

ACCOUNT EXPECTED QUESTIONS COMPILATIONS

TRUE FALSE AND THEORY

1. (a) State with reasons, whether the following statements are True or False :
- (i) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.
 - (ii) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
 - (iii) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.
 - (iv) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.
 - (v) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.
 - (vi) A fixed charge generally covers all the assets of the company including future one. (6 × 2 = 12 Marks)
- (b) Differentiate between Provisions and Contingent Liabilities. (4 Marks)

1. (a) State with reasons, whether the following statements are True or False:
- (i) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability.
 - (ii) At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
 - (iii) The specific due date excludes the addition of grace days to arrive at the due date.
 - (iv) Any amount spent for replacement of worn out part of a machine is capital expenditure.
 - (v) Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.
 - (vi) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

(6 × 2 = 12 Marks)

- (b) Briefly explain the following Concepts of Accounting :
- (i) Money Measurement Concept
 - (ii) Periodicity Concept.

True and False

1. State with reasons, whether the following statements are true or false:
 - (i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.
 - (ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
 - (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
 - (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - (v) When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.
(b) Define revenue receipts and give examples. How are these receipts treated? Explain.

True and False

1. State with reasons, whether the following statements are true or false:
 - (a) Accrual concept implies accounting on cash basis.
 - (b) The Sales book is kept to record both cash and credit sales.
 - (c) Bank reconciliation statement is prepared to arrive at the bank balance.
 - (d) Finished goods are normally valued at cost or market price whichever is higher.
 - (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (f) Discount at the time of retirement of a bill is a gain for the drawee.
 - (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
 - (h) Partners can share profits or losses in their capital ratio, when there is no agreement.
 - (i) Receipts and Payments Account highlights total income and expenditure.

Theoretical Framework

2. Explain Cash and Mercantile system of accounting.

True and False

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 - (a) Accrual concept implies accounting on cash basis.
 - (b) The Sales book is kept to record both cash and credit sales.
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 - (h) Partners can share profits or losses in their capital ratio, when there is no agreement.
 - (i) Receipts and Payments Account highlights total income and expenditure.

Theoretical Framework

2. Explain Cash and Mercantile system of accounting.

True and False

1. State with reasons, whether the following statements are true or false:
 - (i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
 - (ii) Re-issue of forfeited shares is allotment of shares but not a sale.
 - (iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - (iv) There are two ways of preparing an account current.
 - (v) In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.
 - (vi) In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest.
 - (vii) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Theoretical Framework

2.
 - (a) Differentiate between provision and contingent liability.
 - (b) State the advantages of setting Accounting Standards.

1. (a) State with reasons whether the following statements are True or False:
- "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.
 - Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
 - Net income in case of persons practicing vocation is determined by preparing profit and loss account. **(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 Rs. 40,00,000 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 Rs. 1,60,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year. **(4 Marks)**

Question 1

- (a) State with reasons, whether the following statements are True or False:
- Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.
 - M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure.
 - Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.
 - In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.
 - A Partnership firm cannot own any Assets.
 - Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. **(6 x 2 = 12 Marks)**
- (b) Distinguish between Provision and Contingent Liability. **(4 Marks)**

True and False

1. State with reasons, whether the following statements are true or false:
 - (a) Accrual concept implies accounting on cash basis.
 - (b) The Sales book is kept to record both cash and credit sales.
 - (c) Bank reconciliation statement is prepared to arrive at the bank balance.
 - (d) Finished goods are normally valued at cost or market price whichever is higher.
 - (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (f) Discount at the time of retirement of a bill is a gain for the drawee.
 - (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.
 - (h) Partners can share profits or losses in their capital ratio, when there is no agreement.
 - (i) Receipts and Payments Account highlights total income and expenditure.
 - (j) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
 - (k) Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment.

CASH BOOK AND R.O.E.

(a) Prepare a Triple Column Cash Book from the following transactions of M/s Raj Agencies and bring down the balance for the start of next month :

2022		₹	
March	1	Cash in hand	30,000
	1	Cash at bank	1,20,000
	2	Paid into bank	10,000
	5	Bought furniture and issued cheque	15,000
	8	Purchased goods for cash	5,000
	12	Received cash from Mohan	9,800
		Discount allowed to him	200
	14	Cash sales	50,000
	16	Paid to Lata by cheque	14,500
		Discount received	500
	19	Paid into Bank	5,000
	23	Withdrawn from Bank for Private expenses	6,000
	24	Received cheque from Gupta	14,300
		Allowed him discount	200
	26	Deposited Gupta's cheque into Bank	
	28	Withdrew cash from Bank for Office use	20,000
	30	Paid rent by cheque	8,000

(5 Marks)

- (b) Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them.
- (i) Minor Repairs made to the building amounting to ₹ 1,850 were debited to the Building Account.
 - (ii) An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.
 - (iii) Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.
 - (iv) Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.
 - (v) College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.
 - (vi) Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.
 - (vii) Goods amounting to ₹ 6,200 had been returned by a customer and were taken in to inventory, but no entry was made in the books.
 - (viii) ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.
 - (ix) Salary paid to a clerk ₹ 12,000 has been debited to his personal Account.
 - (x) A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book. (10 Marks)

- (a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:
- (i) A Bill Receivable for Rs. 1,550 was passed through Bills Payable Book. The Bill was given by Ram.
 - (ii) Cash received from Manan was debited to Tapan Rs. 7,500.
 - (iii) General expenses Rs. 2600 was posted in the General Ledger as Rs. 6200.
 - (iv) Sales Day Book was overcast by Rs. 5,000.
 - (v) Legal Expenses Rs. 7,670 paid to Mr. Gupta was debited to her personal account.
 - (vi) A sale of Rs. 25,000 to Tina was wrongly debited to the Account of Hina.

- (vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of Rs. 1,690 was written as Rs. 1,960.
- (viii) Rs 7,000 due to Mr. Somdev was omitted to be taken to trial balance.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

- (c) One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2022. As a basis for audit, Mr. X furnished you with the following statement :

	Dr.	Cr.
X's Capital		4,668
X's Drawings	1,692	
Leasehold Premises	2,250	
Sales		8,250
Due from customers		1,590
Purchases	3,777	
Purchase Return	792	
Loan from Bank		768
Trade Expense	2,100	
Trade Payable	1,584	
Bills Payable	300	
Salaries and Wages	1,800	
Cash at Bank	678	
Opening Inventory		792
Rent and Rates	1,389	
Sales Return		294
	16,362	16,362

The closing inventory was ₹ 1,722. Mr. X claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any. (4 Marks)

Cash Book

4. (a) From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	Debit Note No.	Particulars
04.01.2020	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2020		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2020	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2020		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Rectification of Errors

- (b) The following errors were committed by the Accountant of Geete Dye-Chem.
- Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.
 - Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240
- How would you rectify the errors assuming that :
- they were detected before preparation of Trial Balance.
 - they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.
 - they were detected after preparing Final Accounts.

Cash Book

4. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2019		₹	
April	1	Received ₹ 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500
"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

Rectification of errors

- (b) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:
- (i) Sales Day Book was overcast by ₹ 1,000.
 - (ii) A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.

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- (iii) General expenses ₹ 180 was posted in the General Ledger as ₹ 810.
- (iv) A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.
- (v) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.
- (vi) Cash received from Ram was debited to Shyam ₹ 1,500.
- (vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

BRS

- (a) The cash book of Mr. Karan shows ₹ 2,60,400 as the balance of bank as on 31st December, 2021 but you find that it does not agree with the balance as per the bank pass book. On analysis, you found the following discrepancies :
- (i) On 15th December, 2021 the payment side of the cash book was overcast by ₹ 10,000.
 - (ii) A Cheque for ₹ 1,18,000 issued on 6th December, 2021 was not taken in the bank Column.
 - (iii) On 20th December, 2021 the debit balance of ₹ 8,460 as on the previous day, was brought forward as credit balance in the cash book.
 - (iv) Of the total cheques amounting to ₹ 12,370 drawn in the last week of December 2021, cheques aggregating ₹ 9,360 were encashed in December, 2021.
 - (v) Dividends of ₹ 35,000 collected by the bank and fire insurance premium of ₹ 7,900 paid by the bank were not recorded in the cash book.
 - (vi) A Cheque issued to a creditor of ₹ 1,75,000 was recorded twice in the cash book.
 - (vii) Bill for collection amounting to ₹ 53,000 credited by the bank on 21st December, 2021 but no advice was received by Mr. Karan till 31st December, 2021.
 - (viii) A Customer, who received a cash discount of 3% on his account of ₹ 60,000 paid a cheque on 10th December, 2021. The cashier erroneously entered the gross amount in the bank column of the cash book.

You are required to prepare the bank reconciliation statement as on 31st December, 2021. (10 Marks)

Bank Reconciliation Statement

5. Prepare a bank reconciliation statement from the following particulars as on 31st March, 2018.

Particulars	(₹)
Debit balance as per bank column of the cash book	18,60,000
Cheque issued to creditors but not yet presented to the Bank for payment	3,60,000
Dividend received by the bank but not entered in the Cash book	2,50,000
Interest credited by the Bank	6,250
Cheques deposited into bank for collection but not collected by bank up to this date	7,70,000
Bank charges not entered in Cash book	1,000
A cheque deposited into bank was dishonoured, but no intimation received	1,60,000
Bank paid house tax on our behalf, but no intimation received from bank in this connection	1,75,000

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:
- Balance as per Pass Book is ₹ 10,000.
 - Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).
 - Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.
 - Withdrawal column of the Pass Book undercast by ₹ 100.
 - The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

- The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.
- The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Hari (another customer of the bank).

