,00,000
To Adjusted net profit	67,20,000	By Sales (goods sold in March wrongly taken as April sales)	16,00,000
		By Stock (goods sent on approval basis not included in stock)	6,00,000
	<u>78,40,000</u>		<u>78,40,000</u>

Calculation of value of inventory on 31st March, 2024

	₹
Stock on 31 st March, 2024 (given)	30,00,000
Add: Purchases of March, 2024 not included in the stock	20,00,000
Goods lying with customers on approval basis	<u>6,00,000</u>
	<u>56,00,000</u>

(b) (i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2023		₹	2023		₹
Sept. 30	To Party A/c	64,000	Sept. 30	By Balance b/d	16,248
	To Customer A/c (Direct deposit)	4,69,600		By Bank charges	2,320
	To Balance c/d	44,968		By Customer A/c (B/R dishonoured)	5,60,000
		<u>5,78,568</u>			<u>5,78,568</u>

(ii) Bank Reconciliation Statement as on 30th September, 2023

Particulars	Amount
	₹
Overdraft as per Cash Book	44,968
Add: Cheque deposited but not collected upto 30 th Sept., 2023	<u>52,56,000</u>
	<u>53,00,968</u>

Less: Cheques issued but not presented for payment upto 30 th Sept., 2023	(53,04,000)
Credit by Bank erroneously on 6th Sept.	(80,000)
Credit balance as per bank statement	83,032

Note: Bank has credited Akhil by 80,000 in error on 6th September, 2023. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 53,04,000 resulting in credit balance of ₹ 3,032 as per pass-book.

3. (a) **Manufacturing A/c**

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	18,32,000		18,32,000

Raw Material A/c

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c (Balancing Figure)	6,52,000
	15,67,000		15,67,000

Working Notes:

- (1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted.
So, depreciation omitted from being charged = $12,00,000 \times 15\%$
= ₹ 1,80,000
Correct total depreciation expense = ₹ (2,15,000+1,80,000)
= 3,95,000
- (2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.
- (3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	<u>22,000</u>

Total expenses not part of Direct Expenses 42,000
 => Revised Direct Expenses = ₹ (2,49,000 - 42,000)
 = ₹ 2,07,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	₹
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	<u>(42,000)</u>
Revised balance to be transferred	<u>18,32,000</u>

(5) **Creditors A/c**

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	<u>6,60,000</u>	By Raw Materials A/c (Bal. figure)	<u>14,40,000</u>
	30,10,000		30,10,000

(b)

Particulars	Ram	Lakhan	Bharat	Total Profit of firm
I. Amount already credited: Share of profit (in the ratio of 1:1:1) (2022-23, 2023-24)	78,000	78,000	78,000	2,34,000
II. Amount which should have been credited: C's Salary (2022-23, 2023-24)			30,000	
Interest on Capital (2022-23, 2023-24)	15,000	7,500	7,500	
Share of Profit	87,000	43,500	43,500	1,74,000
	1,02,000	51,000	81,000	
Net effect (I-II)	(24,000)	27,000	(3,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
Lakhan's Current A/c	27,000	
To Ram's Current A/c		24,000

To Bharat's Current A/c (Salary to Bharat, Interest on capital charged and profit shared among partners in the ratio of capital)		3,000
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(c) Total Profit for 3 years = (₹ 17,000) + ₹ 50,000 + ₹ 75,000 = ₹ 1,08,000.

