2020

FUNDAMENTALS OF ACCOUNTING

CA FOUNDATION

ALL MOCK TEST PAPERS, EXAM PAPERS AND RTPS FROM 2018 to 2020

ALL MOCK TEST PAPERS, EXAM PAPERS AND RTPS FROM 2018 to 2020

PRINCIPLES AND PRACTICE OF ACCOUNTING

INDEX

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

(Time allowed: 3 Hours) **(100 Marks)**

Question No. **1** is compulsory.

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

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

Working Notes should form part of the answer.

1. (a) State with reasons whether the following statements are True or False:

   i. Inventory Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

   ii. The Sales book is kept to record both cash and credit sales.

   iii. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

   iv. If a partner retires, then other partners have a gain in their profit sharing 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.

   vi. Accrual concept implies accounting on cash basis. **(6 Statements x 2 Marks = 12 Marks)**

   (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

   (4 Marks)

   (c) Calculate the missing amount for the following.

	Assets	Liabilities	Capital
(a)	30,00,000	5,00,000	?
(b)	?	3,00,000	1,50,000
(c)	29,00,000	?	27,50,000
(d)	1,14,00,000	(5,60,000)	?

(4 Marks)

2. (a) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 50,00,000. The company write off 20% on the original cost per annum. The company follows the calendar year as its financial year. You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

   (b) On 30th September, 2017, the bank account of Neel, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank.

Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2017 was credited by the bank only on 3rd October, 2017
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2017, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2017.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.
5. On 6th September, 2017, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2017 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2017 but not presented for payment upto that date totalled Rs. 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, 2017 and

(b) to prepare a bank reconciliation statement as on that date.

(10 Marks +10 Marks= 20 Marks)

3. (a) Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs.
Carriage	20,000
Freight	60,000
Loading charges	20,000

Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:

Clearing charges	17,000
Warehousing and storage	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan.

(b) A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth Rs. 60,000 to B incurring expenses amounting to Rs. 2,000 for freight and insurance. During transit goods costing Rs. 5,000 became damaged (having no residual value) and a sum of Rs. 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance Inventories lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the share of profit of the joint venture, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totalled

Rs. 1,000. B had earlier remitted an advance of Rs. 10,000. B duly paid the balance due to A by Bank Draft.

You are required to prepare the following accounts in A's books:

(i) Joint Venture Account and

(ii) B's Account. **(10 + 10 = 20 Marks)**

4. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2013. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2017 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2013.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2014	2015	2016	2017
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2017. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2017 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2017

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin. **(20 Marks)**

5. (a) Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000

		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2018 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2018 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for Rs. 40,000.

(b) (i)

Share capital	18,00,000
Preference shareholders	10,00,000
10% debentures	4,00,000
Loan from bank	24,00,000
Reserves	8,00,000

You are required to compute the Capital Gearing Ratio.

(ii) From the following information, calculate inventory turnover ratio:

Inventory in the beginning	108,000	Inventory at the end	1,32,000
Net purchases	2,76,000	Carriage inwards	24,000
Wages	84,000		

(12 + 4+4 = 20 Marks)

6. (a) On 1st June, 2017, Suraj Ltd. issued 86,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 20 on allotment;

First call of Rs. 30 on 1st Dec, 2017; and

Second and final call of Rs. 30 on 1st March, 2018.

By 20th July, 80,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

You are required to journalise the transactions when accounts were closed on 31st March, 2018.

(10 Marks)

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

Rs. 40 on application

Rs. 50 on allotment

Record necessary journal entries regarding issue of debenture. **(5 Marks)**

(c) Explain in brief objectives of preparing Trial Balance.

Or

What are the rules of posting of journal entries into the Ledger? Explain in brief. **(5 Marks)**

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. **1** is compulsory.

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

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

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

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

1 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.

2. Accrual concept implies accounting on cash basis.

3 Fixed Assets Turnover ratio indicates the firm's ability of generating sales per rupee of long term investment

4 Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash- Current Liabilities.

5 Partners can share profits or losses in their capital ratio, when there is no agreement.

6. Consignment account is of the nature of real 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) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth Rs. 500 from M not recored in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.

(v) Goods worth Rs. 5000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500. ***(4 Marks)***

2 (a) M/s Ram took lease of a quarry on 1-1-2016 for Rs. 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2016	4,000 tonnes
2017	20,000 tonnes
2018	30,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2016 to 2018.

(b) Physical verification of stock in a business was done on 23rd June, 2018. The value of the stock was Rs. 48,00,000. The following transactions took place between 23rd June to 30th June, 2018:

(i) Out of the goods sent on consignment, goods at cost worth Rs. 2,40,000 were unsold.

(ii) Purchases of Rs. 4,00,000 were made out of which goods worth Rs. 1,60,000 were delivered on 5th July, 2018.

(iii) Sales were Rs. 13,60,000, which include goods worth Rs. 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2018, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However goods costing Rs. 2,40,000 had been sold for Rs. 1,20,000.

You are required to determine the value of stock on 30th June, 2018.

(10 Marks +10 Marks = 20 Marks)

3 (a) From the following details calculate the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
28th January, 2018	5,000	1 month
20th March, 2018	4,000	2 months
12th July, 2018	7,000	1 month
10th August, 2018	6,000	2 months

(5 Marks)

(b) Deepak and Om enter into a joint venture to take a building contract for Rs. 12,00,000. They provide the following information regarding the expenditure incurred by them:

	Deepak Rs.	Om Rs.
Materials	3,40,000	2,50,000
Cement	65,000	85,000
Wages	-	1,35,000
Architect's fees	50,000	-
License fees	-	25,000
Plant	-	1,00,000

Plant was valued at ₹ 50,000 at the end of the contract and Om agreed to take it at that value. Contract amount ₹ 12,00,000 was received by Deepak. Profits or losses to be shared equally. You are asked to show:

(i) Joint Venture Account and Om's Account in the books of Deepak.

(ii) Joint Venture Account and Deepak's Account in the books of Om.. ***(15 Marks)***

4. (a) The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2017 stood as follows:

Liabilities		Amount	Assets		Amount
		Rs.			Rs.
Capital:			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Advertisement suspense		37,800

Amrish	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Amrish died on 31 March, 2018, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings be appreciated by 50%.

(ii) Investment be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(vi) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceeding the year of death.

The profits of the last five years are as follows:

Year	Rs.
2013	23,000
2014	28,000
2015	18,000
2016	16,000
2017	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of Rs.1,000 is payable every year on 1st August.

You are required to pass necessary Journal Entries in the books of account of the reconstituted firm.

(b) The following information of M/s. TT Club are related for the year ended 31st March, 2018:

(1)

Balances	As on 01-04-2017 (Rs.)	As on 31-3-2018 (Rs.)
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

(2) Subscription received during the year Rs. 3,75,000

(3) Payments for Sports Material during the year Rs. 2,25,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

(12 + 8 =20 Marks)

5 (a) The trial balance of Kumar as at 31st December, 2017 is as follows:

	Dr.	Cr.
	Rs.	Rs.
Kumar's capital account	-	38,345
Stock 1st January, 2017	23,400	-
Sales	-	1,94,800
Returns inward	4,300	-
Purchases	1,60,850	-
Returns outward	-	2,900
Carriage inwards	9,800	-
Rent & taxes	2,350	-
Salaries & wages	4,650	-
Sundry debtors	12,000	-
Sundry creditors	-	7,400
Bank loan @ 14% p.a.	-	10,000
Bank interest	550	-
Printing and stationary expenses	7,200	-
Bank balance	4,000	-
Discount earned	-	2,220
Furniture & fittings	2,500	-
Discount allowed	900	-
General expenses	5,725	-
Insurance	650	-
Postage & telegram expenses	1,165	-
Cash balance	190	-
Travelling expenses	435	-
Drawings	15,000	-
	2,55,665	2,55,665

The following adjustments are to be made:

(1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(2) Personal purchases of Kumar amounting to Rs. 300 had been recorded in the purchases day book.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Included amongst the debtors is Rs. 1,500 due from Dyal and included among the creditors Rs. 500 due to him.

(5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(6) Credit purchase invoice amounting to Rs. 200 had been omitted from the books.

(7) Stock on 31.12.2017 was Rs. 39,300.

(8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & profit and loss account for the year ended 31.12.2017.

(b) With the help of the following information complete the Balance Sheet of MNOP Ltd.:

Equity share capital	Rs. 1,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.40
Total debt to owner's equity	0.60
Fixed assets to owner's equity	0.60
Total assets turnover	2 Times
Inventory turnover	8 Times

(12 + 8= 20 Marks)

6. (a) On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2017; and

Rs. 25 on 1st February, 2018.

By 20th May, 40,000 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. Journalise the transactions when accounts were closed on 31st March, 2018. ***(10 Marks)***

(b) Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company. ***(5 Marks)***

(c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? ***(5 Marks)***

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) **State** with reasons whether the following statements are **True or False:**

(i) 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.

(iii) Accrual concept implies accounting on cash basis.

(iii) Finished goods are normally valued at cost or market price whichever is higher.

(iv) Discount at the time of retirement of a bill is a gain for the drawee.

(v) Partners can share profits or losses in their capital ratio, when there is no agreement.

(vi) Receipts and Payments Account highlights total income and expenditure.

(6 Statements x 2 Marks = 12 Marks)

(b) Explain Cash and Mercantile system of accounting. **(4 Marks)**

(c) Prepare Journal Entries for the following transactions in the books of Gamma Bros.

(i) Employees had taken stock worth Rs. 10,000 (Cost price Rs. 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery Rs. 8,000.

(iii) Income tax liability of proprietor Rs. 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of Rs. 2,000. He allowed 10% trade discount, Rs. 50 cash discount was also allowed for quick payment. **(4 Marks)**

2. (a) M/s Kedar, Profit and loss account showed a net profit of Rs. 8,00,000, after considering the closing stock of Rs. 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing Rs. 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March, 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017.

(b) The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of Rs. 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

(10 Marks +10 Marks = 20 Marks)

3. (a) On 1st January, 2018, X's account in Y's ledger showed a debit balance of Rs. 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2018:

2018			Rs.
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
Feb.	07	X returned goods to Y	1,000
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2018 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2018, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

(b) Mr. B accepted a bill for Rs. 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 Rs. 9,800.

On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that Rs. 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%.

Prepare Journal Entries in the books of Mr. A **(10 Marks +10 Marks = 20 Marks)**

4. (a) The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2018 was as follows:

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

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

(a) C should get 1/5th of share of profits.

(b) C brought Rs. 2,40,000 as his capital and Rs. 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

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

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

(d) Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

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

(b) Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2017 has been given below:

On 1.4.2016 he had a balance of Rs.2,00,000 advance from customers of which Rs.1,50,000 is related to year 2016-17 while remaining pertains to year 2017-18. During the year 2016-17 he made cash sales of Rs. 5,00,000. You are required to compute:

(i) Total income for the year 2016-17.

(ii) Total money received during the year if the closing balance in Advance from customers Account is Rs. 1,70,000. **(12 Marks + 8 Marks = 20 Marks)**

5. (a) A doctor, after retiring from govt. service, started private practice on 1st April, 2017 with Rs. 20,000 of his own and Rs. 30,000 borrowed at an interest of 15% 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:

	Rs.		Rs.
Own capital	20,000	Medicines purchased	24,500
Loan	30,000	Surgical equipments	25,000
Prescription fees	52,500	Motor car	32,000
Gifts from patients	13,500	Motor car expenses	12,000
Visiting fees	25,000	Wages and salaries	10,500
Fees from lectures	2,400	Rent of clinic	6,000
Pension received	30,000	General charges	4,900
		Household expenses	18,000
		Household Furniture	2,500
		Expenses on daughter's marriage	21,500
		Interest on loan	4,500
		Balance at bank	11,000
		Cash in hand	1,000
	1,73,400		1,73,400

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2018 and balance sheet as on that date. One-third of the motorcar expense may be treated as applicable to the private use of car and Rs. 3,000 of the wages and salaries are in respect of domestic servants.

The stock of mediciness in hand on 31st March, 2018 was valued at Rs. 9,500.

(b) From the information given below, calculate (i) Current Ratio and (ii) Debt to Equity Ratio:

Net Profit of the year Rs. 80,000, Fixed Assets Rs. 2,00,000; Closing Inventory Rs. 10,000; Other Current Assets Rs. 1,00,000; Current Liabilities Rs. 30,000; Share Capital Rs. 1,70,000; 12% Debenture Rs. 60,000. **(15 Marks +5 Marks = 20 Marks)**

6. (a) Mohan Ltd. invited applications for 15 lakhs shares of Rs. 100 each payable as follows :

	Rs.
On Application	20
On Allotment (on 1st June, 2017)	30
On First Call (on 1st Nov., 2017)	30
On Final Call (on 1st March., 2018)	20

All the shares were applied for and allotted. A shareholder holding 30,000 shares paid the whole of the amount due along with allotment.

You are required to **prepare** the journal entries for the above-mentioned transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st March, 2018.

(b) Riya Limited issued 20,000 14% Debentures of the nominal value of Rs.1,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of Rs. 50,00,000.

(b) To a vendor for purchase of fixed assets worth Rs. 20,00,000 – Rs. 25,00,000 nominal value.

(c) To the banker as collateral security for a loan of Rs. 20,00,000 – Rs. 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

(c) From the following particulars, **prepare** a Bank Reconciliation Statement for Pathak Ltd. As on 31.3.2017

(1) Balance as per cash book is Rs. 1,20,000.

(2) Cheques issued but not presented in the bank amounts to Rs. 68,000.

(3) Bank charges amounts to Rs. 300.

(4) Interest credited by bank amounts to Rs. 1,500. **(10 + 5 + 5 = 20 Marks)**

OR

(c) Difference between Going Concern Concept and Cost Concept.

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons whether the following statements are True or False:

(i) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

(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) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.

(vi) Quick ratio is also known as Cash Ratio. ***(6 statements x 2 Marks = 12 Marks)***

(b) Explain in brief objective and advantages of setting Accounting Standards. ***(4 Marks)***

(c) A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to Rs. 50,000. The following facts were established between 31st March and 15th April, 2018.

(i) Sales Rs. 41,000 (including cash sales Rs. 10,000)

(ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)

(iii) Sales Return Rs. 1,000.

(iv) On 15th March, goods of the sale value of Rs. 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.

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, 2018. ***(4 Marks)***

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

2017		Rs.
April 1	Received Rs. 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

(b) On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

(a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.

(b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.

(c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

(d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.

(e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

(10 Marks + 10 Marks= 20 Marks)

3 (a) 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 Rs. 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to Rs. 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 12,000. 10% of consignment goods of the value of Rs. 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. ***(10 Marks)***

(b) A and B entered into a joint venture to buy and sell mobile sets, on 1st July, 2017.

On 1.7.2017, A sent a draft for Rs. 3,75,000 in favour of B, and on 4.7.2017, the latter purchased 200 sets each at a cost of Rs. 3,000 each. The sets were sent to A by lorry under freight "to pay" for Rs. 3,000 and were cleared by A on 15.7.2017.

A effected sales in the following manner:

Date	**No. of sets**	**Sale price per set**	**Discount on sale price**
16.7.2017	3	4,500	10%
31.7.2017	80	4,200	-
15.8.2017	80	4,050	5%

On 25.8.2017, A settled the account by sending a draft in favour of B, profits being shared equally. B does not maintain any books.

You are required to prepare in A's books:

(i) Joint Venture with B A/c; and

(ii) Memorandum Joint Venture A/c. ***(10 Marks)***

4. Smith Library Society showed the following position on 31st March, 2018:

Balance Sheet as on 31st March, 2018

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2019 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2019 and a balance sheet as at 31s, March, 2019 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2018 for Rs. 40,000. ***(20 Marks)***

5 (a) Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2019 is as under:

Liabilities		**Rs.**	**Assets**	**Rs.**
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2019. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at Rs.1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs.15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be Rs. 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(b) The following information of Hari Ltd. as on Dec 31st 2017 is given as below:

Equity and Liabilities			Assets	Rs.
Shareholder's Funds		1,12,500	Current Assets	1,50 ,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	1,12,500	2,62,500		
		3,75,000		3,75,000

Net sales	5,62,500
Interest Expense	6,000
Net Profit	39,375

On Dec 31st 2016, Total Assets were Rs.3,00,000 and the tax rate is 40%.