5. On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:
1. A cheque for ₹ 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
 2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
 3. On 29th September, 2019, the bank credited an amount of ₹ 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
 4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
 5. On 6th September, 2019, the bank credited ₹ 40,000 to Neel in error.
 6. A bill of exchange for ₹ 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
 7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled ₹ 26,52,000.

You are required:

- (a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and
- (b) to prepare a bank reconciliation statement as on that date.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:
- (i) Balance as per Pass Book is ₹ 10,000.
 - (ii) Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).
 - (iii) Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.
 - (iv) Withdrawal column of the Pass Book undercast by ₹ 100.
 - (v) The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

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- (vi) The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.
- (vii) The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Hari (another customer of the bank).

(b) On 30th September, 2020, the bank account of Sameer, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 16,248. On the same date the bank statement showed a credit balance of Rs. 83,032 in favour of Sameer. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 52,56,000 deposited on 29th September, 2020 was credited by the bank only on 3rd October, 2020
2. A payment by cheque for Rs. 64,000 has been entered twice in the Cash Book.
3. On 29th September, 2020, the bank credited an amount of Rs. 4,69,600 received from a customer of Sameer, but the advice was not received by Sameer until 1st October, 2020.
4. Bank charges amounting to Rs. 2,320 had not been entered in the Cash Book.
5. On 6th September, 2020, the bank credited Rs. 80,000 to Sameer in error.
6. A bill of exchange for Rs. 5,60,000 was discounted by Sameer with his bank. This bill was dishonoured on 28th September, 2020 but no entry had been made in the books of Sameer.
7. Cheques issued upto 30th September, 2020 but not presented for payment upto that date totalled Rs. 53,04,000.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of Sameer, to arrive at the correct balance on 30th September, 2020 and
- (b) to prepare a bank reconciliation statement as on that date. **(10 +10 = 20 Marks)**

INVENTORIES

6. Sky 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, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:
- (i) The cost of stock on 31st December, 2017 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, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.
- (iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 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, 2018. Transfer of ownership takes place at the time of delivery of goods.

Valuation of Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2020.
- (i) Sales ₹ 41,000 (including cash sales ₹ 10,000)
 - (ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)
 - (iii) Sales Return ₹ 1,000.
 - (iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
 - (v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2020.

Valuation of Inventories

6. Stock taking of XYZ Stores for the year ended 31st March, 2019 was completed by 10th April, 2019, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2019.

- (b) Zed Enterprises furnishes the following information for the year ended 31st March, 2021.

Particulars	Amount (₹)
Value of Stock as on 1 st April, 2020	28,00,000
Purchases during the year	1,38,40,000
Manufacturing Expenses during the year	28,00,000
Sales during the year	2,08,80,000

The following further information is also provided:

- (i) At the time of valuing stock on 31st March, 2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March, 2021 for ₹ 6,40,000.
- (ii) Except for the above transaction, the Rate of Gross Profit during the year was 1/3rd on cost.

Ascertain the value of Stock as on 31st March, 2021.

(5 Marks)

Valuation of Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2020 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2020.

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- (ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)
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- (v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2020.

DEP+BOE

T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹ 1,72,800. T immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paise in a rupee.

Give the journal entries in the books of T and J.

(15 Marks)

- (c) A purchased a machinery for ₹ 1,30,000 on 1st April, 2019 and paid ₹ 20,000 for freight & installation charges. On 1st October, 2021 another machine was purchased for 50,000 and sold old machinery for ₹ 1,00,000. The machine purchased on 1st October, 2021 was installed on 1st January, 2022.

Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022.

(4 Marks)

Concept and Accounting of Depreciation

7. A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line 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 ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

Bill of exchange

8. On 1st January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000.

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

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

2. (a) The Machinery Account of a Factory showed a balance of ₹.95 Lakhs on 1st April, 2020. The Books of Accounts of the Factory are closed on 31st March every year and Depreciation is written off @ 10% per annum under the Diminishing Balance Method. On 1st September, 2020 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September, 2020 a machine which had cost ₹. 21,87,000 on 1st April, 2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April, 2019 was scrapped on 1st September, 2020 and it realized nothing.

Prepare the Plant and Machinery Account for the year ended 31st March, 2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.

(10 Marks)

Concept and Accounting of Depreciation

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Bills of Exchange

8. Rita owed ₹1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the

balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman

accepted accounting principles.

Concept and Accounting of Depreciation

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2015.

On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

Bills of Exchange

8. Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

You are required to prepare Journal Entries in the books of Mr. A

Concept and Accounting of Depreciation

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Bills of Exchange

8. Rita owed ₹1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the

balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman

CONSIGNMENT

Consignment

9. Ganpath of Nagpur consigns 500 cases of goods costing ₹ 1,500 each to Rawat of Jaipur. Ganpath pays the following expenses in connection with the consignment:

Particulars	₹
Carriage	15,000

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PAPER – 1 : PRINCIPLES AND PRACTICE OF ACCOUNTING

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Freight	45,000
Loading Charges	15,000

Rawat sells 350 cases at ₹ 2,100 per case and incurs the following expenses:

Clearing charges	18,000
Warehousing and Storage charges	25,000
Packing and selling expenses	7,000

It is found that 50 cases were lost in transit (which is an abnormal loss) and another 50 cases were in transit. Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Ganpath.

3. (a) M of Mumbai sent on consignment, goods valued ₹ 4,00,000 to A of Agra on 1st March, 2020. He incurred the expenditure of ₹ 48,000 on freight and insurance. M's accounting year closes on 31st December. A was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. A took delivery of the consignment by incurring expenses of ₹ 12,000 for the goods consigned.

On 31/12/2020, A informed on phone that he had sold all the goods for ₹ 6,00,000 by incurring selling expenses of ₹ 8,000. He further informed that only ₹ 5,92,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale.

On 5/1/2021, M received the cheque for the amount due from A and incurred bank charges of ₹ 1,040 for collecting the cheque. The amount was credited by the bank on 9/1/2021.

Write up the consignment account finding out the profit/loss on the consignment and A's account in the books of M.

(10 Marks)

Consignment

9. Mr. A of Assam sent on 18th February, 2020 a consignment of 1,000 DVD players to B of Bengal costing ₹ 100 each. Expenses of ₹ 1,500 were met by the consignor. B spent ₹ 3,000 for clearance and selling expenses were ₹ 20 per DVD player.

B sold on 15th March, 2020, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2020, 300 DVD players @ ₹ 170 each.

B is entitled to a commission of ₹ 25 per DVD player sold plus $\frac{1}{4}$ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2020.

You are required to prepare the consignment account and B's account in the books of A.

Consignment

9. Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations.

Consignment

9. Mr. A of Assam sent on 18th February, 2020 a consignment of 1,000 DVD players to B of Bengal costing ₹ 100 each. Expenses of ₹ 1,500 were met by the consignor. B spent ₹ 3,000 for clearance and selling expenses were ₹ 20 per DVD player.

B sold on 15th March, 2020, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2020, 300 DVD players @ ₹ 170 each.

B is entitled to a commission of ₹ 25 per DVD player sold plus $\frac{1}{4}$ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2020.

You are required to prepare the consignment account and B's account in the books of A.

- (a) Mr. Devender of Dehradun sent on 16th February, 2020 a consignment of 500 Pen drives to Mr. Satender of Bengal costing Rs. 100 each. Expenses of Rs. 750 were met by the consignor. Satender spent Rs. 1,500 for clearance and selling expenses were Rs. 20 per Pen Drive.

Satender sold on 15th March, 2020, 300 Pen drives @ Rs. 160 per Pen drive and again on 20th May, 2020, 150 Pen drives @ Rs. 170 each.

Satender is entitled to a commission of Rs. 25 per Pen drive sold plus $\frac{1}{4}$ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs. 125 per Pen drive sold. Satender sent the amount due to Devender on 30th September, 2020.

You are required to prepare the consignment account and Satender's account in the books of Devender.

SALES ON RETURN BASIS

AND AVERAGE DUE DATE

the Consignment Account and Rawal's Account in the books of Ganpat.

Sales of goods on approval or return basis

10. Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at ₹ 75,000 which included ₹ 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to-

Mr. Adhitya ₹ 3,900 and Mr. Bakkiram ₹ 2,600.

Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was ₹ 50,000.

Average Due Date

11. (a) Kiran had accepted bills payable to Heena, falling due on different dates. The details of bills are as follows:

Date of bill	Amount	Usance of bill
9th April 2018	₹ 3,000	for 4 months
18th April 2018	₹ 5,500	for 3 months
25th May 2018	₹ 3,000	for 6 months
5th June 2018	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Kiran should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2018-2019.

Sales of goods on approval or return basis

10. X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2019	M/s ABC Co.	10,000	No information till 31.12.2019
12.12.2019	M/s DEF Co	15,000	Returned on 16.12.2019
15.12.2019	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2019
20.12.2019	M/s DEF Co	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s ABC Co	11,000	Good Retained on 28.12.2019
30.12.2019	M/s GHI Co	13,000	No information till 31.12.2019

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2019.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

Sales of goods on approval or return basis

10. X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount ₹	Remarks
10.12.2019	M/s ABC Co.	10,000	No information till 31.12.2019
12.12.2019	M/s DEF Co	15,000	Returned on 16.12.2019
15.12.2019	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2019
20.12.2019	M/s DEF Co	16,000	Goods Retained on 24.12.2019
25.12.2019	M/s ABC Co	11,000	Good Retained on 28.12.2019
30.12.2019	M/s GHI Co	13,000	No information till 31.12.2019

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2019.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

Average Due Date

11. Mehnaaz accepted the following bills drawn by Shehnaaz.

On 8th March, 2018 ₹ 4,000 for 4 months.