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

$$\text{Average Profits for Goodwill} = ₹ 36,000 - \text{Proprietor Remuneration} \\ = ₹ 36,000 - ₹ 6,000 = ₹ 30,000$$

$$\text{Normal Profit} = \text{Interest on Capital employed} \\ = ₹ 20,000 \text{ (i.e. } ₹ 2,00,000 \times 10/100) = ₹ 20,000$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit} = ₹ 30,000 - ₹ 20,000 \\ = ₹ 10,000$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No of years purchases} = ₹ 10,000 \times 2 = ₹ 20,000$$

4. (a) **Revaluation A/c**

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To X's Capital A/c (5/8)	73,438		
To Y's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Partners Capital A/c

	X	Y	Z		X	Y	Z
To X's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To Y's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To Y's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By Z's Capital A/c	20,000	12,000	-
				By X's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

Z's Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

X's Share = $5/8 \times 4/5 = 20/40 = 5/10$

Ys Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Alpha and Associates as on 31.3.2024

Liabilities		₹	Assets		
Capital Accounts:			Land & Buildings		5,32,000
X	6,00,000		Plant & Machinery	1,70,000	
Y	3,60,000		Less: Depreciation	<u>25,500</u>	1,44,500
Z	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
Y's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	Less: Provision	<u>3,000</u>	57,000
			Cash at Bank		3,14,060
			X's current A/c		<u>26,562</u>
		<u>13,28,862</u>			<u>13,28,862</u>

Working Note:

Required Balance of Capital Accounts

Z's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

Z's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

X's Capital = 12,00,000 x 5/10 = 6,00,000 and

Y's Capital = 12,00,000 x 3/10 = 3,60,000

**(b) Trading A/c
for the year ended 31st March, 2024**

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash	2,40,000
To Gross Profit @ 25%	3,10,000	Credit	<u>10,00,000</u>
			12,40,000

	_____	By Closing (bal.fig.)	Stock	<u>1,20,000</u>
	<u>13,60,000</u>			<u>13,60,000</u>

Profit and Loss Account
for the year ended 31st March, 2024

	₹		₹
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000*6/ 12)	5,000		
To Net Profit	<u>1,45,000</u>		_____
	<u>3,10,000</u>		<u>3,10,000</u>

Balance Sheet as at 31st March, 2024

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	<u>1,45,000</u>		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	<u>(80,000)</u>	3,65,000		
Loan from Laxman (including interest due)		1,05,000		
Sundry Creditors		<u>90,000</u>		_____
		<u>5,60,000</u>		<u>5,60,000</u>

Working Notes:

1. Sundry Debtors Account

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	<u>10,00,000</u>	By Balance c/d	<u>3,50,000</u>
	<u>11,00,000</u>		<u>11,00,000</u>

2. Sundry Creditors Account

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	<u>90,000</u>		_____
	<u>8,10,000</u>		<u>8,10,000</u>

3. Cash and Bank Account

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	<u>10,000</u>	<u>80,000</u>
	<u>2,50,000</u>	<u>9,50,000</u>		<u>2,50,000</u>	<u>9,50,000</u>

4. Calculation of Ram's Capital on 1st April, 2023

Balance Sheet as at 1st April, 2023

Liabilities	₹	Assets	₹
Ram's Capital (bal. fig)	3,00,000	Cash in hand	10,000
Bank Overdraft	50,000	Sundry Debtors	1,00,000
Sundry Creditors	<u>40,000</u>	Stock in trade	<u>2,80,000</u>
	<u>3,90,000</u>		<u>3,90,000</u>

5. (a) Rectification entries in the books of M/s VB Wires

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified)		37,500	37,500
2.	Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		4,500	4,500

3.	Suspense Account To Seven & Co. (Goods returned by Seven & Co. had been posted wrongly to the debit of her account, now rectified)	Dr.	6,300	6,300
4.	Profit and Loss Adjustment Account To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)	Dr.	90,000	90,000
5.	Comfort & Co. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)	Dr.	60,000	60,000

(b) Receipts and Payments Account for the year ended 31-03-2024

Receipts	₹	Payments	₹
To balance b/d		By Salaries	30,000
Cash and bank	55,000	By Purchase of sports goods	5,000
To Subscription received (W.N.1)	1,22,500	₹ (12,500 - 7,500)	
To Sale of investments (W.N.2)	35,000	By Purchase of machinery	5,000
To Interest received on investment	7,000	₹ (10,000-5,000)	
To Sale of furniture	4,000	By Sports expenses	25,000
		By Rent paid	11,000
		₹ (12,000 -1,000)	
		By Miscellaneous expenses	2,500
		By Balance c/d	
		Cash and bank	<u>1,45,000</u>
	<u>2,23,500</u>		<u>2,23,500</u>