You are required to compute the following ratios of Hari Ltd. as on Dec. 31st 2017.

(i) Long Term Debt to Total Assets Ratio

(ii) Net Profit Ratio

(iii) Return on Average Total Assets

(iv) Return on Equity

(v) Net Sales to Total Assets. ***(10 + 10 = 20 Marks)***

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

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company. ***(10 Marks)***

(b) Pihu Ltd. issued 300 lakh 8% debentures of Rs.100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : Rs. 50 on application and Rs. 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures. ***(5 Marks)***

(c) Explain the differences between Money measurement concept and Matching Concept

Or

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

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

1. (a) State with reasons whether the following statements are True or False:

   i. Capital + Long Term Liabilities= Fixed Assets + Current Assets + Cash- Current Liabilities.

   ii. Consignment account is of the nature of real account.

   iii. The Sales book is kept to record both cash and credit sales.

   iv. In the calculation of average due date, only the due date of first transaction must be taken as the base date.

   v. If a partner retires, then other partners have a gain in their profit sharing ratio.

   vi. Net income in case of persons practicing vocation is determined by preparing profit and loss account. **(6 Statements x 2 Marks = 12 Marks)**

   (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

   (4 Marks)

   (c) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

   (i) Sale of furniture credited to Sales Account.

   (ii) Purchase worth Rs. 500 from M not recorded in subsidiary books.

   (iii) Credit sale wrongly passed through the Purchase Book.

   (iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.

   (v) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500. **(4 Marks)**

2. (a) M/s Ram took lease of a quarry on 1-1-2016 for Rs. 2,00,00,000. As per technical estimate the total quantity of mineral deposit is 4,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2016	4,000 tonnes
2017	20,000 tonnes
2018	30,000 tonnes

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2016 to 2018.

(b) On 30th September, 2017, the bank account of Neel, according to the bank column of the Cash-Book, was overdrawn to the extent of Rs. 8,124. On the same date the bank statement showed a debit balance of Rs. 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for Rs. 26,28,000 deposited on 29th September, 2017 was credited by the bank only on 3rd October, 2017
2. A payment by cheque for Rs. 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2017, the bank credited an amount of Rs. 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2017.
4. Bank charges amounting to Rs. 1,160 had not been entered in the Cash Book.
5. On 6th September, 2017, the bank credited Rs. 40,000 to Neel in error.
6. A bill of exchange for Rs. 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2017 but no entry had been made in the books of Neel.
7. Cheques issued upto 30th September, 2017 but not presented for payment upto that date totalled Rs. 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, 2017 and

(b) to prepare a bank reconciliation statement as on that date.

(10 Marks +10 Marks= 20 Marks)

3. (a) Gagan of Mumbai consigns 2,000 cases of goods costing Rs. 1,000 each to Kumar of Chennai. Gagan pays the following expenses in connection with consignment:

	Rs.
Carriage	20,000
Freight	60,000
Loading charges	20,000

Kumar sells 1,400 cases at Rs. 1,400 per case and incurs the following expenses:

Clearing charges	17,000
Warehousing and storage charges	34,000
Packing and selling expenses	12,000

It is found that 100 cases have been lost in transit and 200 cases are still in transit.

Kumar is entitled to a commission of 10% on gross sales. You are required to prepare the Consignment Account and Kumar's Account in the books of Gagan.

(b) From the following details calculate the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
28th January, 2018	5,000	1 month
20th March, 2018	4,000	2 months
12th July, 2018	7,000	1 month
10th August, 2018	6,000	2 months

(c) Prepare Journal entries for the following transactions in K. Katrak's books.

(i) Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.

(ii) G. Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs. 20 noting charges. Bill withdrawn against cheque.

(iii) D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak for Rs. 10 discount.

(iv) Katrak's acceptance to Patel for Rs. 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount. **(10 + 5 + 5 = 20 Marks)**

4. A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows:

	Rs.		Rs.
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		5,50,000

From 1st January, 2019 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at Rs. 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet. **(20 Marks)**

5. (a) From the following receipts and payments account of Mumbai Club, prepare income and expenditure account for the year ended 31.12.2018 and its balance sheet as on that date:

Receipts	Rs.	Payments	Rs.
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500

Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Billiard table	8,000
Sale of old newspaper	150	Paper, ink etc.	150
Sale of drama tickets	1,050	Drama expenses	500
		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

Information:

1. Subscriptions in arrear for 2018 Rs. 900 and subscriptions in advance for 2019 Rs. 350.
2. Insurance premium outstanding Rs. 40.
3. Misc. expenses prepaid Rs. 90.
4. 50% of donation is to be capitalized.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for five months.
7. Billiard table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.

(b) From the below mentioned information, prepare a Trading Account of M/s. Ketan Traders for the year ended 31st March, 2019:

	Rs.
Opening Inventory	1,50,000
Purchases	10,08,000
Carriage Inwards	45,000
Wages	75,000
Sales	16,50,000
Returns inward	1,50,000
Returns outward	1,08,000
Closing Inventory	3,00,000

(c) 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 Rs. 80,000.

(ii) On 31st December, stock sheet showed the following discrepancies:

(a) A page total of Rs. 5,000 had been carried to summary sheet as Rs. 6,000.

(b) The total of a page had been undercast by Rs. 200.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled Rs. 70,000. Out of this Rs. 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled Rs. 4,000.

(iv) Sales invoiced to customers totalled Rs. 90,000 from January to March, 2018. Of this Rs. 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled Rs. 4,000.

(v) During the final quarter, credit notes at invoiced value of Rs. 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. **(12 + 4+4 = 20 Marks)**

6. (a) On 1st April, 2017, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2017; and

Rs. 25 on 1st February, 2018.

By 20th May, 40,000 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. Journalise the transactions when accounts were closed on 31st March, 2018. **(10 Marks)**

(b) Simmons Ltd. issued 1,00,000, 12% Debentures of Rs.100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company. **(5 Marks)**

(c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? **(5 Marks)**

Test Series: May, 2020

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Time Allowed: 3 Hours **Maximum Marks: 100**

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

(i) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

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

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

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

(v) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

(vi) Re-issue of forfeited shares is allotment of shares but not a sale.

(6 Statements x 2 Marks = 12 Marks)

(b) Explain the objective of "Accounting Standards" in brief. **(4 Marks)**

(c) 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 @ Rs. 100.
09.01.2020		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ Rs. 40.
16.01.2020	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ Rs. 260.
30.01.2020		Returned one typewriter (being defective) @ Rs. 3,500 to B & Co.

(4 Marks)

2. (a) 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 Rs. 50,000. The following facts were established between 31st March and 15th April, 2020.

(i) Sales Rs. 41,000 (including cash sales Rs. 10,000)

(ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)

(iii) Sales Return Rs. 1,000.

(iv) On 15th March, goods of the sale value of Rs. 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 Rs. 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by 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.

(b) A Plant & Machinery costing Rs. 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 Rs. 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year.

(c) Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2020 from the particulars given below:

(i) The Bank Pass Book had a debit balance of Rs. 25,000 on 30th June, 2020.

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

(iii) Out of cheques issued worth Rs. 34,000, cheques amounting to Rs. 20,000 only were presented for payment till 30th June, 2020.

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

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

(1) Cheques collected before 30th June, 2020, Rs. 14,000

(2) Cheques collected on 10th July, 2020, Rs. 4,000

(3) Cheques collected on 12th July, 2020, Rs. 2,000.

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

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

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

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

(5+5 + 10 = 20 Marks)

3. (a) Raj of Gwalior consigned 15,000 kgs of Ghee at Rs. 30 per kg to his agent Siraj at Delhi. He spent Rs. 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. Rs. 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Siraj sold 7,500 kgs. at Rs. 60 per kg. He spent Rs. 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) The amount of abnormal loss

(ii) Value of stock at the end and

(iii) Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.

(b) Mr. A owed Rs. 4,000 on 1st January, 2020 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.

	Rs.
15 January, 2020 Mr. X sold goods to Mr. A	2,230
29 January, 2020 Mr. X bought goods from Mr. A	1,200
10 February, 2020 Mr. A paid cash to Mr. X	1,000
13 March, 2020 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, 2020.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

(c) Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2019.

December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - Rs. 80,000

December 10th - Goods returned by customers Rs. 35,000

December 17th - Received letters from customers for approval Rs. 35,000

December 23rd - Goods with customers awaiting approval Rs. 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2019. Considered that the transaction values are at involve price (including profit margin).

(10 + 5 + 5 = 20 Marks)

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

Zoya died on 30th June 2020. The Balance Sheet of Firm as at 31st March 2020 stood as

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

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

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

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

(iii) Stock is valued at Rs. 13,500

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

(v) Zoya's share of profit from 1st April 2020, to the date of death be calculated on the basis of average profit of preceding three years.

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

2020	2019	2018	2017	2016
25,000	20,000	22,500	35,000	28,750

You are required to prepare: (1) Revaluation account and (2) Capital accounts of the partners as at 1st July 2020.

(b) Following particulars are extracted from the books of Mr. Sandeep for the year ended 31st December, 2020.

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

Other information :

(i) Closing stock was valued at Rs. 4,500.

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

(iii) Commission received in advance is Rs. 100.

(iv) Interest accrued on investment is Rs. 210.

(v) Interest on overdraft is unpaid Rs. 300.

(vi) Provision for bad debts is to be kept at Rs. 1,000 .

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

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

(8 + 12 = 20 Marks)

5. (a) Smith Library Society showed the following position on 31st March, 2019:

Balance Sheet as on 31st March, 2019

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2020 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank 25,000		By Postage and stationary	5,000
Cash in hand 25,000	50,000	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	11,300
	3,09,500		3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2020 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2019 for Rs. 40,000.

(b) Following information is provided for M/s. Kumar Traders for the year ended 31st March, 2019:

	Rs.
Opening Inventory	1,00,000
Purchases	6,72,000
Carriage Inwards	30,000
Wages	50,000
Sales	11,00,000
Returns inward	1,00,000
Returns outward	72,000
Closing Inventory	2,00,000

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

(15 + 5 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) X Ltd. forfeited 300 shares of Rs. 10 each fully called up, held by Ramesh for non-payment of allotment money of Rs. 3 per share and final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were re-issued to Suresh for Rs. 8 per share.

(ii) Mr. P, who was the holder of 2,500 preference shares of Rs. 100 each, on which Rs. 70 per share has been called up, could not pay his dues on Allotment and First call each at Rs. 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at Rs. 60 per share paid-up as Rs. 70 per share.

(b) Pure Ltd. issues 1,00,000 12% Debentures of Rs. 10 each at Rs. 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.

(c) Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

(10 + 5 + 5 = 20 Marks)

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. **1** is compulsory.

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

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

Working Notes should form part of the answer.

(Time allowed: 3 Hours) **(100 Marks)**

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

1 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.

2. Discount at the time of retirement of a bill is a gain for the drawee.

3 Receipts and Payments Account highlights total income and expenditure.

4 Capital + Long Term Liabilities = Fixed Assets + Current Assets + Cash - Current Liabilities.

5 Partners can share profits or losses in their capital ratio, when there is no agreement.

6. Accrual concept implies accounting on cash basis. **(6 Statements x 2 Marks = 12 Marks)**

(b) Prepare Journal Entries for the following transactions in the books of Symphony Bros. for the year ending 31st March, 2020

(i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Goods distributed by way of free samples ₹ 2,000.

(iii) Income tax liability of proprietor ₹ 1,400 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment. **(4 Marks)**

(c) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

(4 Marks)

2. (a) Physical verification of stock in a business was done on 14th June, 2020. The value of the stock was ₹96,00,000. The following transactions took place between 14th June to 30th June, 2020:

(i) Out of the goods sent on consignment, goods at cost worth ₹ 4,80,000 were unsold.

(ii) Purchases of ₹ 8,00,000 were made out of which goods worth ₹ 3,20,000 were delivered on 5th July, 2020.

(iii) Sales were ₹27,20,000, which include goods worth ₹ 6,40,000 sent on approval. Half of these goods were returned before 30th June, 2020, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However goods costing ₹ 4,80,000 had been sold for ₹ 2,40,000.

You are required to determine the value of stock on 30th June, 2020.

(b) On 31st March 2020, the bank account of Chandan, according to the bank column of the Cash-Book, was overdrawn to the extent of ₹ 4,062. On the same date the bank statement showed a debit balance of ₹ 20,758 in favour of Chandan. An examination of the Cash Book and Bank statement reveals the following:

1. A cheque for ₹ 13,14,000 deposited on 29th March,2020 was credited by the bank only on 4th April ,2020

2. A payment by cheque for ₹ 16,000 has been entered twice in the Cash Book.

3. On 29th March, 2020, the bank credited an amount of ₹ 1,17,400 received from a customer of Chandan, but the advice was not received by Chandan until 1st April, 2020.

4. Bank charges amounting to ₹ 580 had not been entered in the Cash Book.

5. On 6th March, 2020, the bank credited ₹ 20,000 to Chandan in error.

6. A bill of exchange for ₹ 1,40,000 was discounted by Chandan with his bank. This bill was dishonoured on 28th March, 2020 but no entry had been made in the books of Chandan.

7. Cheques issued upto 31st March, 2020 but not presented for payment upto that date totalled ₹ 13,26,000.

You are required :

(a) to show the appropriate rectifications required in the Cash Book of Chandan, to arrive at the correct balance on 31st March,2020 and

(b) to prepare a bank reconciliation statement as on that date. **(10 +10 = 20 Marks)**

3 (a) Gagandeep of Delhi consigned to Mandeep of Ludhiana, goods to be sold at invoice price which represents 125% of cost. Mandeep 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 Gagandeep were ₹ 15,000. The account sales received by Gagandeep shows that Mandeep 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 Ludhiana godown. Mandeep remitted the balance in favour of Gagandeep.

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

(b) On 1st January, 2020, Ankur account in Varun ledger showed a debit balance of ₹ 2,500. The following transactions took place between Varun and Ankur during the quarter ended 31st March, 2020:

2020		₹
Jan. 11	Varun sold goods to Ankur	3,000
Jan. 24	Varun received a promissory note from Ankur due after 3 months	2,500
Feb. 01	Ankur sold goods to Varun	5,000
Feb. 04	Varun sold goods to Ankur	4,100
Feb. 07	Ankur returned goods to Varun	500

March 01	Ankur sold goods to Varun	2,800
March 18	Varun sold goods to Ankur	4,600
March 23	Ankur sold goods to Varun	2,000

Accounts were settled on 31st March, 2020 by means of a cheque. Prepare an Account Current to be submitted by Varun to Ankur as on 31st March, 2020, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee. **(12 + 8 = 20 Marks)**

4. (a) The following information of M/s. Rose 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	2,25,000	3,37,500
Amount due for Sports Material	2,02,500	2,92,500
Subscription due	33,750	49,500
Subscription received in advance	27,000	15,750

(2) Subscription received during the year ₹ 11,25,000

(3) Payments for Sports Material during the year ₹ 6,75,000

You are required to ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020.

(b) P and Q are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of P and Q as on 31.3.2020 was as follow:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	25,800	Building		52,000
Bill Payable	8,200	Furniture		11,600
Bank Overdraft	18,000	Stock-in-Trade		42,800
Capital Accounts:		Debtors	70,000	
P 88,000		Less: Provision	400	69,600
Q 72,000	1,60,000	Investment		5,000
		Cash		31,000
	2,12,000			2,12,000

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

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 50,000.

(ii) The new profit sharing ratio of P, Q and R will be 3 : 2 : 1 respectively.

(iii) 'R' 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 'R's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 1,740 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹3,120. The value of Buildings having appreciated be brought upto ₹ 58,400. The value of investment is increased by ₹ 900.

(v) It is found that the creditors included a sum of ₹ 2,800, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'R'. **(5+15= 20 Marks)**

5 (a) M/s Surya Transport purchased 10 Innova cars at ₹ 4,50,000 each on 1st April 2017. On October 1st 2019, one of the car is involved in an accident and is completely destroyed and ₹ 2,70,000 is received from the insurance in full settlement. On the same date, another car is purchased by the company for the sum of ₹ 5,00,000. The company writes off 20% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the Innova cars account for years ended 31st Dec, 2019 and 31st Dec. 2020.