On 16th March, 2018 ₹ 5,000 for 3 months.

On 7th April, 2018 ₹ 6,000 for 5 months.

On 17th May, 2018 ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to save ₹ 157 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 157.

Deviender.

(b) Hari accepted the following bills drawn by Vinny:

On 8th March, 2020 Rs. 12,000 for 4 months.

On 16th March, 2020 Rs. 15,000 for 3 months.

On 7th April, 2020 Rs. 18,000 for 5 months.

On 17th May, 2020 Rs. 15,000 for 3 months.

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He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 9 % p.a. and Hari wants to save Rs. 471 by way of interest. Calculate the date on which he has to effect the payment to save interest of Rs. 471.

(c) A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During October,2020 the following are the details of goods sent:

Date (Oct)	2	8	12	18	20	27
Customers	U	V	W	X	Y	Z
Value (Rs.)	10,000	15,000	18,000	5,500	2,000	21,000

Within the stipulated time, U and W returned the goods and V, X and Y signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer W for Sale or Return Account as on 15th November 2020. **(10 + 5 + 5 = 20 Marks)**

ACCOUNT CURRENT

- (ii) A trader allows his customers, credit for one week only, beyond which he charges interest @ 12% per annum. D, a customer buys goods as follows :

Date of Transaction	Amount (₹)
January 2, 2022	60,000
January 28, 2022	55,000
February 17, 2022	70,000
March 4, 2022	42,000

D settles his account on 31st March, 2022. Calculate the amount of interest payable by D, using average due date method. Assume 9th January, 2022 as the base date.
(5 Marks)

- (b) From the following transactions in the books of Mr. Perfect, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2019. Interest is to be charged and/or allowed @ 12% p.a. (Take 365 days in year)

2019		₹
January 1	Balance in Smart's Account (Credit)	3,500
January 12	Sold goods to Smart (due 1st February)	30,000
January 31	Sold goods to Smart (due 15th February)	27,500
February 15	Cash received	40,000
February 20	Cash received	7,500
March 10	Goods returned by Smart	7,000
March 25	Cash received	6,500

Account current

11. The following are the transactions that took place between G and H during the period from 1st October, 2019 to 31st March, 2020:

2019		₹
Oct.1	Balance due to G by H	3,000
Oct 18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000
Dec.7	Goods sold by H to G (invoice dated December, 17)	3,500
2020		₹
Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
Mar. 21	Goods sold by G to H	4,300
Mar.28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2020 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.(1 year =365 Days)

Account current

12. Mr. A owed ₹ 4,000 on 1st January, 2019 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2019 Mr. X sold goods to Mr. A	2,230
29 January, 2019 Mr. X bought goods from Mr. A	1,200

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FOUNDATION EXAMINATION: NOVEMBER, 2019

10 February, 2019 Mr. A paid cash to Mr. X	1,000
13 March, 2019 Mr. A accepted a bill drawn by Mr. X for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2019.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace. Assume 1 year = 366 Days.

Account current

11. The following are the transactions that took place between G and H during the period from 1st October, 2019 to 31st March, 2020:

2019		₹
Oct.1	Balance due to G by H	3,000
Oct 18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000
Dec.7	Goods sold by H to G (invoice dated December, 17)	3,500
2020		₹
Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
Mar. 21	Goods sold by G to H	4,300
Mar.28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2020 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee. (1 year =365 Days)

FINAL ACCOUNT AND ADJUSTMENT

RIS

(c) The balance sheet of S on 1st April, 2021 was as follows :

Particulars	Amount (₹)	Particulars	Amount (₹)
Trade Payables	6,50,000	Furniture and Fixtures	6,50,000
Expenses Payable	75,000	Vehicle	2,75,000
Capital	22,00,000	Trade Receivable	11,00,000
		Cash at Bank	4,75,000
		Inventories	4,25,000
	<u>29,25,000</u>		<u>29,25,000</u>

During 2021–22, his profit and Loss Account revealed a net profit of ₹ 6,70,000. This was after allowing for the following :

- (i) Commission paid to selling agent ₹ 65,000
- (ii) Discount received from creditors ₹ 75,000
- (iii) Purchased a vehicle of ₹ 50,000 on 31st March, 2022
- (iv) Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%
- (v) A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2022

But while preparing the Profit and Loss Account he had forgotten to provide for

- (1) prepaid expenses ₹ 15,000 and
- (2) outstanding commission ₹ 35,000.

His current assets and liabilities on 31st March, 2022 were: Inventories ₹ 6,50,000. Trade Receivables 13,00,000 (before provision for doubtful debts), cash at Bank 5,50,000 and Trade Payables ₹ 1,46,000.

During the year he introduced further capital of ₹ 3,00,000 into the business.

You are required to prepare the balance sheet as at March 31, 2022. (10 Marks)

5. The following is the trial balance of Mr. B for the year ended 31st March, 2021:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad and doubtful debts	7,000
Plant and Machinery	1,05,000	Sales	29,75,000
Investments	87,500	Bank Overdraft	80,500
Cash in Hand	70,000		
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	14,000		
	43,89,000		43,89,000

Additional Information:

- (i) Stock of finished goods at the end of the year was ₹ 3,50,000.
- (ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building ₹ 3,500 and Machinery ₹ 10,500.
- (iii) Accrued commission is ₹ 43,750. Interest has accrued on investment ₹ 52,500.
- (iv) Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

You are required to prepare Manufacturing, Trading and Profit & loss account for the year ended 31st March, 2021 and Balance Sheet as at that date.

(20 Marks)

Final accounts and Rectification of entries

12. The following is the Trial Balance of T on 31st March, 2019 :

	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2019)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000

Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2019)	17,000	-
Investments 12% (01.8.2018)	2,50,000	-
Bank Balance	<u>1,69,000</u>	<u>-</u>
	<u>31,19,000</u>	<u>31,19,000</u>

Stock on 31st March, 2019 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

- ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.
- Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.
- Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.
- Expenses include ₹ 6,000 in respect of the period after 31st March, 2019.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2019.

Final accounts

12. The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	

Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Building	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	<u>30,73,400</u>	<u>30,73,400</u>

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

- Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was ₹ 4,10,000.
- One month rent for godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
- Provision for bad debts is to be maintained at 5% of Sundry debtors.
- Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.

Final accounts and Rectification of entries

12. The following is the Trial Balance of T on 31st March, 2019 :

	Dr. ₹	Cr. ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2019)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000

Expenses	50,000	-
Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2019)	17,000	-
Investments 12% (01.8.2018)	2,50,000	-
Bank Balance	<u>1,69,000</u>	-
	<u>31,19,000</u>	<u>31,19,000</u>

Stock on 31st March, 2019 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

- (i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.
- (ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.
- (iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.
- (iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2019.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2019.

Final accounts and Rectification of entries

13. The following are the balances as at 31st March, 2019 extracted from the books of Mr. XYZ.

	₹		₹
Plant and Machinery	19,550	Bad debts recovered	450
Furniture and Fittings	10,250	Salaries	22,550
Bank Overdraft	80,000	Salaries payable	2,450
Capital Account	65,000	Prepaid rent	300
Drawings	8,000	Rent	4,300
Purchases	1,60,000	Carriage inward	1,125
Opening Stock	32,250	Carriage outward	1,350
Wages	12,165	Sales	2,15,300
Provision for doubtful debts	3,200	Advertisement Expenses	3,350
Provision for Discount on debtors	1,375	Printing and Stationery	1,250
Sundry Debtors	1,20,000	Cash in hand	1,450
Sundry Creditors	47,500	Cash at bank	3,125
Bad debts	1,100	Office Expenses	10,160
		Interest paid on loan	3,000

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2019 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019, and a Balance Sheet as on that date. Also show the rectification entries.

- (b) Mr. Surya runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2021.

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 @ Rs. 0.70 per unit manufactured	
Hire charges of factory	7,80,000
Direct wages-contracted @ Rs. 0.80 per unit manufactured and @ Rs. 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. Surya for the year ended 31-03-2021.

(15+5= 20 Marks)

PARTNERSHIP ACCOUNT – GOODWILL

- (b) R and S are partners in a firm with a capital of 14,00,000 and 12,00,000 respectively. During the year ended on 31st March, 2022 firm earned a profit of ₹ 6,50,000. Assuming that the normal rate of return is 20%. Calculate the amount of Goodwill of the firm by using

- Capitalization method
- Super Profit method, if the goodwill is valued at 6 years purchase of super profits.

(5 Marks)

RTS

4. (a) X and Y are in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as at 31st March, 2022 is as follows :

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts :		Building	60,000
X	60,000	Plant	45,000
Y	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills receivable	12,500
Bills payable	15,400	Stock	42,600
Salary payable	2,000	Bank	78,000
	<u>3,00,000</u>		<u>3,00,000</u>

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1,00,000 as his share of capital. Goodwill was valued at ₹ 1, 20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows :

- Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bills Receivable ₹ 12,000.
- Out of total Debtors, ₹ 2400 is bad and 5% provision is to be provided for bad and doubtful debts.
- Building is to be appreciated by 75%.
- Actual liability towards salary payable is ₹ 1200 only.

Prepare a/cs

(ii) Mr. X gives the following particulars in respect of business carried on by him -

Particulars	Amount (₹)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020. Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years. (5 Marks)

Partnership Accounts

Profit and Loss Appropriation Account

13. A, B and C entered into partnership on 1.1.2019 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than ₹ 30,000 in any year. Capitals of A, B and C were ₹ 3,20,000, ₹ 2,00,000 and ₹ 1,60,000 respectively.

Profits for the year ending 31.12.2019 before providing for interest on partners capital was ₹ 1,59,000.