Income and Expenditure account for the year ended 31-03-2024

Expenditure	₹		₹	Income	₹	₹
To Salaries	30,000			By Subscription		1,50,000
Add: Outstanding for 2024	<u>9,000</u>			By Interest on Investment Received	7,000	
	39,000					

Less: Outstanding for 2023	<u>(7,500)</u>	31,500	Accrued (W.N.5)	<u>1,750</u>	8,750
To Sports expenses		25,000			
To Rent		12,000			
To Miscellaneous exp.		2,500			
To Loss on sale of furniture (W.N.3)		3,000			
To Depreciation (W.N.4)					
Furniture	700				
Machinery	750				
Sports goods	<u>1,125</u>	2,575			
To Surplus		<u>82,175</u>			
		<u>1,58,750</u>			<u>1,58,750</u>

Working Notes:

1. Calculation of Subscription received during the year 2023-24

	₹
Subscription due for 2023-24	1,50,000
Add: Outstanding of 2023	70,000
Less: Outstanding of 2024	(1,00,000)
Add: Subscription of 2024 received in advance	15,000
Less: Subscription of 2023 received in advance	<u>(12,500)</u>
	<u>1,22,500</u>

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

Face value of investment sold: ₹ 87,500 × 50% = ₹ 43,750

Sales price: ₹ 43,750 × 80% = ₹ 35,000

Cost price of investment sold: ₹ 70,000 × 50% = ₹ 35,000

Profit/loss on sale of investment: ₹ 35,000 - ₹ 35,000 = NIL

3. Loss on sale of furniture

	₹
Value of furniture as on 01-04-2023	14,000
Value of furniture as on 31-03-2024	<u>7,000</u>
Value of furniture sold at the beginning of the year	7,000
Less: Sales price of furniture	<u>(4,000)</u>
Loss on sale of furniture	<u>3,000</u>

4. Depreciation

Furniture -	₹7,000 × 10%	=	700
Machinery -	₹5,000 × 15%	=	750
Sports goods -	₹7,500 × 15%	=	1,125

5. Interest accrued on investment

	₹
Face value of investment on 01-04-2023	87,500
Interest @ 10%	8,750
Less: Interest received during the year	<u>(7,000)</u>
Interest accrued during the year	<u>1,750</u>

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

6. (a)

Entry No.	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 20,000 shares @ ₹ 2 per share)		40,000	40,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital)		40,000	40,000
3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share)		80,000	60,000 20,000
4	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		80,000	80,000
5	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call made due on 20,000 shares at ₹ 2 per share)		40,000	40,000

6	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)	Dr.	46,000	40,000 6,000
7	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 20,000 shares at ₹ 3 each)	Dr.	60,000	60,000
8	Bank A/c Calls in Advance A/c Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)	Dr. Dr. Dr.	53,100 6,000 900	60,000
9	Interest on Calls in Advance A/c To Shareholders A/c (Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)	Dr.	240	240
10	Shareholders A/c To Bank A/c (Being payment of interest made to shareholder)	Dr.	240	240
11	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.	15	15
12	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)	Dr.	615	600 15
13	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.	10	10
14	Bank A/c	Dr.	310	

To Calls in Arrears A/c				300
To Shareholders A/c				10
(Being money received from shareholder having 100 share for calls in arrears and interest thereupon)				

Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance = ₹ 6,000 x 12% x 4 / 12 = ₹ 240

Interest on Calls in Arrears ₹ 600 x 10% x 3 / 12 = ₹ 15

Interest on Calls in Arrears ₹ 300 x 10% x 4 / 12 = ₹ 10

Table F of The Companies Act,2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,

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

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
- (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
- (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

- (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.

OR

The basic considerations in distinction between capital and revenue expenditures are:

- (i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.