(b) The following are the balances as at 31st March, 2020 extracted from the books of Mr. Sanjeev.

	₹		₹
Plant and Machinery	39,100	Bad debts recovered	900
Furniture and Fittings	20,500	Salaries	45,100
Bank Overdraft	1,60,000	Salaries payable	4,900
Capital Account	1,30,000	Prepaid rent	600
Drawings	16,000	Rent	8,600
Purchases	3,20,000	Carriage inward	2,250
Opening Stock	64,500	Carriage outward	2,700
Wages	24,330	Sales	4,30,600
Provision for doubtful debts	6,400	Advertisement Expenses	6,700
Provision for Discount on		Printing and Stationery	2,500
debtors	2,750	Cash in hand	2,900
Sundry Debtors	2,40,000	Cash at bank	6,250
Sundry Creditors	95,000	Office Expenses	20,320
Bad debts	2,200	Interest paid on loan	6,000

Additional Information:

1. Purchases include sales return of ₹ 5,150 and sales include purchases return of ₹ 3,450.
2. Goods withdrawn by Mr. Sanjeev for own consumption ₹ 7,000 included in purchases.
3. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
4. Free samples distributed for publicity costing ₹ 1,650.
5. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
6. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 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.

7. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2020 and a Balance Sheet as on that date. **(6 + 14 = 20 Marks)**

6. (a) Alpha Limited registered with an authorized equity capital of ₹ 4,00,000 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, two shareholders failed to pay the amount on 100 shares each held by them and another shareholder with 100 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.

(b) Aditya Limited issued 20,000 9% Debentures of the nominal value of ₹1,00,00,000 as follows:

(a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.

(b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

(c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries.

(c) Distinguish between Money Measurement concept and Matching concept.

(10 + 5 + 5 = 20 Marks)

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) False - Inventory Turnover Ratio measures the efficiency of the firm to manage its inventory Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

(ii) False- The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(iii) False- While calculating the average due date, any transaction date may be taken as the base date.

(iv) True- If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(v) False- 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 amount received on shares forfeited.

(vi) False- Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) Using the Accounting Equation:

Assets = Capital + Liabilities

(i) 25,00,000

(ii) 4,50,000

(iii) 1,50,000

(iv) 1,19,60,000

2. (a) **Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

To find out loss on Profit on settlement of truck

Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

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

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	**2017**		
Sept. 30	To Party A/c	32,000	Sept. 30	By Balance b/d	8,124
	To Customer A/c (Direct deposit)	2,34,800		By Bank charges	1,160
	To Balance c/d	22,484		By Customer A/c (B/R dishonoured)	2,80,000
		2,89,284			2,89,284

(ii) **Bank Reconciliation Statement as on 30th September, 2017**

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484

Add: Cheque deposited but not collected upto 30th Sept., 2017	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

3. (a) In the books of Gagan

Consignment to Kumar of Chennai Account

Particulars	Rs.	Particulars		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
		By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Bank (Expenses)	1,00,000	By Consignment Inventories		
To Kumar (Expenses)	63,000	In hand 300 @ Rs. 1,060 each	3,18,000	
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			25,93,000

Kumar's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	- 1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

Working Notes:

(i) Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.

(ii) Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of Rs. 17,01,000 is not yet paid.

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

Joint Venture Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Purchases (Cost of goods supplied)	60,000	By Bank (Insurance claim)	3,000
To Bank (Expenses)	2,000	By B (Sales)	64,350
To B (Expenses)	1,000	By B (agreed value for damaged goods)	4,546
To B (Commission - 1/21 of Rs. 8,896)	424		
To Profit transferred to:			
Profit & Loss A/c	5,648		
B	2,824		
	71,896		71,896

B's Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000
		By Joint Venture A/c (Expenses)	1,000
To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

Working Note:

Computation of Sales:

	Rs.
Cost of goods sent	60,000
Less: Cost of damaged goods	(5,000)
	55,000
Less: Cost of goods remaining unsold	(5,500)
Cost of goods sold	49,500
Add: Profit @ 30%	14,850
Sales	64,350
Claim for loss of fire admitted by B	
Cost of goods	5,500
Add: Proportionate expenses [(2,000 x 5,500)/60,000]	183
	5,683
Less: 20%	(1,137)
	4,546

4. (i) **Profit and Loss Adjustment Account***

	Rs.		Rs.
To Expenses not provided for (years 2014-2017)	1,10,000	By Income not considered (for years 2014-2017)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) **Partners' Capital Accounts**

	Laurel Rs.	Hardy Rs.	Chaplin Rs.		Laurel Rs.	Hardy Rs.	Chaplin Rs.
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) **Balance Sheet of LH & Co.**

as on 1.4.2017
(After admission of Chaplin)

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

Working Notes:

1. Computation of Profit and Loss distributed among partners

		Rs.
Profit for the year ended	31.3.2014	1,40,000
	31.3.2015	2,60,000
	31.3.2016	3,20,000
	31.3.2017	3,60,000
Total Profit		10,80,000

* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

	Laurel	Hardy	Total
	Rs.	Rs.	Rs.
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

2. **Capital brought in by Chaplin**

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	63,800

5. (a)

Smith Library Society

Income and Expenditure Account
for the year ended 31st March, 2018

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		Less: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities (W.N.2)	8,000	
Furniture	5,000				
Books	46,000	66,000	Add: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Working Notes:

1. **Depreciation**

	Rs.
Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

(b) (i) Capital Gearing Ratio = $\frac{\text{(Preference Share Capital + Debentures + Other Borrowed funds)}}{\text{(Equity Share Capital + Reserves \& Surplus - Losses)}}$

$$= \frac{10,00,000 + 4,00,000 + 24,00,000}{18,00,000 + 8,00,000}$$

= 38, 00,000/26, 00,000

= 19: 13 (highly geared)

(ii) **Inventory Turnover Ratio** = Cost of goods sold/ Average Inventory

Inventory Turnover Ratio = Rs. 3,60,000/ Rs. 1,20,000

= 3 Times

Working notes:

1. Cost of goods sold= Inventory in the beginning + Net Purchases + Wages + Carriage inwards – Inventory at the end

   = Rs. 1,08,000 + Rs. 2,76,000 + Rs. 84,000 + Rs. 24,000 – Rs. 1,32,000

   = Rs. 3,60,000

2. Average Inventory = (Inventory in the beginning + Inventory at the end)/ 2

   = (Rs. 1,08,000 + Rs. 1,32,000)/ 2

   = Rs. 1,20,000

6. (a)

Suraj Ltd.

Journal

2017			Dr. Rs.	Cr. Rs.
July 20	Bank Account	Dr.	16,00,000	
	To Share Application A/c			16,00,000
	(Application money on 80,000 shares at Rs. 20 per share received.)			
Aug 1	Share Application A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(The amount transferred to Capital Account on 80,000 shares Rs. 20 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	16,00,000	
	To Share Capital A/c			16,00,000
	(Being share allotment made due at Rs. 20 per share. Directors' resolution no...... dated ......)			

Sept15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	16,00,000	16,00,000
Dec. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 80,000 shares at Rs. 30 as per Directors, resolution no... dated...)	Dr.	24,00,000	24,00,000
Dec. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	24,00,000	24,00,000
2018 March 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 80,000 share at Rs. 30 per share on second and final call, as per Directors resolution no... dated...)	Dr.	24,00,000	24,00,000
March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 80,000 shares at Rs. 30 per share.)	Dr.	24,00,000	24,00,000

(b) **Books of Pihu Ltd.**

Journal

Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	20,00,00,000	20,00,00,000
Debenture Application A/c To 9% Debentures A/c (Application money transferred to 9% debentures account consequent upon allotment)	Dr.	20,00,00,000	20,00,00,000
Debenture allotment A/c	Dr.	25,00,00,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	
To 9% Debentures A/c (Amount due on allotment)			30,00,00,000
Bank A/c To Debenture Allotment A/c (Money received consequent upon allotment)	Dr.	25,00,00,000	25,00,00,000

(c) The preparation of trial balance has the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

Or

Rules regarding posting of entries in the ledger

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words ‘To’ and ‘By’ while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) 1 False- 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 amount received on shares forfeited.

2. False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

3 False - Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

4 False- The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

5 False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

6. False: Consignment account is a nominal account

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.

The examples in this regard may be given as follows:

Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads.

(c) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

2. (a) **Quarry Lease Account**

Dr.					**Cr.**
2016		**Rs.**	**2016**		**Rs.**
Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c [(4,000/4,00,000) × Rs. 2,00,00,000]	2,00,000
			Dec. 31	By Balance c/d	1,98,00,000

		2,00,00,000			2,00,00,000
2017			2017		
Jan. 1	To Balance b/d	1,98,00,000	Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
2018			2018		
Jan. 1	To Balance b/d	1,88,00,000	Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr. 2016		Rs.	2016		Cr. Rs.
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
2017			2017		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

(b) Statement of Valuation of Stock on 30th June, 2018

		Rs.
Value of stock as on 23rd June, 2018		48,00,000
Add: Unsold stock out of the goods sent on consignment	2,40,000	
Purchases during the period from 23rd June, 2018 to 30th June, 2018	2,40,000	
Goods in transit on 30th June, 2018	1,60,000	
Cost of goods sent on approval basis (80% of Rs. 1,60,000)	1,28,000	7,68,000
		55,68,000
Less: Cost of sales during the period from 23rd June, 2018 to 30th June, 2018		
Sales (Rs. 13,60,000-Rs. 1,60,000)	12,00,000	
Less: Gross profit	96,000	
		11,04,000
Value of stock as on 30th June, 2018		44,64,000

Working Notes:

1.	**Calculation of normal sales:**	Rs.	Rs.
	Actual sales		13,60,000
	Less: Abnormal sales	1,20,000	
	Return of goods sent on approval	1,60,000	2,80,000 10,80,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales 20/100 x Rs. 10,80,000		2,16,000
	Less: Loss on sale of particular (abnormal) goods (2,40,000 less 1,20,000)		1,20,000
	Gross profit		96,000

3. (a) Calculation of Average Due Date

(Taking 3rd March, 2018 as base date)

Date of bill 2018	*Term*	*Due date 2018*	*Amount (Rs.)*	*No. of days from the base date i.e. 3rd March,2018 (Rs.)*	*Product (Rs.)*
28th January	1 month	3rd March	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1month	14th Aug.	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 3rd March, 2018 + $\frac{28,16,000}{22,000}$

= 3rd March, 2018 + 128 days = 9th July, 2018

Working Note:

Bill dated 12th July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

(b) In the books of Deepak

Joint Venture Account

Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**
To Bank A/c:			By Bank A/c	12,00,000
Material	3,40,000		By Om's A/c (plant)	50,000
Cement	65,000			
Architect's fee	50,000	4,55,000		
To Om's A/c:	-			

Material	2,50,000			
Cement	85,000			
Wages	1,35,000			
License fees	25,000			
Plant	1,00,000	5,95,000		
To Net profit transferred to:	-			
Om's A/c	1,00,000			
Profit & Loss A/c	1,00,000	2,00,000		
		12,50,000		12,50,000

Om's Account

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Joint Venture A/c (plant)	50,000	By Joint Venture A/c (sundries)	5,95,000
To Bank A/c	6,45,000	By Joint Venture A/c (profit)	1,00,000
	6,95,000		6,95,000

In the books of Om

Joint Venture Account

Particulars	**₹**	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Deepak's A/c:			By Deepak's A/c (contract amount)	12,00,000
Material	3,40,000		By Plant A/c	50,000
Cement	65,000			
Architect's fee	50,000	4,55,000		
To Bank A/c:	-			
Material	2,50,000			
Cement	85,000			
Wages	1,35,000			
License fees	25,000			
Plant	1,00,000	5,95,000		
To Net profit				

transferred to:				
Deepak's A/c	1,00,000			
Profit & Loss A/c	100,000	2,00,000		
		12,50,000		12,50,000

Dr. **Deepak's Account** ***Cr.***

Particulars	Amount (₹)	Particulars	Amount (₹)
To Joint Venture A/c (contract amount)	12,00,000	By Joint Venture A/c (sundries)	4,55,000
		By Joint Venture A/c (profit)	1,00,000
		By Bank A/c	6,45,000
	12,00,000		12,00,000

4. (a) **Journal Entries**

Particulars		*Amount*	*Amount*
1. Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c			10,000
(Being the policy on the life of Amrish matured on his death)			
2. Life Policy A/c	Dr.	9,000	
To Amitabh's Capital A/c			3,000
To Abhishek's Capital A/c			3,000
To Amrish's Capital A/c			3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)			
3. Amitabh's Capital A/c	Dr.	12,600	
Abhishek's Capital A/c	Dr.	12,600	
Amrish's Capital A/c	Dr.	12,600	
To Advertisement suspense A/c			37,800
(Being Advertisement suspense standing in the books written off fully)			
4. Land & Buildings A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets recorded)			
5. Investment Fluctuation Reserve A/c	Dr.	600	
To Investment A/c			600

	(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6.	Revaluation A/c	Dr.	3,600	
	To Stock A/c			1,200
	To Provision for Doubtful Debts A/c			2,400
	(Being the fall in value of assets recorded)			
7.	Amitabh's Capital A/c	Dr.	3,500	
	Abhishek's Capital A/c	Dr.	3,500	
	To Amrish's Capital A/c			7,000
	(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8.	Profit & Loss Suspense Account	Dr.	1,500	
	To Amrish's Capital A/c			1,500
	(Being Amrish's Share of profit to date of death credited to his account)			
9.	Revaluation A/c	Dr.	33,400	
	To Amitabh's Capital A/c			11,133
	To Abhishek's Capital A/c			11,133
	To Amrish's Capital A/c			11,134•
	(Being the transfer of profit on revaluation)			
10.	General Reserve A/c	Dr.	8,000	
	Investment Fluctuation Reserve A/c (Rs. 2,400 - Rs. 600)	Dr.	1,800	
	To Amitabh's Capital A/c			3,267
	To Abhishek's Capital A/c			3,267
	To Amrish's Capital A/c			3,266
	(Being the transfer of accumulated profits to capital accounts)			
11.	Amrish's Capital A/c	Dr.	53,300	
	To Amrish's Executor's A/c			53,300
	(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Working Notes:

(i) Calculation of Amrish's Share of Profit

Total profit for last three years	Rs. 18,000 + Rs. 16,000 + Rs. 20,000 = Rs. 54,000
Average profit 54,000/3	= Rs. 18,000
Profit for 3 months = 18,000 x 3/12	= Rs. 4,500
Amrish's share of Profit = 4,500 x 1/3	= Rs. 1,500

• Rounded off.