You required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

14. J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

- By Capitalization Method; and
- By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Death of partner

15. Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities	(₹)	Assets	(₹)
Trade payables	22,500	Land & Buildings	37,000
Outstanding Liabilities	2,200	Furniture & Fixtures	7,200
General Reserve	7,800	Closing stock	12,600
Capital Accounts:		Trade Receivables	10,700
Dinesh 15,000		Cash in hand	2,800
Ramesh 15,000		Cash at Bank	2,200
Naresh <u>10,000</u>	<u>40,000</u>		
	<u>72,500</u>		<u>72,500</u>

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

- Suresh shall bring ₹ 8,000 towards his capital.
- The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

- (iii) Provision for bad and doubtful debts should be provided at 5% of the trade receivables.
- (iv) The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.
- (v) The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

Partnership Accounts

Calculation of Goodwill

13. J and K are partners in a firm. Their capitals are: J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:
- (i) By Capitalization Method; and
 - (ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Retirement of Partner

14. On 31st March, 2020, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	<u>10,000</u>	Cash and Bank Balances	<u>7,000</u>
	<u>80,000</u>		<u>80,000</u>

On 1st April, 2020, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

- (i) Land and Building be appreciated by 20%.
- (ii) Plant and Machinery be depreciated by 30%.
- (iii) Stock of goods to be valued at ₹10,000.
- (iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.
- (v) Provisions for bad debts should be provided at 5%.
- (vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
- (vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
- (viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
- (ix) Amount due to Mr. P is to be settled on the following basis:
50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2020..

Calculation of Goodwill

14. (a) Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2019 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	<u>30,000</u>		<u> </u>
	<u>6,55,000</u>		<u>6,55,000</u>

The partnership earned profit ₹ 2,00,000 in 2019 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

- (b) J and K are partners in a firm. Their capitals are: J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:
- (i) By Capitalization Method; and
- (ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit

X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
<u>Capitals:</u>		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

QEM

P.T.O.

QEM

Z retired from business on 1st April, 2021 on the following terms:

- (i) Building to be appreciated by 25%.
- (ii) X and Y to bring in additional capital of ₹ 5,00,000 each.
- (iii) Machinery to be depreciated by 10%.
- (iv) Stock is revalued at ₹ 3,72,250.
- (v) Provision for Doubtful Debts to be created at 4%.
- (vi) Goodwill was to be valued at 3 Years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.
- (vii) Goodwill was not to be raised in the Books of Accounts.
- (viii) Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement. Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.

Death of Partner

- 15 The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

Balance Sheet as at 31st December, 2017

Liabilities		₹	Assets		₹
Capital	L	8,200	Machinery		10,000
	M	8,200	Furniture		5,600
	N	9,000	Fixture		4,200
General Reserve		3,000	Cash		3,000
Trade payables		4,700	Inventories		1,900
			Trade receivables	9,000	
			Less: Provision for Doubtful debts	<u>600</u>	8,400
		33,100			33,100

N died on 3rd January, 2018 and the following agreement was to be put into effect.

- Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.
- Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account.
- ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.
- After death of N, L and M share profit equally.

You are required to prepare:

- Journal Entry for Goodwill adjustment.
- Revaluation Account and Capital Accounts of the partners.

4. (a) Alpha and Beta are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Alpha and Beta as on 1.1.2021 was as follows:

Liabilities	Amount Rs.	Assets		Amount Rs.
Sundry Creditors	25,800	Building		52,000
Bill Payable	8,200	Furniture		11,600
Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Account:		Debtors	70,000	
Alpha 88,000		Less: Provision	<u>400</u>	69,600
Beta <u>72,000</u>	1,60,000	Investment		5,000
		Cash		<u>31,000</u>
	<u>2,12,000</u>			<u>2,12,000</u>

'Gama' was admitted to the firm on the above date on the following terms:

- He is admitted for 1/6th share in future profits and to introduce a Capital of Rs. 50,000.
- The new profit sharing ratio of Alpha, Beta and Gama will be 3 : 2 : 1 respectively.
- 'Gama' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'Gama's share in the profits and the capital contribution made by him to the firm. Later, the goodwill was written off among all the partners in the new profit sharing ratio.
- Furniture is to be written down by Rs. 1,740 and Stock to be depreciated by 10%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 3,120. The value of Buildings having appreciated be brought upto Rs. 58,400. The value of investment is increased by Rs. 900.
- It is found that the creditors included a sum of Rs. 2,800, which is not to be paid off.

Prepare the following:

- Revaluation Account.
- Partners' Capital Accounts.

NPO

(b) The Income and Expenditure Account of the Young Boys Club for the year 2022 is as follows :

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	3,750	By Subscription	8,500
To General Expenses	1,500	By Entrance Fees	250
To Audit fees	250	By Contribution for	
To Secretary's Honorarium	1,000	Annual Dinner	1,000
To Stationery and Printing	450	By Annual sports	
To Annual Dinner expenses	1,500	meet receipts	750
To Interest and Bank Charges	150		
To Depreciation	400		
To Surplus	1,500		
	<u>10,500</u>		<u>10,500</u>

RTS

RTS

This Account has been prepared after the following adjustments :

	Amount (₹)
Subscription outstanding on 31 st December, 2021	700
Subscription received in advance on 31 st December, 2021	550
Subscription received in advance on 31 st December, 2022	370
Subscription outstanding on 31 st December, 2022	750

Salaries outstanding at the beginning and at the end of 2022 were respectively ₹ 600 and ₹ 450. General Expenses include insurance prepaid to the extent of ₹ 150. Audit fee for 2022 is still unpaid. During 2022 audit fee for 2021 was paid amounting to ₹ 200.

The club owned a freehold lease of ground valued at ₹ 20,000. The club had sports equipment on 1st January, 2022 valued at ₹ 2600. At the end of the year, after depreciation, the balance of equipment amounted to ₹ 3,600. In 2021, the club raised a bank loan of ₹ 5,000, This was outstanding throughout 2022. On 31st December, 2022 cash in hand amounted to ₹ 1600.

You are required to prepare :

- (i) Receipts and Payments Account for 2022
- (ii) Balance Sheet as on 31st December, 2022
- (iii) Balance Sheet as on 31st December, 2021.

(10 Marks)

4. (a) The following is the Receipts and Payments Account for the year ended March 31, 2021:

Receipt and Payment Account of Mumbai Club

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per Pass Book:		Purchase of Equipments	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary (2019-20)	40,000
Contribution to Club night	10,000	Balance at Bank as per Pass Book:	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	78,000	Cash in hand	25,000
	6,62,000		6,62,000

You are given the following additional information (All figures are in ₹)

	01.04.20	31.03.21
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unrepresented being payment for repairs	30,000	25,000
Interest not yet entered in the Pass book	–	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March, 2021 and the Balance Sheet as at that date.

(10 Marks)

Financial statements of Not for Profit Organizations

16. Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

<i>Receipts</i>	₹	<i>Payments</i>	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

Financial Statements of Not for Profit Organizations

15. The following information of M/s. TT Club are related for the year ended 31st March, 2020:

(1)

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

Institute of Chartered Accountants of India

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FOUNDATION EXAMINATION: NOVEMBER, 2020

- (2) Subscription received during the year ₹ 3,75,000
(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

- (A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020 and
(B) Also show how these items would appear in the Balance Sheet as on 31.03.2020.

Financial Statements of Not for Profit Organizations

16. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:

**Receipts and Payments Account for the
year ended 31 December, 2019**

RECEIPTS		₹	PAYMENTS		₹
To	Balance b/d		By	Salaries:	
	Cash	800		(₹ 7,200 for 2018)	31,200

Bank	5,200	6,000	By Hospital Equipment	17,000
To Subscriptions:			By Furniture purchased	6,000
For 2018		5,100	By Additions to Building	50,000
For 2019		24,500	By Printing and Stationery	2,400
For 2020		2,400	By Diet expenses	15,600
To Government Grant:			By Rent and rates	2,000
For building		80,000	(₹ 300 for 2020)	
For maintenance		20,000	By Electricity and water charges	2,400
Fees from sundry Patients		4,800	By office expenses	2,000
To Donations (not to be capitalized)		8,000	By Investments	20,000
To Net collections from benefit shows		6,000	By Balances:	
			Cash	1,400
			Bank	6,800
		<u>1,56,800</u>		<u>8,200</u>
				<u>1,56,800</u>
Additional information:				₹
Value of building under construction as on 31.12.2019				1,40,000
Value of hospital equipment on 31.12.2019				51,000
Building Fund as on 1.1. 2019				80,000
Subscriptions in arrears as on 31.12.2018				6,500
Investments in 8% Govt. securities were made on 1st July, 2019.				

5. (a) From the following information supplied by New Punjabi Bagh Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2021.

	01.04.2020 Rs.	31.03.2021 Rs.
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 Rs. 1,50,000/-. Salaries paid Rs. 30,000. Face value of the Investment was Rs. 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received Rs. 7,000. Furniture was sold for Rs. 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:	Rs. 25,000
Rent:	Rs. 12,000 out of which Rs. 1,000 outstanding
Misc. Expenses:	Rs. 2,500

SHARES-ISSUE-FORFEITURE/DEBENTURE

- (a) PQR Limited issued 2,00,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from Mr. J, holding 5,000 shares who failed to pay the allotment and call money and Mr. K, holding 10,000 shares, who failed to pay the call money. All these 15,000 shares were forfeited. Out of the forfeited shares, 10,000 shares (including whole of J's shares) were subsequently re-issued to Mr. L as fully paid up at a discount of ₹ 1 per share.

Pass necessary journal entries in the books of PQR Limited. Also prepare balance sheet and notes to accounts of the company. (15 Marks)

- (b) "The cost of Property, Plant and Equipment comprises of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise". Give any five examples of such 'directly attributable costs'. (5 Marks)

6. (a) A 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. (Ignore dates).

(15 Marks)

- (b) What is petty cash book? Write it's any two advantages.

(5 Marks)

Forfeiture of Shares

18. Bhagwati Ltd. invited applications for issuing 2,00,000 equity shares of ₹ 10 each.

The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share

On first and final call - ₹ 2 per share

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

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

Issue of Debentures

19. Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.

Calculate the amount of discount to be written-off in each of the 5 years.

20. Write short notes on the following:

- (i) Accounting conventions.
- (ii) Trade bill vs. Accommodation bill.
- (iii) Measurement.
- (iv) Advantages of subsidiary books.

Issue of Shares

16. Konica Limited registered with an authorised equity capital of ₹ 2,00,000 divided into 2,000 shares of ₹ 100 each, issued for subscription of 1,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of the company to record these transactions.

Issue of Debentures

17. A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

18. Write short notes on the following:
- (i) Fundamental Accounting Assumptions.
 - (ii) Objectives of preparing Trial Balance.
 - (iii) Accounting conventions.
 - (iv) Machine Hour Rate method of calculating depreciation.

Issue of Shares

17. On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:
₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018.
By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

Forfeiture of Shares

18. Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

19. Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 40 on application

₹ 50 on allotment

You are required to give necessary journal entries regarding issue of debenture.

20. Write **short notes** on the following:

- (i) Objectives of preparing Trial Balance.
- (ii) Rules of posting of journal entries into Ledger.
- (iii) Importance of bank reconciliation statement to an industrial unit.
- (iv) Bill of exchange and various parties to it.
- (v) Fundamental Accounting Assumptions.
- (vi) Accounting conventions.
- (vii) Machine Hour Rate method of calculating depreciation.

6. (a) Daniel Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 20 each.

The amounts were payable as follows:

On application	- Rs. 6 per share
On allotment	- Rs. 10 per share
On first and final call	- Rs. 4 per share

Applications were received for 1,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 3,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ Rs. 16 per share.

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

(10 Marks)

(b) On 1st January 2020 Pigeon Ltd. issued 12% debentures of the face value of Rs. 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2020.

(5 Marks)

(c) Write short notes on any two of the following:

- (i) Double entry system.
- (ii) Importance of bank reconciliation to an industrial unit.
- (iii) Bill of exchange and the various parties to it.
- (iv) Retirement of bills of exchange.

(5 Marks)

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CA FOUNDATION MOST-MOST IMPORTANT QUESTIONS

ACCOUNTS

1.

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31 st March 20X1	31 st March 20X2
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 20X1- 20X2:

- (i) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.
- (ii) Cash Withdrawn from bank ₹ 1,21,000.
- (iii) Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.
- (iv) Cheques collected from customers but dishonoured ₹ 5,700.
- (v) Bills accepted by customers ₹ 40,000.
- (vi) Bills endorsed ₹ 10,000.
- (vii) Bills discounted ₹ 20,000, discount ₹ 750.
- (viii) Bills matured and duly collected ₹ 16,000.
- (ix) Bills accepted ₹ 24,000.
- (x) Paid suppliers by cheque ₹ 3,20,000.
- (xi) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.
- (xii) Rent received ₹ 14,000 by cheque for the premises owned by proprietor.

(xiii) A building was purchased on 30-11-20X1 for opening a branch for ₹ 3,50,000 and some expenses were incurred on this building, details of which are not maintained.

(xiv) Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.

Other transactions:

(i) Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit.

(ii) Goods returned to suppliers ₹ 4,200.

(iii) Goods returned by customers ₹ 1,200.

(iv) Discount offered by suppliers ₹ 2,700.

(v) Discount offered to the customers ₹ 2,400.

(vi) The business is carried on at the rented premises for an annual rent of ₹ 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 20X2 and Balance Sheet as on that date.

Solution

**Trading and Profit & Loss Account of Mr. Anup
for the year ended 31st March 20X2**

	₹	₹		₹	₹
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales Return	(1,200)	9,58,550
Less: Purchases Return	<u>(4,200)</u>	4,49,900	By Closing Inventory		1,90,000
To Gross Profit (b.f.)		5,88,650			
		11,48,550			11,48,550
To salary (9,200 x 12)		1,10,400	By Gross Profit		5,88,650
To Electricity & Tel. Charges (18,700 + 2,200)		20,900	By Discount		2,700

To Legal expenses	17,000			
To Discount (2,400 + 750)	3,150			
To Shop exp. (600 x 12)	7,200			
To Provision for claims for damages	1,55,000			
To Shop Rent	20,000			
To Net Profit (b.f.)	2,57,700			
	5,91,350			5,91,350

Balance-Sheet as on 31st March 20X2

Liabilities	₹		Assets	₹
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash and bank A/c)	3,72,000
<i>Add</i> : Fresh capital introduced			Furniture	25,000
Maturity value from LIC	20,000		Inventory	1,90,000
Rent	14,000		Sundry debtors	92,000
<i>Add</i> : Net Profit	2,57,700		Bills receivable	6,000
	5,29,900		Cash at Bank	87,000
<i>Less</i> : Drawing(14,00 x12)	(16,800)	5,13,100	Cash in Hand	5,300
Rent outstanding		20,000		
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity & Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :**(i) Sundry Debtors Account**

	₹		₹
To Balance b/d	70,000	By Bill Receivable A/c	
To Bill receivable A/c-Bills dishonoured	3,000	Bills accepted by customers	40,000
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c - Cheque received	5,700
To Credit sales (Balancing Figure)	9,59,750	By Cash (from summary cash and bank account)	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) Bills Receivable Account

	₹		₹
To Balance b/d	15,000	By Sundry creditors A/c (Bills endorsed)	10,000
To Sundry Debtors A/c (Bills accepted)	40,000	By Bank A/c (20,000 – 750)	19,250
		By Discount A/c (Bills discounted)	750
		By Bank Bills collected on maturity	16,000
		By Sundry debtors Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) **Sundry Creditors Account**

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase (Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) **Bills Payable A/c**

	₹		₹
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c Bills accepted	24,000
	36,000		36,000

(v) **Summary Cash and Bank A/c**

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
To Cash		7,62,750	By Shop exp. (600 x 12)	7,200	
To Bank	1,21,000		By Salary (9,200 x 12)	1,10,400	
			By Drawing A/c (1,400 x 12)	16,800	
To Sundry Debtors		5,700	By Bills Payable		22,000
To Bills receivable		19,250	By Sundry creditors	77,200	3,20,000
To Bills receivable		16,000	By Furniture	25,000	
			By Sundry Debtors		5,700

To Capital (maturity value of LIC policy)		20,000	By Electricity & Tel. Charges	18,700	
To Capital (Rent received)		14,000	By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

ri) **Statement of Affairs as on 31st March 20X1**

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹ 10 each fully paid	5,00,000
4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit and Loss Account	16,00,000

On 1st April, 20X1, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 20X1. Thereafter, on 1st May 20X1 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 20X1, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 20X1.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

Journal Entries in the books of Mars Ltd.

20X1			Dr.	Cr.
			₹	₹
April 1	Equity Share Final Call A/c	Dr.	8,00,000	
	To Equity Share Capital A/c (Final call of ₹ 2 per share on 4,00,000 equity shares made due)			8,00,000
April 25	Bank A/c	Dr.	8,00,000	
	To Equity Share Final Call A/c (Final call money on equity shares received)			8,00,000
May 1	Capital Redemption Reserve A/c	Dr.	2,40,000	
	Securities Premium A/c	Dr.	2,75,000	
	General Reserve A/c	Dr.	1,60,000	
	Profit and Loss A/c	Dr.	3,25,000	

	To Bonus to Shareholders A/c			10,00,000
	(Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated.....)			
	Bonus to Shareholders A/c	Dr.	10,00,000	
	To Equity Share Capital A/c (Capitalisation of profit)			10,00,000
June 20	Bank A/c	Dr.	24,00,000	
	To Securities Premium A/c			4,00,000
	To Equity Share Capital A/c (Being Rights issue of 2 shares for every 5 shares held as per board resolution dated)			20,00,000

Illustration 3

Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 20X1:

₹	
<i>Authorised capital :</i>	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	<u>10,00,000</u>
	<u>11,00,000</u>
<i>Issued and Subscribed capital:</i>	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
<i>Reserves and Surplus :</i>	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
<i>Secured Loan:</i>	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 20X1 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 20X1. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the

Solution

Journal Entries in books of Solid Ltd.