(ii) Calculation of Goodwill

Total profits for last five years	Rs. 1,05,000
Average profit 1,05,000/5	= Rs. 21,000
Goodwill at one year's purchase	Rs. 21,000 x 1 =Rs. 21,000

(b) Subscription for the year ended 31.3.2018

		Rs.
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	Rs.
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: *Purchase of sports material during the year*	2,55,000
	3,30,000
Less: *Stock of sports material on 31.3.2018*	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018(An extract)

Liabilities	*Rs.*	*Assets*	*Rs.*
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

5. (a) Trading and Profit and Loss Account of Mr. Kumar

for the year ended 31st December, 2017

	Rs.	***Rs.***		***Rs.***	***Rs.***
To Opening stock		23,400	By Sales	1,94,800	
To Purchases	1,60,850		*Less:* Returns	4,300	1,90,500
Add: Omitted	200		By Closing stock		39,300
invoice	1,61,050				
Less: Returns	2,900				
	1,58,150				
Less: Drawings	300	1,57,850			
To Freight & carriage		9,800			

To Gross profit c/d		38,750			
		2,29,800			2,29,800
To Rent and taxes		2,350	By Gross profit b/d		38,750
To Salaries and wages		4,650	By Discount		2,220
To Bank interest	550				
Add: Due	850	1,400			
To Printing and stationary	7,200				
Less: Prepaid (1/4)	1,800	5,400			
To Discount allowed		900			
To General expenses		5,725			
To Insurance		650			
To Postage & telegram expenses		1,165			
To Travelling expenses		435			
To Provision for bad debts		575			
[W.N.]					
To Provision for discount on debtors [W.N.]		219			
To Depreciation on furniture & fittings		250			
To Net profit		17,251			
		40,970			40,970

Working Note:

Provision for bad & doubtful debts:

@ 5% on Rs. 11,500 — 575

Provision for discount:

2% on Rs. 10,925 (11,500 -575) — 219

(b) MNOP Ltd Balance Sheet

Liabilities	Rs.	Assets	Rs.
Owner equity	1,00,000	Fixed assets	60,000
Current debt	24,000	Cash	60,000
Long term debt	36,000	Inventory	40,000
	1,60,000		1,60,000

Working Notes

1. Total debt = 0.60 × Owners equity = 0.60 ×Rs. 1,00,000 = Rs. 60,000

   Current debt to total debt = 0.40, hence current debt = 0.40 × 60,000 = 24,000

2. Fixed assets = 0.60 × Owners equity = 0.60 ×Rs. 1,00,000 = Rs. 60,000

3. Total capital employed = Total debt + Owners equity = Rs. 60,000 + Rs. 1,00,000 = Rs. 1,60,000

4. Total assets consisting of fixed assets and current assets must be equal to Rs. 1,60,000 (Assets = Liabilities + Owners equity). Since Fixed assets are Rs. 60,000, hence, current assets should be Rs. 1,00,000

5. $\dfrac{\text{Total assets turnover}}{\text{Inventory turnover}} = \dfrac{2\ \text{Times}}{8\ \text{Times}}$

Hence , Inventory /Total assets = 2/8=1/4,

Total assets = 1,60,000

Therefore Inventory = 1,60,000/4 = 40,000

Balance on Asset side = 1,20,000:

Cash = 1,60,000 – 60,000 – 40,000 = 60,000

6. (a) **A Ltd.**

Journal

2017			*Dr.* Rs.	*Cr.* Rs.
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at Rs. 20 per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Being share allotment made due at Rs. 30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	12,00,000	
	To Share Application and Allotment A/c			12,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	10,00,000	
	To Share Capital Account			10,00,000
	(Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account			10,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c			10,00,000
	(Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c			10,00,000
	(Amount received against the final call on 40,000 shares at Rs.25 per share.)			

(b) In the books of Simmons Limited

Date	*Particulars*		*Rs. '000*	*Rs. '000*
April 1	Bank A/c	Dr.	11,000	
	To 12% Debentures Application A/c			11,000
	(Being money received on 1,10,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	1,000	
	To Bank A/c			1,000
	(Being money on 10,000 debentures refunded as per Board's Resolution No…..dated…)			
April 7	12% Debentures Application A/c	Dr.	10,000	
	To 12% Debentures A/c			10,000
	(Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No….dated…)			

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) **False**- 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 amount received on shares forfeited.

(ii) **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(iii) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

(iv) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(v) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(vi) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

(b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing trandsactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

(c) **Journal Entries in the books of Gamma Bros.**

	Particulars	*Dr.*	*Cr.*
		Amount (Rs.)	*Amount (Rs.)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		

(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for Rs. 2,000 @ 10% trade discount and cash discount of Rs. 50)		

2. (a) **Profit and Loss Adjustment Account**

	Rs.		*Rs.*
To Advertisement (samples)	80,000	By Net profit	8,00,000
To Sales	2,00,000	By Electric fittings	30,000
(goods approved in April to		By Samples	80,000
be taken as April sales)		By Stock (Purchases of March	5,00,000
To Adjusted net profit	16,80,000	not included in stock)	
		By Sales (goods sold in March wrongly taken as April sales)	4,00,000
		By Stock (goods sent on approval basis not included in stock)	1,50,000
	19,60,000		19,60,000

Calculation of value of inventory on 31st March, 2017

	Rs.
Stock on 31st March, 2017 (given)	7,50,000
Add: Purchases of March, 2017 not included in the stock	5,00,000
Goods lying with customers on approval basis	1,50,000
	14,00,000

(b) **Motor Truck A/c**

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

1. To find out loss on Profit on settlement of truck

	Rs.
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000
Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

3. (a) **In the books of Y**

X in Account Current with Y

(Interest to 31st March, 2018 @ 10% p.a)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2018		Rs.		Rs.	2018		Rs.		Rs.
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27th April)	5,000	(27)	(1,35,000)
Jan.11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar.18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar.31	To Interest	219			Mar.23	By Purchases	4,000	8	32,000
					Mar.31	By Balance of Products			7,97,600
					Mar.31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{7,97,600}{365} \times \frac{10}{100} = \text{Rs. } 219 \text{ (approx.)}$$

(b). **Journal Entries in the Books of Mr. A**

Date		Particulars	L.F.	Dr. Amount Rs.	Cr. Amount Rs.
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			

August	1	Bank A/c Dr.	9,800	
		Discount A/c Dr.	200	
		To Bills Receivable		10,000
		(Being the bill discounted for Rs. 9,800 from bank)		
November	4	B Dr.	10,000	
		To Bank Account		10,000
		(Being the B's acceptance is to be renewed)		
November	4	B Dr.	240	
		To Interest Account		240
		(Being the interest due from B for 3 months i.e., 8000x3/12$\times$ 12%=240)		
November	4	Cash A/c Dr.	2,240	
		Bills Receivable A/c Dr.	8,000	
		To B		10,240
		(Being amount and acceptance of new bill received from B)		
December	31	B A/c Dr.	8,000	
		To Bills Receivable A/c		8,000
		(Being B became insolvent)		
December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To B		8,000
		(Being the amount received and written off on B's insolvency)		

4. (a) **Revaluation Account**

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

Capital Accounts of Partners

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

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

A's Share = 5/8 x 4/5 = 20/40 = 5/10

B's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

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

Balance sheet of AB & Co. as on 31.3.2018

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

Working Note:

Required Balance of Capital Accounts

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

C's Share of Profit = 1/5

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

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

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

(b) (i) Computation of Income for the year 2016-17:

	Rs.
Money received during the year related to 2016-17	5,00,000
Add: Money received in advance during previous years	1,50,000
Total income of the year 2016-17	**6,50,000**

(ii) Advance from Customers A/c

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
	To Sales A/c (Advance related to current year transferred to sales)	1,50,000	1.4.2016	By Balance b/d	2,00,000

31.3.17	To Balance c/d	1,70,000		By Bank A/c (Balancing Figure)	1,20,000
		3,20,000			**3,20,000**

So, total money received during the year is:

	Rs.
Cash Sales during the year	5,00,000
Add: Advance received during the year	1,20,000
Total money received during the year	**6,20,000**

5. (a) **Capital Account**

for the year ended 31st March, 2018

	Rs.		*Rs.*
To Drawings:		By Cash/bank	20,000
Motor car expenses (one-third of Rs. 12,000)	4,000	By Cash bank (pension)	30,000
Household expenses	18,000	By Net income from practice (derived from income and expenditure a/c)	47,500
Daughter's marriage exp.	21,500		
Wages of domestic servants	3,000		
Household furniture	2,500		
To Balance c/d	48,500		
	97,500		97,500

Income and Expenditure Account
for the year ended 31st March, 2018

		Rs.		*Rs.*
To Medicines consumed			By Prescription fees	52,500
Purchases	24,500		By Gift from patients	13,500
Less: Stock on 31.3.11	(9,500)	15,000	By Visiting fees	25,000
To Motor car expense		8,000	By Fees from lectures	2,400
To Wages and salaries (Rs. 10,500 – Rs. 3,000)		7,500		
To Rent for clinic		6,000		
To General charges		4,900		
To Interest on loan		4,500		
To Net Income		47,500		
		93,400		93,400

Balance Sheet as on 31st March, 2018

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital	48,500	Motor car	32,000
Loan	30,000	Surgical equipment	25,000
		Stock of medicines	9,500

		Cash at bank	11,000
		Cash in hand	1,000
	78,500		78,500

(b) **(i)** Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\,1,10,000}{₹\,30,000} = 11:3 \text{ or } 3.67:1$

Current Assets= Closing Inventory + Other Current Assets

= Rs. 10,000 + Rs. 1,00,000 = Rs. 1,10,000

(ii) Debt to Equity Ratio = $\frac{\text{Long term Debt}}{\text{Sharholders' Equity}}$

$$= \frac{Debentures}{Share\ \text{Capital} + \text{Profit}}$$

$$= \frac{₹\ 60,000}{₹\ 2,50,000} = 0.24:1$$

6. **(a)** **Journal of Mohan Ltd.**

2017			Dr. Rs. in lakhs	Cr. Rs. in lakhs
June 1	Bank A/c	Dr.	300	
	To Shares Application A/c			300
	(Receipt of applications for 15 lakh shares along with application money of Rs. 20 per share.)			
June 1	Share Application and Allotment A/c	Dr.	300	
	Share Allotment A/c	Dr.	450	
	To Share Capital A/c			750
	(The allotment of 15 lakh shares : payable on application Rs. 20 share and Rs. 30 on allotment as per Directors' resolution no... dated...)			
June 1	Bank A/c	Dr.	465	
	To Shares Allotment A/c			450
	To Calls in Advance A/c			15
	[Receipt of money due on allotment @ Rs. 30, also the two calls (Rs. 30 and Rs. 20) on 30,000 shares.]			
Nov. 1	Share First Call A/c	Dr.	450	
	To Share Capital A/c			450
	(The amount due on 15 lakh shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	441	
	Calls in Advance A/c	Dr.	9	
	To Share First Call A/c			450
	(Receipt of the first call on 14.7 lakh shares, the balance having been previously received and now debited to call in advance account.)			

2018 March 1	Share Final Call A/c	Dr.	300	
	To Share Capital A/c			300
	(The amount due on Final Call on 15 lakh shares @ Rs. 20 per share, as per Directors' resolution no... dated...)			
March1	Bank A/c	Dr.	294	
	Calls in Advance A/c	Dr.	6	
	To Share Final Call A/c			300
	(Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously received.)			
March 1	Interest on calls in Advance A/c	Dr.	0.99	
	To Shareholder A/c			0.99
	(Being interest on call in advance made due)			
Feb 1	Shareholder A/c	Dr.	0.99	
	To Bank A/c			0.99
	(Being interest paid)			

Working Note:

The interest on calls in advance paid @ 12% on :	Rs.
Rs. 9,00,000 (first call) from 1st June to 1st Nov., 2017–5 months	45,000
Rs. 6,00,000 (final call) from 1st June to 1st March., 2018–9 months	54,000
Total Interest Amount Due	99,000

(b) **In the books of Riya Company Ltd.**

Journal Entries

Date	*Particulars*		*Dr.* Rs.	*Cr.* Rs.
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ Rs. 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim)			

(c)	Bank A/c To Bank Loan A/c (See Note) (Being a loan of Rs. 20,00,000 taken from bank by issuing debentures of Rs.25,00,000 as collateral security)	Dr.	20,00,000	 20,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) **Pathak Ltd.**

Bank Reconciliation Statement as on 31.3.2017

Particulars	Rs.
Balance as per cash book	1,20,000
Add : Cheque issued but not presented	68,000
Interest credited	1,500
	1,89,500
Less : Bank charges	(300)
Balance as per pass book	1,89,200

Or

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

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Cost Concept: By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. When a machine is acquired by paying Rs. 5,00,000, following cost concept the value of the machine is taken as Rs. 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. **(a)** (i) False - Debenture interest is payable before the payment of any dividend on shares.

   (ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

   (iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

   (iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

   (v) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

   (vi) False: Quick ratio is known as Acid Test Ratio and not Cash Ratio.

   (b) **Objective and Advantages of Accounting Standards:** An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

   The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

   The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

   The other advantages are as follows:

   (i) Reduction in variations.

   (ii) Disclosure beyond that required by law.

   (iii) Facilities comparison.

   (c) **Statement of Valuation of Stock on 31st March, 2018**

		Rs.	Rs.
Value of stock as on 15th April, 2018			50,000
Add:	Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
	Sales (Rs. 41,000 – Rs. 1,000)	40,000	
	Less: Gross Profit (20% of Rs. 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800
			86,800

Less:	Purchases during the period from 31st March, 2018 to 15th April, 2018	5,034
		81,766

2. (a) **PETTY CASH BOOK**

Receipts Rs.	Date 2017	V. No.	Particulars	Total Rs.	Con-veyance Rs.	Cartage Rs.	Statio-nery Rs.	Postage & Telegrams Rs.	Wages Rs.	Sundries Rs.
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b)

Balance as per Cash Book				(49,350)
Add :	Cheques issued but not presented for payment		3,700	
	Crossed Cheque issued to Abdul not presented for payment		750	
	Amounts collected by Bank on our behalf but not entered in the Cash Book			
	Dividend	150		
	Insurance claim	800		
		950		
	(-) Bank Commission	15	935	
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c		500	5885
				(43,465)
Less :	Cheques deposited in the bank but no cleared (Rs. 1,300 + Rs. 250)		1550	

	Payments made by Bank on our behalf but not entered in the Cash Book			
	Interest	320		
	Premium	160		
	Second call	600	1,080	
	Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		300	(2,930)
	Overdraft as per Pass Book			46,395

3. (a)

Books of Manoj

Consignment to Jaipur Account

Particulars	Rs.	***Particulars***	Rs.
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

   Abnormal Loss at Invoice price = Rs. 18,750

   Abnormal Loss as a percentage of total consignment = 10%.

   Hence the value of goods sent on consignment = Rs. 18,750 X 100/ 10 = Rs. 1,87,500

   Loading of goods sent on consignment = Rs. 1,87,500 X 25/125 = Rs. 37,500

2. **Calculation of abnormal loss (10%):**

   Abnormal Loss at Invoice price = Rs. 18,750.

   Abnormal Loss at cost = Rs. 18,750 X 100/125 = Rs. 15,000

   Add: Proportionate expenses of Manoj (10 % of Rs. 15,000) = Rs. 1,500

   Rs. 16,500

3. **Calculation of closing Inventories (15%):**

   Manoj's Basic Invoice price of consignment= Rs. 1,87,500

   Manoj's expenses on consignment = Rs. 15,000

   Rs. 2,02,500

   Value of closing Inventories = 15% of Rs. 2,02,500= Rs. 30,375

   Loading in closing Inventories = Rs. 37,500 x 15/100= Rs. 5,625

   Where Rs. 28,125 (15% of Rs. 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold = 75% of Rs. 1,87,500 = Rs. 1,40,625

Excess of selling price over invoice price = Rs. 9,375 (Rs. 1,50,000 - Rs. 1,40,625)

Total commission = 10% of Rs. 1,40,625 + 25% of Rs. 9,375

= Rs. 14,062.5 + Rs. 2,343.75

= Rs. 16,406

(b) **A's Books**

Joint Venture with B A/c

2017	Particulars	Amount (Rs.)	2017	Particulars	Amount (Rs.)
July 1	To Bank - draft sent on A/c	3,75,000	July 16	By Bank-sale proceeds	1,21,500
July 15	To Bank - freight	3,000	July 31	By Bank-sale proceeds	3,36,000
Aug 25	To Profit and Loss A/c share of profit	81,150	Aug 14	By Bank-sale proceeds	3,07,800
	To Bank - draft sent in settlement	3,06,150			
		7,65,300			7,65,300

Memorandum Joint Venture A/c

Particulars		Amount (Rs.)	Particulars	Amount (Rs.)
To Cost of 200 sets		6,00,000	By Sales proceeds (net)	
To Freight		3,000	30 sets @ Rs. 4,050	1,21,500
To Profit :			80 sets @ Rs. 4,200	3,36,000
A	81,150		80 sets @ Rs. 3,847.5	3,07,800
B	81,150	1,62,300		
		7,65,300		7,65,300

4. **Smith Library Society**

Income and Expenditure Account
for the year ended 31st March, 2019

Dr.					*Cr.*
Expenditure	*Rs.*	*Rs.*	*Income*		*Rs.*
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		*Less*: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000	By Hire of lecture hall		
To Depreciation (W.N.1)					20,000

Electrical fittings	15,000		By	Interest on securities (W.N.2)	8,000	
Furniture	5,000					
Books	46,000	66,000		*Add*: Receivable	500	8,500
			By	Deficit- excess of expenditure over income		16,700
		2,44,200				2,44,200

Balance Sheet of Smith Library Society
as on 31st March, 2019

Liabilities	*Rs.*	*Rs.*	*Asset*	*Rs.*	*Rs.*
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		*Less*: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure			*Less*: Depreciation	(5,000)	45,000
over income	(16,700)	7,98,800	Books	4,60,000	
Outstanding expenses:			*Less* Depreciation	(46,000)	4,14,000
Rent	4,000		Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in			Accrued interest	500	1,90,500
advance		10,000	Cash at bank		20,000
			Cash in hand		11,300
		8,15,800			8,15,800

Working Notes:

1. Depreciation	***Rs.***	
Electrical fittings 10% of Rs. 1,50,000	15,000	
Furniture 10% of Rs. 50,000	5,000	
Books 10% of Rs. 4,60,000	46,000	
2. Interest on Securities		
Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

5. (a) Revaluation Account

	Rs.			Rs.
To Buildings A/c	10,000	By Investments A/c		3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	27,800	P	30,400	
		Q	18,240	
		R	12,160	60,800
	63,800			63,800

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	Rs.		Rs.
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

(b) Long Term Debt to Total assets $= \dfrac{\text{Long Term Debt}}{\text{Total Assets}}$

$$= \frac{1{,}12{,}500}{3{,}75{,}000}$$

$$= 1:3.33$$

(i) Net Profit Ratio $= \dfrac{\text{Net Profit} \times 100}{\text{Net Sales}}$

$$= \frac{39{,}375 \times 100}{5{,}62{,}500}$$

$$= 7\%$$

(ii) Return on Average Total Assets Ratio $= \dfrac{\text{Net Profit} + \text{Interest}(1 - t) \times 100}{\text{Average Total Assets}}$

$$= \frac{39{,}375 + 6{,}000(1 - 0.40) \times 100}{(3{,}00{,}000 + 3{,}75{,}000)/2}$$

$$= \frac{42{,}975 \times 100}{3{,}37{,}500}$$

$$= 12.73\%$$

(iii) Return on Equity $= \dfrac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}}$

$$= \frac{39{,}375 \times 100}{1{,}12{,}500}$$

$$= 35\%$$

(iv) Net Sales to Total Assets Ratio $= \frac{\text{Net Profit}}{\text{Total Assets}}$

$= \frac{5,62,500}{3,37,500}$

= 1.67: 1

6. (a)

Journal		*Dr.* Rs.	*Cr.* Rs.
Preference Share Capital A/c (4,000 x Rs.75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x Rs.65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x Rs.10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 1,00,000/4,000 = Rs. 25

Loss on re-issue =Rs. 75 – Rs. 65 = Rs. 10

Surplus per share re-issued Rs. 15

Transferred to capital Reserve Rs. 15 x 3,000 = Rs. 45,000.