			<i>Dr.</i>	<i>Cr.</i>
20X1			₹	₹
April 1	Equity Share Final Call A/c To Equity Share Capital A/c (Final call of ₹ 2 per share on 90,000 equity shares due as per Board's Resolution dated....)	Dr.	1,80,000	1,80,000
April 20	Bank A/c To Equity Share Final Call A/c (Final Call money on 90,000 equity shares received)	Dr.	1,80,000	1,80,000
	Securities Premium A/c General Reserve A/c Profit and Loss A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated....)	Dr. Dr. Dr.	20,000 1,60,000 45,000	2,25,000
April 20	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalisation of profit)	Dr.	2,25,000	2,25,000

Balance Sheet (Extract) as at 30th April, 20X1 (after bonus issue)

		<i>Particulars</i>	<i>Notes</i>	<i>Amount</i> (₹)
1		Equity and Liabilities		
		Shareholders' funds		
	a	Share capital	1	12,05,000

2	b	Reserves and Surplus	2	1,95,000
	Non-current liabilities			
	a	Long-term borrowings	3	<u>5,00,000</u>
Total				<u>19,00,000</u>

Notes to Accounts

1	Share Capital		
	Equity share capital		
	Authorised share capital		
	1,12,500 Equity shares of ₹ 10 each		<u>11,25,000</u>
	Issued, subscribed and fully paid share capital		
	1,12,500 Equity shares of ₹ 10 each, fully paid		
	(Out of above, 22,500 equity shares @ ₹ 10 each were issued by way of bonus) (A)		11,25,000
	Preference share capital		
	Authorised share capital		
	10,000 12% Preference shares of ₹ 10 each		<u>1,00,000</u>
	Issued, subscribed and fully paid share capital		
	8,000 12% Preference shares of ₹ 10 each (B)		<u>80,000</u>
	Total (A + B)		<u>12,05,000</u>
2	Reserves and Surplus		
	Revaluation Reserve		35,000
	Securities Premium	20,000	
	Less: Utilised for bonus issue	<u>(20,000)</u>	Nil
	General reserve	1,60,000	
	Less: Utilised for bonus issue	<u>(1,60,000)</u>	Nil
	Profit & Loss Account	2,05,000	
	Less: Utilised for bonus issue	<u>(45,000)</u>	<u>1,60,000</u>
	Total		<u>1,95,000</u>
3	Long-term borrowings		
	Secured		
	12% Debentures @ ₹ 100 each		5,00,000

The authorised capital has been increased by sufficient number of shares.
(11,25,000 – 10,00,000)

Working Note-

Number of Bonus shares to be issued $(90,000 \text{ shares} / 4) \times 1 = 22,500 \text{ shares}$

Ms. Rashmi furnishes you with the following information relating to her business:

(a) **Assets and liabilities as on** **1.4.20X1** **31.03.20X2**

	₹	₹
<i>Furniture (w.d.v)</i>	12,000	12,700
<i>Inventory at cost</i>	16,000	14,000
<i>Sundry Debtors</i>	32,000	?
<i>Sundry Creditors</i>	22,000	30,000
<i>Prepaid expenses</i>	1,200	1,400
<i>Unpaid expenses</i>	4,000	3,600
<i>Cash in hand and at bank</i>	2,400	1,250

(b) *Receipts and payments during the year:*

Collections from debtors, after allowing discount of ₹ 3,000 amounted to ₹ 1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of ₹ 250 by the bank, totaled to ₹ 12,250.

Creditors of ₹ 80,000 were paid ₹ 78,400 in full settlement of their dues.

Payment for freight inwards ₹ 6,000.

Amount withdrawn for personal use ₹ 14,000.

Payment for office furniture ₹ 2,000.

Investment carrying annual interest of 4% were purchased at ₹ 192 (face value ₹ 200) on 1st October, 20X1 and payment made thereof.

Expenses including salaries paid ₹ 29,000.

Miscellaneous receipts ₹ 1,000.

- (c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 20,000. Of these, bills of exchange of ₹ 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 800 was dishonoured.*
- (d) Goods costing ₹ 1,800 were used as advertising materials.*
- (e) Goods are invariably sold to show a gross profit of 33-1/3% on sales.*
- (f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.*
- (g) Provide at 2.5% for doubtful debts on closing debtors.*

Rashmi asks you to prepare trading and profit and loss account for the year ended 31st March, 20X2 and the balance sheet as on that date.

SOLn:

Q.10. Prepare Trading, Profit and Loss and Balance Sheet as on 31st March.

Solution

Trading and Profit and Loss Account of Ms. Rashmi for the year ended 31st March , 20X2

		₹		₹
To Opening Inventory		16,000	By Sales (W.N.3)	1,46,100
To Purchases (W.N.2)	91,200		By Closing inventory	14,000
Less : For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d @ 33-1/3%		48,700		
		1,60,100		1,60,100

Q.11. Prepare Trading, Profit and Loss and Balance Sheet as on 31st March.

To Sundry expenses (W.N.6)		28,400	By Gross profit b/d	48,700
To Advertisement		1,800	By Interest on investment (200x 4/100 x ½)	4
To Discount allowed			By Discount received	1,600
Debtors	3,000		By Miscellaneous income	1,000
Bills Receivable	250	3,250		
To Depreciation on furniture (12,000 + 2,000 – 12,700)		1,300		
To Provision for doubtful debts		972		
To Net Profit (b.f.)		15,582		
		51,304		51,304

Balance Sheet as on 31st March, 20X2

Liabilities	Amount		Assets		Amount
Capital as on 1.1.20X1 (W.N.1)	₹ 37,600	₹	Furniture (w.d.v.)	₹ 12,000	₹
Less: Drawings	(15,808)		Additions during the Year	2,000	
	21,792		Less: Depreciation (b.f.)	(1,300)	12,700
Add: Net Profit	15,582	37,374	Investment		192
Sundry creditors		30,000	Interest accrued (200 x 4% x 6/12)		4
Outstanding expenses		3,600	Closing Inventory		14,000
			Sundry debtors	38,900	
			Less: Provision for doubtful debts @ 2.5%	972	37,928

		Bills receivable (W.N.7)	3,500
		Cash in hand and at bank	1,250
		Prepaid expenses	1,400
	70,974		70,974

Working Notes:

(1) Capital on 1st April, 20X1

Balance Sheet As On 1st April , 20X1

Liabilities	₹	Assets	₹
Capital (Bal. fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Inventory at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
		Prepaid expenses	1,200
	63,600		63,600

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c (80,000 – 78,400)	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c	91,200
To Balance c/d	30,000	(Balancing figure)	
	1,14,000		1,14,000

(3) Sales made during the year

		₹
Opening inventory		16,000
Purchases	91,200	

Less: For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400
Less: Closing inventory		(14,000)
Cost of goods sold		97,400
Add: Gross profit (@ 50% on cost)		48,700
		1,46,100

(4) Debtors on 31st March, 20X2

Sundry Debtors Account

	₹		₹
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c (W.N.3)	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c (bill dishonoured)	800	By Bills receivable A/c	20,000
		By Balance c/d (Bal. fig.)	38,900
	1,78,900		1,78,900

(5) Additional drawings by Ms. Rashmi

Cash and Bank Account

	₹		₹
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c [14,000 + 1,808 (b.f.) (Additional drawings)]	15,808
		By Balance c/d	1,250
	1,32,650		1,32,650

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.4.20X1)	1,200	By Outstanding expenses A/c (on 1.4.20X1)	4,000
To Bank A/c	29,000	By Profit and Loss A/c (Balancing figure)	28,400
To Outstanding expenses A/c (on - 31.03.20X2)	3,600	By Prepaid expenses A/c	1,400
	33,800		33,800

(7) Bills Receivable on 31st March, 20X2

Bills Receivable Account

	₹		₹
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
		By Balance c/d (Balancing figure)	3,500
	20,000		20,000

Bumbum Limited gives you the following information as at 31st March, 20X1:

	₹
<u>Authorized capital:</u>	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each (8% redeemable)	<u>10,00,000</u>
	<u>15,00,000</u>
<u>Issued, subscribed and paid up capital:</u>	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8% Redeemable Preference shares of ₹ 100 each	<u>5,00,000</u>
	<u>8,00,000</u>
<u>Reserves & Surplus:</u>	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	<u>40,000</u>
	<u>12,90,000</u>
2,500, 9% Debentures of ₹ 100 each	2,50,000
Trade payables	1,70,000
Property, Plant and Equipment (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Trade receivables	6,20,000
Cash & Bank balance	2,80,000

In Annual General Meeting held on 20th June, 20X1 the company passed the following resolutions:

- (i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July.
- (ii) To redeem 8% preference shares at a premium of 5%.
- (iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at ₹ 10 per share or accept cash on redemption.
- (iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 20X1 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

40% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 20X1.

The company fixed 5th September, 20X1 as record date and bonus issue was concluded by 12th September, 20X1

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 20X1. All working notes should form part of your answer.

Bumbum Limited
Journal Entries

20X1		Dr. (₹)	Cr. (₹)
July 1	Equity Share Capital A/c (₹ 10 each) Dr. To Equity share capital A/c (₹ 2 each) (Being equity share of ₹10 each splitted into 5 equity shares of ₹ 2 each) {1,50,000 X 2}	3,00,000	3,00,000
July 10	Cash & Bank balance A/c Dr. To Investment A/c To Profit & Loss A/c (Being investment sold out and profit on sale credited to Profit & Loss A/c)	5,55,000	4,90,000 65,000
July 10	8% Redeemable preference share capital A/c Dr. Premium on redemption of pref. share A/c Dr. To Preference shareholders A/c (Being amount payable to preference share holders on redemption) (refer W.N.1)	5,00,000 25,000	5,25,000
July 10	Preference shareholders A/c Dr. To Cash & bank A/c (Being amount paid to preference shareholders)	5,25,000	5,25,000
July 10	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)	5,00,000	5,00,000
Aug 1	9% Debentures A/c Dr. Interest on debentures A/c Dr. (2,50,000 x 9% x 4/12)	2,50,000 7,500	

	To Debenture holders A/c (Being amount payable to debenture holders along with interest payable)		2,57,500
Aug. 1	Debenture holders A/c Dr. To Cash & bank A/c (1,00,000 + 7,500) To Equity share capital A/c (15,000 X 2) To Securities premium A/c (15,000 x 8) (Being claims of debenture holders satisfied) (refer W.N.2)	2,57,500	1,07,500 30,000 1,20,000
Sept. 5	Capital Redemption Reserve A/c Dr. To Bonus to shareholders A/c (Being balance in capital redemption reserve capitalized to issue bonus shares) (refer W.N.3)	1,10,000	1,10,000
Sept. 12	Bonus to shareholders A/c Dr. To Equity share capital A/c (Being 55,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)	1,10,000	1,10,000
Sept. 30	General Reserve A/c Dr. To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from general reserve)	25,000	25,000
Sept. 30	Profit & Loss A/c Dr. To Interest on debentures A/c (Being interest on debentures transferred to Profit and Loss Account)	7,500	7,500