(b) **Books of Pihu Ltd.**

Journal Entries

Date	*Particulars*	*L.F.*	*Debit Amount* (Rs.' Lakhs)	*Credit Amount* (Rs.' Lakhs)
	Bank A/c	Dr.	15,000	
	To Debenture Application A/c			15,000
	(Debentures application money received)			
	Debenture Application A/c	Dr.	15,000	
	To 8% Debentures A/c			15,000
	(Application money transferred to 8% debentures account)			
	Debenture Allotment A/c	Dr.	13,200	

	Loss on issue of debenture A/c	Dr.	3,300	
	To 8% Debentures A/c			15,000
	To Debenture redemption premium A/c			1,500
	(Call made consequent upon allotment of debentures issued at discount and redeemable at premium)			
	Bank A/c	Dr.	13,200	
	To Debenture Allotment A/c			13,200
	(Allotment amount received)			

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 300 lakh

= (Rs. 6 + Rs. 5) x 300 lakh

= Rs. 3,300 lakh

(c) Difference between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Or

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

(i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

(ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.

(iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

(iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) False- The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

(ii) False: Consignment account is a nominal account

(iii) False- The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(iv) False- While calculating the average due date, any transaction date may be taken as the base date.

(v) True- If a partner retires, his share of profit or loss will be shared by the other partners in their profit sharing ratio.

(vi) *False*: Net income is determined by preparing income and expenditure in case of persons practicing vocation.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

2. (a) Quarry Lease Account

Dr.		**Rs.**			**Cr. Rs.**
2016			**2016**		
Jan.	To Bank A/c	2,00,00,000	Dec. 31	By Depreciation A/c	2,00,000
				[(4,000/4,00,000) ×	

				Rs. 2,00,00,000]	
			Dec. 31	By Balance c/d	1,98,00,000
		2,00,00,000			2,00,00,000
2017			2017		
Jan. 1	To Balance b/d	1,98,00,000	Dec. 31	By Depreciation A/c	10,00,000
			Dec. 31	By Balance c/d	1,88,00,000
		1,98,00,000			1,98,00,000
2018			2018		
Jan. 1	To Balance b/d	1,88,00,000	Dec. 31	By Depreciation A/c	15,00,000
			Dec. 31	By Balance c/d	1,73,00,000
		1,88,00,000			1,88,00,000

Depreciation Account

Dr.		Rs.			Cr. Rs.
2016			**2016**		
Dec. 31	To Quarry lease A/c	2,00,000	Dec. 31	By Profit & Loss A/c	2,00,000
		2,00,000			2,00,000
2017			2017		
Dec. 31	To Quarry lease A/c	10,00,000	Dec. 31	By Profit & Loss A/c	10,00,000
		10,00,000			10,00,000
2018			2018		
Dec. 31	To Quarry lease A/c	15,00,000	Dec. 31	By Profit & Loss A/c	15,00,000
		15,00,000			15,00,000

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

Date	Particulars	Amount	Date	Particulars	Amount
2017		Rs.	**2017**		Rs.
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

(ii) Bank Reconciliation Statement as on 30th September, 2017

Particulars	Amount
	Rs.
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2017	26,28,000
	26,50,484

Less: Cheques issued but not presented for payment upto 30th Sept., 2017	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2017. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with Rs. 26,52,000 resulting in debit balance of Rs. 1,516 as per pass-book.

3. (a) In the books of Gagan

Consignment to Kumar of Chennai Account

Particulars	Rs.	Particulars		Rs.
To Goods sent on Consignment	20,00,000	By Kumar (Sales)		19,60,000
		By Loss in Transit 100 cases @ Rs. 1,050 each		1,05,000
To Bank (Expenses)	1,00,000	By Consignment Inventories		
To Kumar (Expenses)	63,000	In hand 300 @ Rs. 1,060 each	3,18,000	
To Kumar (Commission)	1,96,000	In transit 200 @ Rs. 1,050 each	2,10,000	5,28,000
To Profit on Consignment to Profit & Loss A/c	2,34,000			
	25,93,000			25,93,000

Kumar's Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Chennai A/c	19,60,000	By Consignment A/c (Expenses)	63,000
		By Consignment A/c (Commission)	1,96,000
		By Balance c/d	17,01,000
	19,60,000		19,60,000

Working Notes:

(i) Consignor's expenses on 2,000 cases amounts to Rs. 1,00,000; it comes to Rs. 50 per case. The cost of cases lost will be computed at Rs. 1,050 per case.

(ii) Kumar has incurred Rs. 17,000 on clearing 1,700 cases, i.e., Rs. 10 per case; while valuing closing inventories with the agent Rs. 10 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of Rs. 17,01,000 is not yet paid.

(b) Calculation of Average Due Date

(Taking 3rd March, 2018 as base date)

Date of bill 2018	*Term*	*Due date 2018*	*Amount* (Rs.)	*No. of days from the base date i.e. 3rd March,2018* (Rs.)	*Product* (Rs.)
28th January	1 month	3rd March	5,000	0	0

20th March	2 months	23rd May	4,000		81	3,24,000
12th July	1month	14th Aug.	7,000		164	11,48,000
10th August	2 months	13th Oct.	6,000		224	13,44,000
			22,000			28,16,000

Average due date = Base date + Days equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

$= 3^{rd}$ March, 2018 + $\frac{28,16,000}{22,000}$

$= 3^{rd}$ March, 2018 + 128 days = 9^{th} July, 2018

Working Note:

Bill dated 12^{th} July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15^{th} August, 2018. 15^{th} August being public holiday, due date would be preceding date i.e. 14^{th} August, 2018.

(c) **Books of K. Katrak**

Journal Entries

			Dr. Rs.	***Cr.*** Rs.
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of Rs. 1,000 and a new bill for Rs.1,550 including Rs. 50 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for Rs. 4,000 endorsed to M. Mehta dishonoured, Rs. 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for Rs. 2,000. Allowed him a discount of Rs. 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

4. **In the books of M/s ABC**

Journal Entries

Date	*Particulars*		*Dr. (Rs.)*	*Cr.(Rs.)*
2019 January 1	Fixed assets A/c To Revaluation A/c (Revaluation of fixed assets)	Dr.	51,000	 51,000
	Revaluation A/c To Stock A/c To Provision for doubtful debts A/c (Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)	Dr.	11,000	 8,000 3,000
	B's capital A/c C's capital A/c To A's capital A/c (Adjustment for goodwill and joint life policy (W.N.1))	Dr. Dr.	10,500 21,000	 31,500
	Revaluation A/c To A's capital A/c To B's capital A/c To C's capital A/c (Transfer of profit on revaluation)	Dr.	40,000	 20,000 12,500 7,500
	General reserve A/c To A's capital A/c To B's capital A/c To C's capital A/c (Transfer of general reserve)	Dr.	80,000	 40,000 25,000 15,000

Balance Sheet (revised)

as on 1st January, 2019

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Sundry creditors		1,50,000	Cash		40,000
Partners' loan A/cs:			Bills receivable		50,000
A	40,000		Sundry debtors	60,000	
B	30,000	70,000	*Less:* Provision	3,000	57,000
Partners' capital A/cs: (W.N.2)			Stock		1,12,000
			Fixed assets		3,31,000
A	1,91,500				
B	1,07,000				
C	71,500	3,70,000			
		5,90,000			5,90,000

Working Notes:

(1) Adjustment for goodwill and joint life policy

	Rs.
Average profit of last five years	20,000
Add: Insurance premium per annum	10,000
Average profit before charging premium	30,000
Value of goodwill (3x Rs. 30,000)	90,000
Add: Surrender value of joint life policy	78,000
Total amount for adjustment	1,68,000

	A	B	C
	Rs.	Rs.	Rs.
Raised in old profit sharing ratio (8:5:3)	84,000	52,500	31,500
Written off in new profit sharing ratio (5:6:5)	52,500	63,000	52,500
Net effect in capital accounts	31,500	10,500	21,000
	(Cr.)	(Dr.)	(Dr.)

Alternatively, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

A = (8/16) - (5/16) = 3/16

B = (5/16) - (6/16) = (1/16)

C = (3/16) - (5/16) = (2/16)

Therefore, adjustments in partner's capital account:

A = 3/16 x Rs. 1,68,000 = Rs. 31,500 (Cr.)

B = (1/16) x Rs. 1,68,000 = Rs. 10,500 (Dr.)

C = (2/16) x Rs. 1,68,000 = Rs. 21,000 (Dr.)

(2) **Partners' Capital Accounts**

		A	B	C			A	B	C
2019		Rs.	Rs.	Rs.	2019		Rs.	Rs.	Rs.
Jan 1	To A' capital A/c	-	10,500	21,000	Jan 1	By Balance b/d	1,00,000	80,000	70,000
	To Balance c/d	1,91,500	1,07,000	71,500		By B and C's capital A/c (as per contra)	31,500	-	-
						By Revaluation A/c (revaluation profit)	20,000	12,500	7,500
						By General reserve	40,000	25,000	15,000
		1,91,500	1,17,500	92,500			1,91,500	1,17,500	92,500

5. (a) **Income and Expenditure Account of Mumbai Club**

for the year ended 31st December, 2018

Dr.					*Cr.*
Expenditure	*Rs.*	*Rs.*	*Income*	*Rs.*	*Rs.*
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	*Less:* Capitalised (50%)	2,500	2,500
To Misc. expenses	500		By Subscriptions	12,000	
Less: Prepaid	90	410	*Add:* Outstanding	900	
To Insurance premium	200			12,900	
Add: Outstanding	40	240	*Less:* Advance for 2019	350	12,550
To Paper, ink etc.		150	By Entrance fees		1,000
To Drama expenses		500	By Interest on investment		300
To Surplus-excess of income over expenditure		14,150	[100+8/100x6,000x5/12]		
			By Interest received from bank		400
			By Sale of old newspapers		150
			By Sale of drama tickets		1,050
		17,950			17,950

Balance Sheet of Mumbai Club

as on 31st December, 2018

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*
Capital fund			Billiard table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	2,500	52,650	Interest accrued	200
Outstanding insurance premium		40	Prepaid expenses	90
Subscription received in advance		350	Subscriptions receivable	900
			Cash in hand	2,650
			Cash at bank	7,200
		53,040		53,040

Working Note:

Balance Sheet of Mumbai Club

as on 31st December, 2017

Liabilities	*Rs.*	*Assets*	*Rs*
Capital fund	36,000	Billiard table	30,000
(balancing figure)		Cash in hand	4,000
Creditors for billiard table	8,000	Cash at bank	10,000
	44,000		44,000

(b) In the books of M/s. Ketan Traders

Trading Account for the year ended 31st March, 2019

Particulars	Rs.	Amount Rs.	Particulars	Rs.	Amount Rs.
To Opening Inventory		1,50,000	By Sales	16,50,000	
To Purchases	10,08,000		*Less:* Returns Inward	(1,50,000)	15,00,000
Less: Returns outward	(1,08,000)	9,00,000	By Closing Inventory		3,00,000
To Carriage Inwards		45,000			
To Wages		75,000			
To Gross profit		6,30,000			
		18,00,000			18,00,000

(c) Valuation of Physical Stock as at March 31, 2018

		Rs.
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		
Rs. (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return Rs. (1,000 – 200)	800	72,000
		1,52,000
Less:(1) Overcasting of a page total Rs. (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January – March, 2018		
Rs. (90,000 – 5,000 + 4,000) 89,000		
Less: Profit margin $\left(89{,}000 \times \frac{25}{125}\right)$ 17,800	71,200	(72,200)
Value of stock as on 31st March, 2018		79,800

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then Rs. 4,000 goods delivered in March 2018 for which invoice was received in April, 2018, would be treated as purchases of the accounting year 2017-2018 and thus excluded. Similarly, goods dispatched in March, 2018 but invoiced in April, 2018 would be excluded and treated as sale of the year 2017-2018

6. (a) A Ltd.

Journal

2017			***Dr.* Rs.**	***Cr.* Rs.**
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at Rs. 20 per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	

	To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares Rs. 20 on application. Directors' resolution no........ dated ......)			8,00,000
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c (Being share allotment made due at Rs. 30 per share. Directors' resolution no...... dated ......)			12,00,000
July 15	Bank Account	Dr.	12,00,000	
	To Share Application and Allotment A/c (The sums due on allotment received.)			12,00,000
Oct. 1	Share First Call Account	Dr.	10,00,000	
	To Share Capital Account (Amount due from members in respect of first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)			10,00,000
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account (Receipt of the amounts due on first call.)			10,00,000
2018 Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c (Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)			10,00,000
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs.25 per share.)			10,00,000

(b) **In the books of Simmons Limited**

Date	***Particulars***		***Rs. '000***	***Rs. '000***
April 1	Bank A/c	Dr.	11,000	
	To 12% Debentures Application A/c (Being money received on 1,10,000 debentures)			11,000
April 7	12% Debentures Application A/c	Dr.	1,000	
	To Bank A/c (Being money on 10,000 debentures refunded as per Board's Resolution No…..dated…)			1,000
April 7	12% Debentures Application A/c	Dr.	10,000	
	To 12% Debentures A/c (Being the allotment of 1,00,000 debentures of Rs. 100 each at par, as per Board's Resolution No….dated…)			10,000

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

(i) Cheques issued but not yet presented for payment.

(ii) Cheques deposited into the bank but not yet cleared.

(iii) Interest allowed by the bank.

(iv) Interest and expenses charged by the bank.

(v) Interest and dividends collected by the bank.

(vi) Direct payments by the bank.

(vii) Direct deposits into the bank by a customer.

(viii) Dishonour of a bill discounted with the bank.

(ix) Bills collected by the bank on behalf of the customer.

(x) An error committed by the bank etc.

OR

(c) Normally, the following subsidiary books are used in a business:

(i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Books to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns made by the customers.

(vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

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

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

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

(v) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

(vi) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

(b) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

(c) **Purchase Returns Book**

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2020				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

2. (a) **Statement of Valuation of Stock on 31st March, 2020**

	Rs.	*Rs.*
Value of stock as on 15th April, 2020		50,000

Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020		
	Sales (Rs. 41,000 – Rs. 1,000)	40,000	
	Less: Gross Profit (20% of Rs. 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of Rs. 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2020 to 15th April, 2020	5,034	
	Unsold stock out of goods received on consignment basis (30% of Rs. 8,000)	2,400	7,434
			79,366

(b) Calculation of depreciation for 5th year

Depreciation per year charged for four years = Rs. 10,00,000 / 10 = Rs. 1,00,000

WDV of the machine at the end of fourth year = Rs. 10,00,000 – Rs. 1,00,000 × 4 = Rs. 6,00,000.

Depreciable amount after revaluation = Rs. 6,00,000 + Rs. 40,000 = Rs. 6,40,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = Rs. 6,40,000 / 8 = Rs. 80,000.

(c) Bank Reconciliation Statement as on 30th June 2020

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

3. (a) Consignment Account

	Rs.			*Rs.*
To Goods sent on consignment A/c (15,000 kg x Rs. 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x Rs. 60)		4,50,000

To Cash A/c (Expenses 15,000 kg x Rs. 5)	75,000	By Abnormal Loss A/c (Insurance claim - WN)	9,000	
To Consignee's A/c: Advertisement & Recurring expenses	33,000	Add: Abnormal Loss (WN) (Profit and Loss Account)	5,000	14,000
Commission @ 5% on Rs.4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			
	7,10,690			7,10,690

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x Rs. 30)	12,000
Add: expenses incurred by the consignor @ Rs.5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (Rs.)
Total Cost (15,000 kg x Rs.30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of ghee sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

(b) **Mr. A in Account Current with Mr. X**

(Interest upto 15th March, 2020 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2020						2020					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (Rs. 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{\text{Rs.}4{,}02{,}600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

(c) **In the books of Mr. Badhri**

Journal Entries

Date	*Particulars*		*L.F.*	*Dr. (in Rs.)*	*Cr. (in Rs.)*
2019 Dec. 2	Trade receivables A/c	Dr.		80,000	
	To Sales A/c				80,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		35,000	
	To Trade receivables A/c				35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		15,000	
	To Trade receivables A/c				15,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		12,000	
	To Trading A/c (Note 3)				12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Working Note:

1 No entry is required for receiving letter of approval from customer.

(2) Cost of goods with customers = Rs. 15,000 x 100/125 = Rs. 12,000

4 (a) **Revaluation Account**

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

Partners' Capital Accounts

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

				By Revaluation A/c	8,500	8,500	8,500
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

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

Working Note:

Calculation of goodwill and Zoya's share

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

31.3.2016	28,750
31.3.2017	35,000
31.3.2018	22,500
31.3.2019	20,000
31.3.2020	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = Rs. 26,250 x 1 = Rs. 26,250

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

= Rs. 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = Rs. 8,750X1/2 = Rs. 4,375

Yedhant = Rs. 8,750X1/2 = Rs. 4,375

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

Mr. Sandeep for the year ended 31st December, 2020

	Particulars	Rs.	Rs.		Particulars	Rs.	Rs.
To	Opening Stock		1,400	By	Sales	9,000	
To	Purchase	12,000			*Less*: Sales return	(1,000)	8,000
	Less: Purchase return	(2,000)	10,000	By	Closing stock		4,500
To	Gross Profit		1,100				
			12,500				12,500
To	Salary	2,500		By	Gross Profit		1,100
	Add: Outstanding salary	100	2,600	By	Commission	500	
					Less: Advance	(100)	400
To	Tax & Insurance	500		By	Accrued interest		210
	Add: Outstanding	200		By	Net Loss		2,500
	Prepaid insurance	(50)	650				
To	Bad debt	500					
	Opening provision	(1,000)					
	Closing provision	1,000	500				
To	Interest on overdraft		300				
To	Depreciation on furniture		160				
			4,210				4,210

Balance Sheet of Mr. Sandeep as on 31.3.2020

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

5. (a) **Smith Library Society**

Income and Expenditure Account

for the year ended 31st March, 2020

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		Less: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities (W.N.2)	8,000	
Furniture	5,000				
Books	46,000	66,000	Add: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Working Notes:

1. Depreciation	**Rs.**
Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000

2. Interest on Securities

Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500	
Interest @ 5% p.a. on Rs. 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

(b) Journal Proper in the Books of M/s. Kumar Traders

Date 2019	Particulars		Amount Rs.	Amount Rs.
Mar. 31	Returns outward A/c	Dr.	72,000	
	To Purchases A/c			72,000
	(Being the transfer of returns to purchases account)			
	Sales A/c	Dr.	1,00,000	
	To Returns Inward A/c			1,00,000
	(Being the transfer of returns to sales account)			
.	Sales A/c	Dr.	10,00,000	
	To Trading A/c			10,00,000
	(Being the transfer of balance of sales account to trading account)			
	Trading A/c	Dr.	7,80,000	
	To Opening Inventory A/c			1,00,000
	To Purchases A/c			6,00,000
	To Wages A/c			50,000
	To Carriage Inwards A/c			30,000
	(Being the transfer of balances of opening inventory, purchases and wages accounts)			
	Closing Inventory A/c	Dr.	2,00,000	
	To Trading A/c			2,00,000
	(Being the incorporation of value of closing Inventory)			
	Trading A/c	Dr.	4,20,000	
	To Gross Profit			4,20,000
	(Being the amount of gross profit)			
	Gross profit	Dr.	4,20,000	
	To Profit and Loss A/c			4,20,000
	(Being the transfer of gross profit to Profit and Loss Account)			

6. (a) (i) Journal Entries in the books of X Ltd.

Date			*Dr.* Rs.	*Cr.* Rs.
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 x Rs. 3)			900

	To Equity Share Final Call A/c (300 x Rs. 4)			1,200
	To Forfeited Shares A/c (300 x Rs. 3)			900
	(Being the forfeiture of 300 equity shares of Rs. 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No…………….dated……………..)			
(b)	Bank Account (300 x 8)	Dr.	2,400	
	Forfeited Shares Account (300x 2)	Dr.	600	
	To Equity Share Capital Account			3,000
	(Being the re-issue of 300 forfeited shares @ Rs. 8 each as fully paid up to Suresh as per Board's resolution No………dated……………..)			
(c)	Forfeited Shares Account	Dr.	300	
	To Capital Reserve Account			300
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

		Dr. *Rs.*	*Cr.* *Rs.*
Preference Share Capital A/c (2,500 x Rs. 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x Rs. 20)			50,000
To Preference Share First Call A/c (2,500 x Rs. 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares Rs. 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (2,000 x Rs.60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x Rs.10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at Rs. 60 per share paid-up as Rs. 70 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to			
Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 75,000/2500 = Rs. 30

Loss on re-issue =Rs. 70 – Rs. 60 = <u>Rs. 10</u>

Surplus per share re-issued <u>Rs. 20</u>

Transferred to capital Reserve Rs. 20 x 2000 = Rs. 40,000.

(b) Total amount of discount comes to Rs. 60,000 (Rs. 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
2nd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
3rd	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
4th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000
5th	Rs. 10, 00,000	1/5	1/5th of Rs. 60,000 = Rs. 12,000

(c) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

MOCK TEST PAPER

FOUNDATION COURSE

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) 1 **False-** 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 amount received on shares forfeited.

2. **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

3 **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

4 **False-** The right hand side of the equation includes cash twice- once as a part of current assets and another separately. The basic accounting equation is

Equity + Long Term Liabilities = Fixed Assets + Current Assets - Current Liabilities

5 **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

6. **False-** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) Journal Entries in the books of Symphony Bros.

	Particulars	*Dr.*	*Cr.*
		Amount (₹)	*Amount (₹)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Advertisement Expenses A/c	2,000	
	To Purchases A/c		2,000
	(Being distribution of goods by the way of free samples)		
(iii)	Drawings A/c	1,400	
	To Petty Cash A/c		1,400
	(Being the income tax of proprietor paid out of business money)		
(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)		

(c) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

2. (a) Statement of Valuation of Stock on 30th June, 2020

		₹
Value of stock as on 14th June, 2020		96,00,000
Add: Unsold stock out of the goods sent on consignment	4,80,000	
Purchases during the period from 14th June, 2020 to 30th June, 2020	4,80,000	
Goods in transit on 30th June, 2020	3,20,000	
Cost of goods sent on approval basis (80% of ₹ 3,20,000)	2,56,000	15,36,000
		1,11,36,000
Less: Cost of sales during the period from 14th June, 2020 to 30th June, 2020		
Sales (₹ 27,20,000-₹ 3,20,000)	24,00,000	
Less: Gross profit	1,92,000	
		22,08,000
Value of stock as on 30th June, 2020		89,28,000

Working Notes:

1.	**Calculation of normal sales:**	₹	₹
	Actual sales		27,20,000
	Less: Abnormal sales	2,40,000	
	Return of goods sent on approval	3,20,000	5,60,000
			21,60,000
2.	**Calculation of gross profit:**		
	Gross profit or normal sales 20/100 x ₹ 21,60,000		4,32,000
	Less: Loss on sale of particular (abnormal) goods (4,80,000 less 2,40,000)		2,40,000
	Gross profit		1,92,000

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

Date	Particulars		Amount	Date	Particulars		Amount
2020			**₹**	**2020**			**₹**
March 31				March 31			
	To	Party A/c	16,000		By	Balance b/d	4,062
	To	Customer A/c			By	Bank charges	580
		(Direct deposit)	1,17,400		By	Customer A/c	1,40,000
	To	Balance c/d	11,242			(B/R dishonoured)	
			1,44,642				1,44,642

(ii) **Bank Reconciliation Statement as on 31st March,2020**

Particulars	Amount
	₹
Overdraft as per Cash Book	11,242
Add: Cheque deposited but not collected upto 31st March,2020	13,14,000
	13,25,242
Less: Cheques issued but not presented for payment upto 31st March,2020	(13,26,000)
Credit by Bank erroneously on 6th March,2020	(20,000)
Overdraft as per bank statement	20,758

Note: Bank has credited Chandan by 20,000 in error on 6th March, 2020. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 13,26,000 resulting in debit balance of ₹ 758 as per pass-book.

3. (a) **Books of Gagandeep**

Consignment to Ludhiana Account

Particulars	₹	*Particulars*	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Mandeep (Expenses)	12,000	By Mandeep (Sales)	1,50,000
To Mandeep (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. **Calculation of value of goods sent on consignment:**

Abnormal Loss at Invoice price = ₹ 18,750

Abnormal Loss as a percentage of total consignment = 10%

Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. **Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = ₹ 18,750.

Abnormal Loss at cost = ₹ 18,750 X 100/125	= ₹ 15,000
Add: Proportionate expenses of Gagandeep (10 % of ₹ 15,000)	= ₹ 1,500
	₹ 16,500

3. **Calculation of closing Inventories (15%):**

Gagandeep's Basic Invoice price of consignment=	₹ 1,87,500
Gagandeep's expenses on consignment	= ₹ 15,000
	₹ 2,02,500
Value of closing Inventories = 15% of ₹ 2,02,500	= ₹ 30,375
Loading in closing Inventories = ₹ 37,500 x 15/100	= ₹ 5,625

Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold	= 75% of ₹ 1,87,500 = ₹ 1,40,625
Excess of selling price over invoice price	= ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)
Total commission	= 10% of ₹ 1,40,625 + 25% of ₹ 9,375
	= ₹ 14,062.5 + ₹ 2,343.75
	= ₹ 16,406

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

Ankur in Account Current with Varun

(Interest to 31st March, 2020 @ 10% p.a)

Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2020		₹		₹	*2020*		₹		₹
Jan.1	To Balance b/d	2,500	90	2,25,000	Jan.24	By Promissor Varun Note (due date 27th April)	2,500	(27)	(67500)
Jan. 11	To Sales	3,000	79	2,37,000	Feb. 1	By Purchases	5,000	58	2,90,000
Feb. 4	To Sales	4,100	55	2,25,500	Feb. 7	By Sales Return	500	52	26,000
Mar. 18	To Sales	4,600	13	59,800	Mar. 1	By Purchases	2,800	30	84,000
Mar. 31	To Interest	110			Mar. 23	By Purchases	2,000	8	16,000
					Mar. 31	By Balance of Products			3,98,800
					Mar. 31	By Bank	1,510		
		14,310		7,47,300			14,310		7,47,300

Working Note:

Calculation of interest: $\frac{3,98,800}{365} \times \frac{10}{100}$= ₹ 110 (approx.)

4. (a) **Subscription for the year ended 31.3.2020**

		₹
Subscription received during the year		11,25,000
Less: Subscription receivable on 1.4.2019	33,750	
Less: Subscription received in advance on 31.3.2020	15,750	(49,500)
		10,75,500
Add: Subscription receivable on 31.3.2020	49,500	
Add: Subscription received in advance on 1.4.2019	27,000	76,500
Amount of Subscription appearing in Income & Expenditure Account		11,52,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	6,75000
Less: Amounts due for sports material on 1.4.2019	(2,02,500)
	4,72,500
Add: Amounts due for sports material on 31.3.2020	2,92,500
Purchase of sports material	7,65,000
Sports material consumed:	
Stock of sports material on 1.4.2019	2,25,000
Add: Purchase of sports material during the year	7,65,000
	9,90,000
Less: Stock of sports material on 31.3.2020	(3,37,500)
Amount of Sports Material appearing in Income & Expenditure Account	6,52,500

(b) (i) **Revaluation Account**

		₹			₹
To	Furniture	1,740	By	Building	6,400
To	Stock	2,140	By	Sundry creditors	2,800
To	Provision of doubtful debts (₹ 3,500 – ₹ 400)	3,100	By	Investment	900
To	Outstanding wages	3,120			
		10,100			10,100

(ii) **Partners' Capital Accounts**

		P	Q	R			P	Q	R
		₹	₹	₹			₹	₹	₹
To	Balance c/d	142,000	108,000	50,000	By	Balance b/d	88,000	72,000	–
					By	Cash A/c	–	–	50,000
					By	Goodwill A/c (Working Note)	54,000	36,000	
		142,000	108,000	50,000			142,000	108,000	50,000

(iii) Balance Sheet of New Partnership Firm

(after admission of R) as on 31.3.2020

Liabilities	₹	Assets		₹
Capital Accounts:		Goodwill		90,000
P 1,42,000		Building (52,000 + 6,400)		58,400
Q 1,08,000		Furniture (11,600 – 1,740)		9,860
R 50,000	3,00,000	Stock-in-trade (42,800 – 2,140)		40,660
Bills Payable	8,200	Debtors	70,000	
Bank Overdraft	18,000	Less: Provision for bad Debts	(3,500)	66,500
Sundry creditors (25,800-2,800)	23,000	Investment (5,000 + 900)		5,900
Outstanding wages	3,120	Cash (31,000 + 50,000)		81,000
	3,52,320			3,52,320

Working Note:

Calculation of goodwill

R's contribution of ₹ 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 50,000 × 6 = ₹ 3,00,000.

But combined capital of P, Q and R amounts ₹ 88,000 + 72,000 + 50,000 = ₹ 2,10,000.

Thus Hidden goodwill is ₹ 90,000 (₹ 3,00,000 – ₹ 2,10,000).