Balance Sheet as at 30th September, 20X1

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	4,40,000
b	Reserves and Surplus	2	13,32,500
2	Current liabilities		
a	Trade Payables		1,70,000
	Total		19,42,500
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment		7,80,000
b	Deferred tax asset		3,40,000
2	Current assets		
	Trade receivables		6,20,000
	Cash and bank balances (W.N.4)		2,02,500
	Total		19,42,500

Notes to accounts

		₹	₹
1	Share Capital		
	Authorized share capital		
	2,50,000 Equity shares of ₹ 2 each	5,00,000	
	10,000 Preference shares of ₹100 each	10,00,000	15,00,000
	Issued, subscribed and paid up		
	2,20,000 Equity shares of ₹ 2 each		4,40,000
	[(30,000 x 5) + 15,000 + 55,000]		
2	Reserves and Surplus		
	Securities Premium A/c		
	Balance as per balance sheet	6,00,000	

<i>Add:</i> Premium on equity shares issued on conversion of debentures (15,000 x 8)	1,20,000	
Balance		7,20,000
Capital Redemption Reserve (5,00,000-1,10,000)		3,90,000
General Reserve (6,50,000 – 5,00,000- 25,000)		1,25,000
Profit & Loss A/c	40,000	
<i>Add:</i> Profit on sale of investment	65,000	
<i>Less:</i> Interest on debentures	(7,500)	97,500
Total		13,32,500

Working Notes:

	₹
1. Redemption of preference share:	
5,000 Preference shares of ₹ 100 each	5,00,000
Premium on redemption @ 5%	25,000
Amount Payable	5,25,000
2. Redemption of Debentures	
2,500 Debentures of ₹100 each	2,50,000
<i>Less:</i> Cash option exercised by 40% holders	(1,00,000)
Conversion option exercised by remaining 60%	1,50,000
Equity shares issued on conversion = $\frac{1,50,000}{10} = 15,000$ shares	
3. Issue of Bonus Shares	
Existing equity shares after split (30,000 x 5)	1,50,000 shares
Equity shares issued on conversion	15,000 shares
Equity shares entitled for bonus	1,65,000 shares
Bonus shares (1 share for every 3 shares held) to be issued	55,000 shares
4. Cash and Bank Balance	
Balance as per balance sheet	2,80,000
<i>Add:</i> Realization on sale of investment	5,55,000

	8,35,000
<i>Less:</i> Paid to preference share holders	(5,25,000)
Paid to Debenture holders (7,500 + 1,00,000)	(1,07,500)
Balance	<u>2,02,500</u>
5. Interest of ₹7,500 paid to debenture holders have been debited to Profit & Loss Account.	

Question

Trinity Ltd. gives you the following information as at 31.3.20X1:

	₹
<u>Property, Plant and Equipment:</u>	
Gross Block	3,00,000
Less: Depreciation	1,00,000
	2,00,000
Investments	1,00,000
Inventory	45,000
Trade receivables	25,000
Cash and Bank Balances	50,000
<u>Share Capital:</u>	
<u>Authorised:</u>	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000

90,000 Equity Shares of ₹10 each	9,00,000
<u>Issued, Subscribed and Paid-up Capital:</u>	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000
10,000 Equity Shares of ₹ 10 each	1,00,000
<u>Reserves and Surplus:</u>	
General Reserve	1,20,000
Securities Premium	70,000
Profit and Loss A/c	18,500
<u>Current Liabilities and Provisions</u>	11,500

For the year ended 31.3.20X2, the company made a net profit of ₹35,000 after providing ₹20,000 depreciation.

The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31.3.20X2 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.20X2, was the same as on 31.3.20X1.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.20X2.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.20X2.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

Journal Entries in the Books of Trinity Ltd.

		<i>Dr.</i>	<i>Cr.</i>
		₹	₹
General Reserve A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Being amount of premium payable on redemption of preference shares)			
10% Redeemable Preference Capital	Dr.	1,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Being the amount payable to preference shareholders on redemption)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve			1,00,000
(Being transfer to the latter account on redemption of shares)			
Bank A/c	Dr.	90,000	
Profit and Loss A/c	Dr.	10,000	
To Investments			1,00,000
(Being amount realised on sale of Investments and loss thereon adjusted)			

Preference shareholders A/c To Bank (Being payment made to preference shareholders)	Dr.	1,10,000	1,10,000
Capital Redemption Reserve A/c To Bonus to Shareholders (Amount adjusted for issuing bonus share in the ratio of 1: 1)	Dr.	1,00,000	1,00,000
Bonus to Shareholders A/c To Equity Share Capital (Balance on former account transferred to latter)	Dr.	1,00,000	1,00,000

question

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 20X1:

Liabilities	₹	Assets	₹
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at bank	14,500
		Cash in hand	2,000
	1,21,500		1,21,500

You are furnished with the following information:

- (1) Sri Srinivas sells his goods at a profit of 20% on sales.
- (2) Goods are sold for cash and credit. Credit customers pay by cheques only.
- (3) Payments for purchases are always made by cheques.
- (4) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the Bank Pass-Book for the 13 weeks period ending 31st March, 20X2 disclosed the following:

	₹
Payments to creditors	75,000
Payments of rent up to 31.3.20X2	4,000

Amounts deposited into the bank (include ₹ 30,000 received from debtors by cheques)	1,25,000
The following are the balances on 31st March, 20X2:	₹
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 20X2 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 20X2 and a Balance Sheet as on that date.

Statement showing the amount of cash defalcated by the Cashier

	₹	₹
Cash balance as on 1.1.20X2	2,000	
Add : Cash sales (W.N.2 and W.N.4)	1,16,250	1,18,250
Less : Salary to clerk (₹ 300 × 13)	3,900	
Sundry expenses (₹ 50 × 13)	650	
Drawings of Sri Srinivas (₹ 100 × 13)	1,300	
Deposit into bank (₹ 1,25,000 – ₹ 30,000)	95,000	(1,00,850)
Cash balance as on 31.3.20X2 (defalcated by cashier)		17,400

**Trading and Profit and Loss Account of Sri Srinivas
for the 13 week period ended 31st March, 20X2**

	₹		₹	₹
To Opening stock	70,000	By Sales :		
To Purchases	91,000	Cash (W.N.2 and W.N.4)	1,16,250	
To Gross Profit c/d	30,250	Credit (W.N.3)	<u>35,000</u>	1,51,250
		By Closing stock		40,000
	191,250			1,91,250
To Salaries (300 x 13)	3,900	By Gross profit b/d		30,250
To Rent (₹ 4,000 – ₹ 1,000)	3,000			
To Sundry Expenses (50 x 13)	650			

To Loss of cash by theft	17,400			
To Net Profit (b.f.)	5,300			
	30,250			30,250

Balance Sheet of Sri Srinivas

as on 31st March, 20X2

Liabilities		₹	Assets	₹
Capital as on 1.1.20X2	1,00,000		Furniture	10,000
Add : Profit	5,300		Stock	40,000
	1,05,300		Debtors	30,000
Less : Drawings	(1,300)	1,04,000	Cash at bank	60,500
Liabilities for goods		36,500		
		1,40,500		1,40,500

Working Notes:

(1) Purchases

Creditors Account

		₹	₹
To Bank A/c	75,000	By Balance b/d	20,500
To Balance c/d	36,500	By Purchases A/c (Bal. fig.)	91,000
	1,11,500		1,11,500

(2) Total sales

	₹
Opening stock	70,000
Add : Purchases	91,000
	1,61,000
Less : Closing stock	(40,000)
Cost of goods sold	1,21,000
Add : Gross profit @ 25% on cost	30,250
Total Sales	1,51,250

(3) **Credit Sales**

Debtors Account

	₹		₹
To Balance b/d	25,000	By Bank A/c	30,000
To Sales A/c (Bal. fig.)	35,000	By Balance c/d	30,000
	60,000		60,000

(4) **Cash Sales**

	₹
Total sales	1,51,250
Less : Credit Sales	(35,000)
Cash sales	1,16,250

(5) **Bank balance as on 31.3.20X2**

	₹		₹
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c (1,25,000 – 30,000)	95,000	By Balance c/d (b.f.)	60,500
	1,39,500		1,39,500

Notes:

1. All purchases are taken on credit basis.
2. In the absence of information about the rate of depreciation, no depreciation has been charged on furniture.
3. The amount defalcated by the cashier may be treated as recoverable from him. In that case, ₹ 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13 week period ending 31st March, 20X2 would amount ₹ 22,700.

Questions

Mr. Anil, a trader keeps his books of account under single entry system. On 31st March, 20X1 his statement of affairs stood as follows :

Liabilities	₹	Assets	₹
Trade Creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		10,00,000

The following was the summary of Cash–book for the year ended 31st March, 20X2:

Receipts	₹	Payments	₹
Cash in Hand and at Bank on 1st April, 20X1	80,000	Payments to Trade Creditors	75,07,000
Cash Sales	73,80,000	Payments for Bills payable	8,15,000
Receipts from Trade Debtors	15,10,000	Sundry Expenses paid	6,20,700
Receipts for Bills Receivable	3,40,000	Drawings	2,40,000
		Cash in Hand and at Bank on 31st March, 20X2	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balance method.

You are also informed about the following balances as on 31st March, 20X2:

	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 20X2 and Balance Sheet as at that date.

Soln.

**In the books of Mr. Anil
Trading and Profit and Loss Account
for the year ended 31st March, 20X2**

	₹			₹
To Opening Stock	6,10,000	By Sales		
To Purchases (W.N. 3)	84,10,000	Cash	73,80,000	
To Gross profit c/d (10% of 93,00,000)	9,30,000	Credit (W.N. 2)	19,20,000	93,00,000
		By Closing stock		6,50,000
	99,50,000			99,50,000
To Sundry expenses (W.N. 6)	5,80,700	By Gross profit b/d		9,30,000
To Discount allowed	36,000	By Discount received		28,000
To Depreciation (15% ₹ 1,00,000)	15,000			
To Net Profit (b.f.)	3,26,300			
	9,58,000			9,58,000

Balance Sheet as at 31st March, 20XX

Liabilities		Amount	Assets		Amount
		₹			₹
Capital			Furniture & Fittings	1,00,000	
Opening balance	2,50,000		Less : Dep.	<u>(15,000)</u>	85,000
Less: Drawing	<u>(2,40,000)</u>		Stock		6,50,000
	10,000		Trade Debtors		1,52,000
Add: Net profit for the years	<u>3,26,300</u>	3,36,300	Bills receivable		75,000
Bills payable		1,40,000	Unexpired insurance		2,000
Trade creditors		6,10,000	Cash in hand & at bank		1,27,300
Outstanding expenses		5,000			
		<u>10,91,300</u>			<u>10,91,300</u>

Working Notes:

1. Bills Receivable Account

	₹		₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors (b.f.)	3,70,000	By Trade creditors (Bills endorsed)	15,000
		By Balance c/d	75,000
	<u>4,30,000</u>		<u>4,30,000</u>

2. Trade Debtors Account

	₹		₹
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales (Bal. fig.)	19,20,000	By Discount allowed	36,000
		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	<u>20,68,000</u>		<u>20,68,000</u>

3. Memorandum Trading Account

	₹		₹
To Opening stock	6,10,000	By Sales	93,00,000
To Purchases (Balancing figure)	84,10,000	By Closing stock	6,50,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		99,50,000

4. Bills Payable Account

	₹		₹
To Cash/Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors (balancing figure)	8,30,000
	9,55,000		9,55,000

5. Trade Creditors Account

	₹		₹
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases (as calculated in W.N. 3)	84,10,000
To Bills receivable	15,000		
To Bills payable	8,30,000		
To Balance c/d (balancing figure)	6,10,000		
	89,90,000		89,90,000

6. Computation of sundry expenses to be charged to Profit & Loss A/c

	₹
Sundry expenses paid (as per cash book)	6,20,700
Add : Prepaid expenses as on 31-3-20X1	2,000
	6,22,700
Less: Outstanding expenses as on 31-3-20X1	(45,000)
	5,77,700

<i>Add</i> : Outstanding expenses as on 31-3-20X2	5,000
	5,82,700
<i>Less</i> : Prepaid expenses as on 31-3-20X2 (Insurance paid till July, 20X2) (6,000 x 4/12)	(2,000)
	5,80,700

Qn

YZ Ltd (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 16,000, 12% debentures of ₹ 100 each outstanding as on 1st April, 20X1, redeemable on 31st March, 20X2.

On 1 April 20X1, the following balances appeared in the books of accounts- Investment in 2,000 9% secured Govt. bonds of ₹ 100 each. DRR is ₹ 1,00,000. Interest on investments is received yearly at the end of financial year.

2,000 own debentures were purchased on 31st March 20X2 at an average price of ₹ 99 and cancelled on the same date.

On 30 March 20X2, the investments were realised at par and the debentures were redeemed on 31st March, 20X2. You are required to write up the following accounts for the year ended 31st March 20X2:

- (1) 12% Debentures Account
- (2) Debenture Redemption Reserve Account
- (3) Debenture Redemption Investments Account.

The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information:

	₹
50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 2022. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries. (Ignore date column)

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
- (c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).
- (d) Underwriting Commission- 2%.
- (e) No. of debentures applied for- 1,50,000.
- (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

Soln

Journal Entries in the books of Libra Ltd.

Journal Entries

Date	Particulars		Amount Dr.	Amount Cr.
			₹	₹
1.5.20X1	Bank A/c To Debenture Application A/c (Application money received on 1,50,000 debentures @ ₹ 100 each)	Dr.	1,50,00,000	1,50,00,000
1.6.20X1	Debenture Application A/c Underwriters A/c To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	Dr. Dr.	1,50,00,000 50,00,000	2,00,00,000
	Underwriting Commission To Underwriters A/c (Commission payable to underwriters @ 2% on ₹ 2,00,00,000)	Dr.	4,00,000	4,00,000
	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	46,00,000	46,00,000
01.06.20X1	Debenture Redemption Investment A/c To Bank A/c (200,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	Dr.	12,00,000	12,00,000

30.9.20X1	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)	Dr.	10,00,000	10,00,000
31.10.20X1	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	1,20,00,000	20,00,000 1,00,00,000
31.3.20X2	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (Refer working note below)	Dr.	7,50,000	7,50,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On ₹ 80,00,000 for 6 months @ 15% = ₹6,00,000

On ₹ 1,20,00,000 for 1 months @ 15% = ₹ 1,50,000

₹7,50,000

3. The following is the trial balance of Mr. Pandit for the year ended 31st March, 2022:

Trial Balance as on 31st March 2022

Particulars	Dr. ₹	Particulars	Cr. ₹
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000
Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000
Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000
Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		
Interest Paid	7,000		
Discount Allowed	3,000		

Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	9,000		
	12,54,000		12,54,000

Additional Information

Stock of finished goods at the end of the year ₹1,00,000.

A provision for doubtful debts is to be created. at 5% on Sundry Debtors. Depreciation on building ₹ 1,000 and ₹ 3,000 on Plant & Machinery to be provided.

Accrued commission of ₹ 12,500 is to be received for the year. Interest has accrued on investment ₹ 15,000.

Salary Outstanding ₹ 2,000 and Prepaid Interest ₹ 1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2022.

ILLUSTRATION 3

On 31st March, 2022 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March, 2022

Particulars	Dr. ₹	Particulars	Cr. ₹
Stock on 1st April 2021			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500
Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		
General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

Stocks on 31st March, 2022 were:

Raw Materials ₹ 16,200

Finished goods ₹ 18,100

Semi-finished goods ₹ 7,800

Salaries and wages unpaid for March 2022 were respectively, ₹ 900 and ₹ 2,000

Machinery is to be depreciated by 10% and office furniture by 7 1/2 %

Provision for doubtful debts is to be maintained @ 1% of sales

Office premises occupy 1/4 of total area.

Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2022.

SOLUTION

In the books of Mr. White
Manufacturing Account for the year ended 31st March, 2022

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	7,800
To Opening Stock of Raw Materials	21,000		By Sale of Scrap	2,500
<i>Add:</i> Purchases	85,000		By Cost of goods Manufactured	
<i>Less:</i> Closing Stock	16,200	89,800	(Transferred to Trading Account)	1,19,000
To Opening Stock of WIP		9,500		
To Wages	13,000			
<i>Add:</i> Outstanding Wages	2,000	15,000		
To Carriage on Purchases		1,500		
To Repairs to Plant		1,100		
To Rent (3/4)		4,500		

To Lighting (2/3)		900		
To Depreciation of Plant		7,000		
		1,29,300		1,29,300

Trading Account for the year ended 31st March, 2022

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	15,500	By Sales	1,67,200
To Cost of goods transferred from Manufacturing A/c	1,19,000	By Closing Stock of finished goods	18,100
To Gross Profit c/d	50,800		
	1,85,300		1,85,300

Profit and Loss Account for the year ended 31st March, 2022

Particulars		₹	Particulars	₹
To Salaries	10,000		By Gross Profit b/d	50,800
Add: Outstanding	900	10,900	By Commission	450
To Telephone & Postage		1,000		
To Repairs to Furniture		350		
To Depreciation of furniture		750		
To Rent (1/4)		1,500		
To Lighting (1/3)		450		
To General Expenses		1,500		
To Provision for doubtful Debts: Required (1 % of ₹1,67,200)	1,672			
Less: Existing Provision	1,650	22		
To Net Profit		34,778		
		51,250		51,250

Balance Sheet as at 31st March, 2022

Capital and Liabilities		₹	Assets		₹
Capital Account	1,00,000		Plant & Machinery	70,000	
<i>Add: Net Profit</i>	34,778	1,34,778	<i>Less: Depreciation</i>	7,000	63,000
Bank Loan		8,500	Office Furniture	10,000	
Sundry Creditors		15,000	<i>Less: Depreciation</i>	750	9,250
Bills Payable		7,500	Closing Stock		
Salary Payable		900	Raw Materials		16,200
Wages Payable		2,000	Work in Progress		7,800
			Finished Goods		18,100
			Sundry Debtors	24,000	
			<i>Less: Provision for Bad & Doubtful Debts</i>	1,672	22,328
			Bills Receivable		15,000
			Cash at Bank		17,000
		1,68,678			1,68,678

NOTE: The ICAI has, through technical guide (issued in June, 2022) provided guidance on the formats of financial statements for non-corporate entities. This would enable these entities to communicate their financial performance and financial position in standardised formats thereby enhancing their consistency and comparability. The said format of financial statements has been given as **Annexure – I** at the end of the chapter for awareness of students. It may be noted that this format does not form part of syllabus and has been given here for the knowledge of students only.