5. (a) Innova Cars A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d	29,25,000	Oct-01	By bank A/c	2,70,000
Oct-01	To Profit & Loss A/c (Profit on settlement of car)	45,000	Oct-01	By Depreciation on lost assets	67,500
Oct-01	To Bank A/c	5,00,000	Dec-31	By Depreciation A/c	8,35,000
			Dec-31	By balance c/d	22,97,500
		34,70,000			34,70,000
2020			2020		
Jan-01	To balance b/d	22,97,500	Dec-31	By Depreciation A/c	9,10,000
			Dec-31	By balance c/d	13,87,500
		22,97,500			22,97,500

Working Note:

1. To find out loss on Profit on settlement of Innova Car ₹

	₹
Original cost as on 1.4.2017	4,50,000
Less: Depreciation for 2017	67,500
	3,82,500

Less: Depreciation for 2018	90,000
	2,92,500
Less: Depreciation for 2019 (9 months)	67,500
	2,25,000
Less: Amount received from Insurance company	2,70,000
	45,000

(b) Trading and Profit and Loss Account of Mr. Sanjeev for the year ended 31st March, 2020

.Dr. *Cr.*

			Amount				Amount
		₹	₹			₹	₹
To	Opening stock		64,500	By	Sales	4,27,150	
To	Purchases	3,062,00			*Less*: Sales return	5,150	4,22,000
	Less: Purchases return	3,450	3,02,750	By	Closing stock		
To	Carriage inward		2,250		$\left(`1,60,000 \times \frac{100}{80} \times \frac{100}{80}\right)$		2,50,000
To	Wages		23,430				
To	Gross profit c/d		2,79,070				
			6,72,000				6,72,000
To	Salaries		45,100	By	Gross profit b/d		2,79,070
To	Rent		8,600	By	Bad debts recovered		900
To	Advertisement expenses		8,350				
To	Printing and stationery		2,500				
To	Bad debts		2,200				
To	Carriage outward		2,700				
To	Provision for doubtful debts						
	5% of ₹ 2,40,000 12,000						
	Less: Existing provision 6,400		5,600				
To	Provision for discount on debtors						
	2.5% of ₹ 2,28,000 5,700						
	Less: Existing provision 2,750		2,950				
To	Depreciation:						
	Plant and machinery	6,000					
	Furniture and fittings	2,050	8,050				
To	Office expenses		20,320				
To	Interest on loan		6,000				
To	Net profit						
	(Transferred to capital account)		1,67,600				
			2,79,970				2,79,970

Balance Sheet of Mr. Sanjeev as on 31st March, 2020

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	1,30,000		Plant and machinery	40,000	
Add: Net profit	1,67,600		*Less*: Depreciation	6,000	34,000
	2,97,600		Furniture and fittings	20,500	
Less: Drawings	23,000	2,74,600	*Less*: Depreciation	2,050	18,450
Bank overdraft		1,60,000	Closing stock		2,50,000
Sundry creditors		95,000	Sundry debtors	2,40,000	
Payable salaries		4,900	*Less*: Provision for doubtful debts	12,000	
			Provision for bad debts	5,700	2,22,300
			Prepaid rent		600
			Cash in hand		2,900
			Cash at bank		6,250
		5,34,500			5,34,500

Working Note:

Rectification Entries

	Particulars		*Dr. Amount*	*Cr. Amount*
			₹	₹
(i)	Returns inward account	Dr.	5,150	
	Sales account	Dr.	3,450	
	To Purchases account			5,150
	To Returns outward account			3,450
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	7,000	
	To Purchases account			7,000
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	900	
	To Wages account			900
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)			
(iv)	Advertisement expenses account	Dr.	1,650	
	To Purchases account			1,650
	(Being free samples distributed for publicity out of purchases, now rectified)			

6. (a)

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	18,500	
Calls-in-Arrears A/c	Dr.	4,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			2,500
(First call money received on 800 shares and calls-in-advance on 100 shares @ ₹ 25 per share)			

(b) **In the books of Aditya Company Ltd.**

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			50,00,000
	(Being the issue of 10,000 9% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 9% Debentures A/c			25,00,000

	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c To Bank Loan A/c (See Note) (Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)	Dr.	20,00,000	20,00,000

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

(c) Distinction between Money Measurement concept and Matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

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.

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.

   (c) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) Prepare Journal Entries for the following transactions in the books of Gamma Bros.

   (i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

   (ii) Wages paid for erection of Machinery ₹ 8,000.

(iii) Income tax liability of proprietor ₹ 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment.

Capital or revenue expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Cash book

4. (a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2017			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul’s cheque into Bank	

28	Withdrew cash from Bank for Office use	2,000
30	Paid rent by cheque	800

Rectification of errors

(b) The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

Bank Reconciliation Statement

5. The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2017. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2017 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2017 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2017 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April, 2017.

(ix) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2017.

Inventories

6. Closing stock is valued by XYZ Stores on generally accepted accounting principles.

   Stock taking for the year ended 31st March, 2017 was completed by 10th April, 2017, 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, 2017.

   You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2017.

Concept and Accounting of Depreciation

7. The M/s LG Transport purchased 10 trucks at ₹ 45,00,000 each on 1st April 2014. On October 1st, 2016, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

   You are required to prepare the motor truck account for two year ending 31 Dec, 2017.

Bill 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%.

   Prepare Journal Entries in the books of Mr. A

Consignment

9. (a) Mr. A of Assam sent on 18th February, 2017 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, 2017, 600 DVD players @ ₹ 160 per DVD player and again on 20th May, 2017, 300 DVD players @ ₹ 170 each.

B is entitled to a commission of ₹ 25 per DVD player sold plus ¼ 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, 2017.

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

Sales of goods on approval or return basis

(b) 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
10.12.2017	M/s ABC Co.	10,000	No information till 31.12.2017
12.12.2017	M/s DEF Co	15,000	Returned on 16.12.2017
15.12.2017	M/s GHI Co	12,000	Goods worth ₹ 2,000 returned on 20.12.2017
20.12.2017	M/s DEF Co	16,000	Goods Retained on 24.12.2017
25.12.2017	M/s ABC Co	11,000	Good Retained on 28.12.2017
30.12.2017	M/s GHI Co	13,000	No information till 31.12.2017

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, 2017.

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.

Joint venture

10. (a) Mr. H and Mr. S entered into a joint venture to buy and sell Computer monitors on 1st August, 2017.

On 1.8.2017 H sent a draft for ₹ 5,00,000 in favour of S and on 5.8.2017 S purchased 250 Monitors at a cost of ₹ 4,000 each. The monitors were sent to Mr. H by Truck under 'freight to pay' for ₹ 8,000 and were cleared by him on 12.08.2017.

H effected sales in the following manner:

Date	Nos. of units	Sale price per unit (₹)	Discount on sales price
13.08.2017	50	4,700	400 per unit
30.09.2017	100	5,000	10%
30.10.2017	100	4,600	5%

On 15.11.2017, Mr. H settled the account by sending a draft in favour of Mr. S. Profits being shared equally. S does not maintain any books. You are required to prepare in H's books:

(i) Joint venture with Mr. S Account; and

(ii) Memorandum Joint Venture Account.

Royalty

(b) A grants a mine on lease to B on 31.3.13 a royalty of ₹ 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March, 2014	6,000 tonnes
2015	6,400 tonnes
2016	8,000 tonnes
2017	10,000 tonnes

The minimum rent is fixed at ₹ 14,000 and short-workings recoupment is allowable throughout the period of lease.

You are required to calculate the amount of royalty payable for the years ended 31st March, 2014, 2015, 2016 and 2017.

Average Due Date

11. (a) Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1st March, 2017	2 months	4,000
10th March, 2017	3 months	3,000
5th April, 2017	2 months	2,000
23rd April, 2017	1 months	3,750
10th May, 2017	2 months	5,000

Account current

(b) Mr. A owed ₹ 4,000 on 1st January, 2016 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, 2016 Mr. X sold goods to Mr. A	2,230
29 January, 2016 Mr. X bought goods from Mr. A	1,200
10 February, 2016 Mr. A paid cash to Mr. X	1,000
13 March, 2016 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, 2016.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace.

Final accounts and Rectification of entries

12 The following are the balances as at 31st March, 2017 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		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	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 31.3.2017 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, 2017, and a Balance Sheet as on that date. Also show the rectification entries.

Partnership Accounts

Profit and Loss Appropriation Account

13. (a) A, B and C entered into partnership on 1.1.2017 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 31.12.2017 before providing for interest on partners capital was ₹ 1,59,000.

You re required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

(b) 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, 2017 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, 2017, 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	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2017, 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 1.04.2017.

Financial statements of Not for Profit Organizations

15. Smith Library Society showed the following position on 31st March, 2017:

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The receipts and payment account for the year ended on 31st March, 2018 is given below:

		₹			₹
To	Balance b/d		By	Electric charges	7,200
	Cash at bank 25,000		By	Postage and stationary	5,000
	Cash in hand 25,000	50,000	By	Telephone charges	5,000
To	Entrance fee	30,000	By	Books purchased	60,000
To	Membership subscription	2,00,000	By	Outstanding expenses paid	7,000
To	Sale proceeds of old papers	1,500	By	Rent	88,000
To	Hire of lecture hall	20,000	By	Investment in securities	40,000
To	Interest on securities.	8,000	By	Salaries	66,000
			By	Balance c/d	
				Cash at bank	20,000
				Cash in hand	11,300
		3,09,500			3,09,500

You are required to prepare income and expenditure account for the year ended 31st March, 2018 and a balance sheet as at 31s, March, 2018 after making the following adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2017 for ₹ 40,000.

Issue of Shares

16. Pihu Limited issued at par 2,00,000 Equity shares of ₹ 10 each payable ₹ 2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Pal who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 2,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Pal.

You are required to prepare journal entries to record these transactions.

Forfeiture of Shares

17. 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

18. Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:

    (a) To sundry persons for cash at 90% of nominal value of ₹ 50,00,000.

    (b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.

    (c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

    You are required to prepare necessary journal entries Journal Entries.

Basic accounting Ratios

19. From the information given below, calculate (i) Current Ratio and (ii) Debt to Equity Ratio:

    Net Profit of the year ₹ 80,000, Fixed Assets ₹ 2,00,000; Closing Inventory ₹ 10,000; Other Current Assets ₹ 1,00,000; Current Liabilities ₹ 30,000; Share Capital ₹ 1,70,000; 12% Debenture ₹ 60,000.

Short Notes

20. 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.

    (v) Trade bill vs. Accommodation bill.

SUGGESTED ANSWERS/HINTS

1. (a) **False -** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

(b) **False -** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

(c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

(d) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

(e) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

(f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

(g) **False -** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

(h) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

(i) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

(j) **False** - Debenture interest is payable before the payment of any dividend on shares.

(k) **False -** Fixed Assets Turnover ratio measures the efficiency with which the firm uses its fixed assets. Capital Turnover Ratio indicates the firm's ability of generating sales per rupee of long term investment.

2. (a) (i) **Distinction between Money measurement concept and matching concept**

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

(c) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a) **Journal Entries in the books of Gamma Bros.**

	Particulars	*Dr.*	*Cr.*
		Amount (₹)	*Amount (₹)*
(i)	Salaries A/c	7,500	
	To Purchase A/c		7,500
	(Being entry made for stock taken by employees)		
(ii)	Machinery A/c	8,000	
	To Cash A/c		8,000
	(Being wages paid for erection of machinery)		
(iii)	Drawings A/c	1,700	
	To Petty Cash A/c		1,700
	(Being the income tax of proprietor paid out of business money)		

(iv)	Purchase A/c	1,800	
	To Cash A/c		1,750
	To Discount Received A/c		50
	(Being the goods purchased from Naveen for ₹ 2,000 @ 10% trade discount and cash discount of ₹ 50)		

(b) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

4. (a) **Triple Column Cash Book**

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2017			*₹*	*₹*	*₹*	*2017*			*₹*	*₹*	*₹*
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	***After Trial Balance***	***After Final Accounts***
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	***Entry Made Wrongly***
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	***After Trial Balance***	***After Final Accounts***
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. Bank Reconciliation Statement on 31st March, 2017

				₹
Bank Balance as per Cash Book				27,570
Add:	(i)	Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
	(iii)	Debit balance of ₹2,156 brought forward as credit balance on 20th March, 2017 in the Cash Book	4,312	
	(vi)	Cheque issued returned marked 'out of date'	1,725	16,287
				43,857
Less:	(ii)	Cash Book under cast on 15th March, 2017	350	
	(iv)	Discount allowed to a customer, however entry made at gross amount in the Cash Book	100	
	(v)	Commission charged by bank on discounting of bill, not considered in Cash Book	200	
	(vii)	Insurance Premium paid directly by bank under standing instructions	756	
	(viii)	Discounted B/R dishonoured; not entered in Cash Book	1,530	
	(ix)	Bank recorded short cash deposit	45	2,981
Balance as per Bank Statement				40,876

6. Statement showing the valuation of stock as on 31st March, 2017

		₹
A	Value of Stock as on 10th October, 2017	1,67,500
B	*Add:* Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	*Less*: Purchases for the next period (net)	8,100
D	*Less*: Cost of Sales Returns	225
E	*Less*: Loss on revaluation of slow moving inventories	600
F	*Less*: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2017	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
2016			**2016**		
Jan-01	To balance b/d	2,92,50,000	Oct-01	By bank A/c	27,00,000
Oct-01	To Profit & Loss A/c (Profit on settlement of Truck)	4,50,000	Oct-01	By Depreciation on lost assets	6,75,000
Oct-01	To Bank A/c	50,00,000	Dec-31	By Depreciation A/c	83,50,000
			Dec-31	By balance c/d	2,29,75,000
		3,47,00,000			**3,47,00,000**
2017			**2017**		
Jan-01	To balance b/d	2,29,75,000	Dec-31	By Depreciation A/c	91,00,000
			Dec-31	By balance c/d	1,38,75,000
		2,29,75,000			**2,29,75,000**

Working Note:

1. To find out loss on Profit on settlement of truck

	₹
Original cost as on 1.4.2014	45,00,000
Less: Depreciation for 2014	6,75,000
	38,25,000

Less: Depreciation for 2015	9,00,000
	29,25,000
Less: Depreciation for 2016 (9 months)	6,75,000
	22,50,000
Less: Amount received from Insurance company	27,00,000
	4,50,000

8. Journal Entries in the Books of Mr. A

Date		*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	B Dr.		10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B Dr.		240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12$\times$ 12%=240)			
November	4	Cash A/c Dr.		2,240	
		Bills Receivable A/c Dr.		8,000	
		To B			10,240
		(Being amount and acceptance of new bill received from B)			
December	31	B A/c Dr.		8,000	
		To Bills Receivable A/c			8,000
		(Being B became insolvent)			

December	31	Cash A/c	Dr.	3,200	
		Bad debts A/c	Dr.	4,800	
		To B			8,000
		(Being the amount received and written off on B's insolvency)			

9. (a) **In the books of A**

Consignment Account

Dr.			*Amount*				*Cr.* *Amount*
2017			₹	*2017*			₹
Feb. 18	To	Goods sent on consignment account	1,00,000	March 15	By	B's account (Sales) (600 × ₹ 160)	96,000
Feb. 18	To	Cash/Bank account (Expenses)	1,500	May 20	By	B's account (Sales) (300 × ₹ 170)	51,000
Feb. 18	To	B's account (Clearance charges)	3,000	June 30	By	Consignment Stock (Working note 2)	10,450
June 30	To	B's account:					
		Selling expenses (900 × ₹ 20)	18,000				
		Commission (Working note 1)	24,900				
June 30	To	Profit and loss account (profit on consignment transferred)	10,050				
			1,57,450				1,57,450

B's Account

Dr.							*Cr.*
			Amount				*Amount*
2017			₹	*2017*			₹
March 15	To	Consignment account (Sales)	96,000	Feb 18	By	Consignment account (Clearance charges)	3,000
May 20	To	Consignment account (Sales)	51,000	June 30	By	Consignment account:	
						Selling expenses	18,000
						Commission	24,900
				June 30	By	Cash/Bank account	1,01,100
			1,47,000				1,47,000

Working Notes:

1. Calculation of total commission:

Let total commission be *x*

$$x = 900 \times ₹\ 25 + \frac{1}{4}[(₹\ 96{,}000 + ₹\ 51{,}000) - x - (900 \times ₹\ 125)]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 1{,}47{,}000 - x - ₹\ 1{,}12{,}500]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 34{,}500 - x]$$

$4x + x = ₹\ 90{,}000 + ₹\ 34{,}500$

$5x = ₹\ 1{,}24{,}500$

$x = ₹\ 24{,}900$

2. Valuation of consignment stock:

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹\ 1{,}500 \times 100)}{1{,}000}$	150
Proportionate expenses paid by B $\frac{(₹ 3{,}000 \times 100)}{1{,}000}$	300
	10,450

(b) In the books of 'X'

Goods on sales or return, sold and returned day book

Date 2017	Party to whom goods sent	L.F	Amount ₹	Date 2017	Sold ₹	Returned ₹
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2017		Amount ₹	2017		Amount ₹
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			
		77,000			77,000

10. (a) In the books of H

Joint Venture with Mr. S Account

Dr. *Cr.*

Date			Amount ₹	Date			Amount ₹
01.08.17	To	Bank account	5,00,000	13.08.17	By	Bank account (sale proceeds)	2,15,000
12.08.17	To	Bank account (Freight)	8,000	30.09.17	By	Bank account (sale proceeds)	4,50,000
15.11.17	To	Profit and loss account		30.10.17	By	Bank account (sale proceeds)	4,37,000
		(share of profit)	47,000				
15.11.17	To	Bank account (draft sent in settlement)	5,47,000				
			11,02,000				11,02,000

Memorandum Joint Venture Account

Dr. *Cr.*

		₹	₹			₹
To	S (250 × ₹ 4,000)		10,00,000	By	H - Sales (net):	
To	H (Freight)		8,000		50 monitors @ ₹ 4,300	2,15,000
To	Profit:				100 monitors @ ₹ 4,500	4,50,000
	H	47,000			100 monitors @ ₹ 4,370	4,37,000
	S	47,000	94,000			
			11,02,000			11,02,000

(b) Statement showing amount of royalty payable

Date	*Output (in tones)*	*Royalty @ ₹ 2 per tone*	*Minimum Rent*	*Short-workings allowable*	*Short-workings recouped*	*Amount payable*
2014	6,000	12,000	14,000	2,000		14,000
2015	6,400	12,800	14,000	1200		14,000
2016	8,000	16,000	14,000		2,000	14,000
2017	10,000	20,000	14,000		1200	18,800

11. (a) Calculation of Average Due Date

(Taking 4th May, 2017 as the base date)

Date of bill	*Term*	*Due date*	*Amount ₹*	*No. of days from the base date i.e. May 4, 2017*	*Product ₹*
2017		2017			
1st March	2 months	4th May	4,000	0	0
10th March	3 months	13th June	3,000	40	1,20,000
5th April	2 months	8th June	2,000	35	70,000
23rd April	1 month	26th May	3,750	22	82,500
10th May	2 months	13th July	5,000	70	3,50,000
			17,750		6,22,500

Average due date=Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$$= 4^{th} \text{ May, 2017} + \frac{₹\ 6,22,500}{17,750} = 4^{th} \text{ May, 2017} + 35 \text{ days} = 8^{th} \text{ June, 2017}$$

(b) Mr. A in Account Current with Mr. X

(Interest upto 15th March, 2016 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2016						*2016*					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{₹4,02,600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to be paid)	2,140		
			6,340		4,91,800				6,340		4,91,800

12. Rectification Entries

	Particulars		*Dr.*	*Cr.*
			Amount	*Amount*
			₹	₹
(i)	Returns inward account	Dr.	2,575	
	Sales account	Dr.	1,725	
	To Purchases account			2,575
	To Returns outward account			1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)			
(ii)	Drawings account	Dr.	3,500	
	To Purchases account			3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)			
(iii)	Plant and machinery account	Dr.	450	

	To Wages account		450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		
(iv)	Advertisement expenses account	Dr. 825	
	To Purchases account		825
	(Being free samples distributed for publicity out of purchases, now rectified)		

Trading and Profit and Loss Account of Mr. XYZ

for the year ended 31st March, 2017

Dr. *Cr.*

			Amount				*Amount*
		₹	₹			₹	₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			*Less*: Sales return	2,575	2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock		
To	Carriage inward		1,125		$\left(₹\,80{,}000 \times \frac{100}{80} \times \frac{100}{80}\right)$		1,25,000
To	Wages		11,715				
To	Gross profit c/d		1,39,535				
			3,36,000				3,36,000
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of ₹ 1,20,000	6,000					
	Less: Existing provision	3,200	2,800				
To	Provision for discount on						

	debtors					
	2.5% of ₹ 1,14,000 2,850					
	Less: Existing provision 1,375	1,475				
To	Depreciation:					
	Plant and machinery 3,000					
	Furniture and fittings 1,025	4,025				
To	Office expenses	10,160				
To	Interest on loan	3,000				
To	Net profit					
	(Transferred to capital account)					
		83,800				
		1,39,985				1,39,985

Balance Sheet of Mr. XYZ as on 31st March, 2017

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		*Less*: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less: Drawings	11,500	1,37,300	*Less*: Depreciation	1,025	9,225
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	*Less*: Provision for doubtful debts	6,000	
			Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			2,67,250

13. (a) Profit and Loss Appropriation Account

for the year ended 31st December, 2017

Dr. *Cr.*

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000

	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	8,000	34,000			
To	Partners' capital accounts:					
	[profit (₹ 1,59,000 – ₹ 34,000) transferred]					
	A $\left(\frac{5}{10} \text{ of ₹ } 1{,}25{,}000\right)$	62,500				
	Less: Transferred to C	5,000	57,500			
	B $\left(\frac{3}{10} \text{ of ₹ } 1{,}25{,}000\right)$		37,500			
	C $\left(\frac{2}{10} \text{ of ₹ } 1{,}25{,}000\right)$	25,000				
	Add: Transferred from A	5,000	30,000			
			1,59,000			1,59,000

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 1{,}50{,}000 \times 100}{20} = ₹\ 7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

14. (a) Revaluation Account

Date		Particulars	₹	Date		Particulars	₹
2017				2017			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000
	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred)					
		Mr. P (2/7) 2,000					
		Mr. Q (3/7) 3,000					
		Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(b) Partners' Capital Accounts

Dr.								Cr.
Particulars	P (₹)	Q (₹)	R (₹)	Particulars		P (₹)	Q (₹)	R (₹)
To P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
	26,000	36,000	38,000			26,000	36,000	38,000

(c) Cash and Bank Account

Particulars		₹	Particulars		₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c – surrender value of joint life policy	7,550	By	Balance b/d	20,550
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2017

Liabilities		₹	*Assets*		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

15. **Smith Library Society**

Income and Expenditure Account
for the year ended 31st March, 2018

Dr.					*Cr.*
Expenditure	₹	₹	*Income*		₹
To Electric charges		7,200	By Entrance fee (25% of ₹ 30,000)		7,500
To Postage and stationary		5,000			
To Telephone charges		5,000	By Membership subscription	2,00,000	
To Rent	88,000		*Less*: Received in advance	10,000	1,90,000
Add: Outstanding	4,000	92,000			
To Salaries	66,000		By Sale proceeds of old papers		1,500
Add: Outstanding	3,000	69,000			
To Depreciation (W.N.1)			By Hire of lecture hall		20,000
Electrical fittings	15,000		By Interest on securities (W.N.2)	8,000	
Furniture	5,000				
Books	46,000	66,000	*Add*: Receivable	500	8,500
			By Deficit- excess of expenditure over income		16,700
		2,44,200			2,44,200

Balance Sheet of Smith Library Society

as on 31st March, 2018

Liabilities	₹	₹	*Asset*	₹	₹
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	22,500		*Less*: Depreciation	(15,000)	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	(16,700)	7,98,800	*Less*: Depreciation	(5,000)	45,000
			Books	4,60,000	
Outstanding expenses: Rent	4,000		*Less* Depreciation	(46,000)	4,14,000
			Investment:		
Salaries	3,000	7,000	Securities	1,90,000	
Membership subscription in			Accrued interest	500	1,90,500
			Cash at bank		20,000

advance		10,000			
			Cash in hand		11,300
		8,15,800			8,15,800

Working Notes:

1. **Depreciation** ₹

Electrical fittings 10% of ₹ 1,50,000	15,000	
Furniture 10% of ₹ 50,000	5,000	
Books 10% of ₹ 4,60,000	46,000	

2. **Interest on Securities**

Interest @ 5% p.a. on ₹ 1,50,000 for full year	7,500	
Interest @ 5% p.a. on ₹ 40,000 for half year	1,000	8,500
Less: Received		(8,000)
Receivable		500

16. **Book of Pihu Limited**

Journal

Date	*Particulars*		*L.F.*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Bank A/c	Dr.		5,00,000	
	To Equity Share Application A/c				5,00,000
	(Money received on applications for 2,00,000 shares @₹ 2.50 per share)				
	Equity Share Application A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Transfer of application money on 2,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share)				
	Bank A/c	Dr.		6,00,000	
	To Equity Share Allotment A/c				6,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being first call made due on 2,00,000				

	shares at ₹.2 per share))				
	Bank A/c	Dr.		4,50,000	
	To Equity Share First Call A/c				4,00,000
	To Calls in Advance A/c				50,000
	(Being first call money received along with calls in advance on 20,000 shares at ₹2.50 per share)				
	Equity Share Final Call A/c	Dr.		5,00,000	
	To Equity Share capital A/c				5,00,000
	(Being final call made due on 2,00,000 shares at ₹2.50 each)				
	Bank A/c	Dr.		4,45,000	
	Calls in Advance /C	Dr.		50,000	
	Calls in Arrears A/c	Dr.		5,000	
	(Being final call received for 1,78,000 shares and calls in advance for 20,000 shares adjusted)				5,00,000
	Interest on Calls in Advance A/c	Dr.		1,500	
	To shareholders A/c				1,500
	Being interest made due on calls in advance of ₹50,000 at the rate of 12% p.a.)				
	Shareholders A/c	Dr.		1,500	
	To bank A/c				1,500
	(Being payment of Interest made to shareholders)				
	Shareholders A/c	Dr.		83.34	
	To Interest on Calls in Arrears A/c				83.34
	(Being interest on calls in arrears made due at the rate of 10%)				
	Bank A/c	Dr.		5,083.34	
	To Calls in Arrears A/c				5,000
	To Shareholders A/c				83.34
	(Being money received from shareholder for calls in arrears and interest thereupon)				

17. In the books of Company

Journal

Particulars		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

18. In the books of Riya Company Ltd.

Journal Entries

Date	*Particulars*		*Dr.* ₹	*Cr.* ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000

	(Being the application money received on 10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No….dated….)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of ₹ 25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

19. **(i)** Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\,1,10,000}{₹\,30,000} = 11:3 \text{ or } 3.67:1$

Current Assets= Closing Inventory + Other Current Assets

= ₹ 10,000 + ₹ 1,00,000 = ₹ 1,10,000

(ii) Debt to Equity Ratio $= \frac{\text{Long term Debt}}{\text{Sharholders' Equity}}$

$$= \frac{Debentures}{Share\ \text{Capital} + \text{Profit}}$$

$$= \frac{₹\ 60,000}{₹\ 2,50,000} = 0.24:1$$

20. (i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.
3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) Objectives of preparing Trial Balance

The preparation of trial balance has the following objectives:

1 *Checking of the arithmetical accuracy of the accounting entries:* Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. *Basis for preparation of financial statements:* Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. *Summarized ledger:* Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The

position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours $\times$ ₹ 20 = ₹ 40,000.

(v) **Distinction between Trade bill and Accommodation bill**

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

QUESTIONS

True and false

1. State with reasons, whether the following statements are true or false:

   (i) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

   (ii) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

   (iii) Consignment account is of the nature of real account.

   (iv) The balance in petty cash book represents an asset.

   (v) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

   (vi) In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

   (vii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   (viii) Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.

Theoretical Framework

2. (a) State the advantages of setting Accounting Standards.

   (b) Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) Pass a journal entry in each of the following cases.

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or revenue expenditure

   (b) Classify each of the following transactions into capital or revenue transactions:

   -- Complete repaint of existing building.

-- Installation of a new central heating system.

-- Repainting of a delivery van.

-- Providing drainage for a new piece of water-extraction equipment.

-- Legal fees on the acquisition of land.

-- Carriage costs on a replacement part for a piece of machinery.

Cash book

4. (a) Prepare a Triple Column Cash Book for the month of April 2018 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	4,500
1	Cash at bank	18,000
2	Paid into bank	1,500
5	Bought furniture and issued cheque	2,250
8	Purchased goods for cash	750
12	Received cash from Mr. K	1,470
	Discount allowed to him	30
14	Cash sales	7,500
16	Paid to Mr. P by cheque	2,175
	Discount received	75
19	Paid into Bank	750
23	Withdrawn from Bank for Private expenses	900
24	Received cheque from Mr. B	2,145
	Allowed him discount	30
26	Deposited Mr. B's cheque into Bank	
28	Withdrew cash from Bank for Office use	3,000
30	Paid rent by cheque	1,200

Classification of errors

(b) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth ₹ 4,500 from M not recored in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2018:

   (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.

   (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).

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.

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.

Bill of exchange

8. Prepare Journal entries for the following transactions in K. Katrak's books.

   (i) Katrak's acceptance to Basu for ₹ 2,500 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 50 for interest.

   (ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹ 20 noting charges. Bill withdrawn against cheque.

   (iii) D. Dalal retires a bill for ₹ 2,000 drawn on him by Katrak for ₹ 10 discount.

   (iv) Katrak's acceptance to Patel for ₹ 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.

Consignment

9. (a) On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000. The direct expenses of the consignor amounted to ₹ 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of ₹ 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. His actual expenses were ₹ 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for ₹ 1,00,000 and remitted the balance due in cash.

   You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill.

Joint venture

10. (a) A and B, who are sharebrokers are to enter into Joint Venture to underwrite 5,00,000 equity shares of ₹ 10 each of X Ltd. who agrees to allot as fully paid 4,000 shares in the company in consideration of the underwriting arrangement. In connection with the venture, the following expenses are incurred by:

A : Printing and Stationery (₹ 5,000); Postage (₹ 1,000); Advertisement (₹ 3,000)

B : Postage (₹ 750); Solicitor's (₹ 3,500); Entertainment expenses (₹ 4,000)

The public subscription was for ₹ 4,80,000 shares only and the underwriters had to take up the balance shares. Therefore, they approached the Bank, which on the security of the shares, advanced the required sum on 1st July, @ 15% simple interest p.a. The underwriters paid for the shares on the same day and were also allotted the 4,000 shares by X Ltd. The underwriters through the Bank sold their total holding in the market in two equal lots and realized 90% of the face value of the first lot on 30th September and 85% for the second lot on 31st October. The sale proceeds were used first to discharge the principal value. However, interest was paid at the time of final settlement. Shares transfer fees of ₹ 1,000 was met from the Joint Venture Bank Account.

You are required to prepare a Memorandum Joint Venture Account, the account of A as appearing in B's Books and the account of B as appearing in A's Books and also the settlement of account between the parties.

Royalty

(b) Kumar grants a mine on lease to Hello on 31.3.14 a royalty of ₹ 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March,	2015	7,500 tonnes
	2016	8,000 tonnes
	2017	10,000 tonnes
	2018	12,500 tonnes

The minimum rent is fixed at ₹ 17,500 and short-workings recoupment is allowable throughout the period of lease. You are required to calculate the amount of royalty payable for the years ended 31stMarch, 2015, 2016, 2017 and 2018.

Average Due Date

11. (a) 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.

Account current

(b) From the following particulars prepare an Account Current to be rendered by A to B at 31st December, reckoning interest @ 10% p.a.

2017		₹	2017		₹
July 1	Balance owing from B	600	Sept. 01	B accepted A's Bill at 3 months date	250
July 17	Goods sold to B	50	Oct.22	Goods bought from B	30
Aug. 1	Cash received from B	650	Nov. 12	Goods sold to B	20
Aug. 19	Goods sold to B	700	Dec. 14	Cash received from B	80
Aug. 30	Goods sold to B	40			
Sept. 1	Cash received from B	350			

Final accounts and Rectification of entries

12. The following is the trial balance of Hari as at 31st December, 2017:

	Dr.	*Cr.*
	₹	₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000

Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	
	5,11,330	5,11,330

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 3,000 due from Ram and included among the creditors ₹ 1,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Hari amounting to ₹ 600 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 400 had been omitted from the books.

(8) Stock on 31.12.2017 was ₹ 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017.

Partnership: Calculation of goodwill

13. 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 31.12.2017 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	30,000		
	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2017 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.

Partnership: Admission and Retirement

14 Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2018 is as under:

Liabilities		**₹**	**Assets**	**₹**
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2018.

Financial statements of Not for Profit Organizations

15. The following information of M/s. TT Club are related for the year ended 31st March, 2018:

(1)

Balances	As on 01-04-2017 (₹)	As on 31-3-2018 (₹)
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

(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 31.03.2018 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

Issue of Shares

16. 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

17. Mr. P who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 2,000 of such shares to Mr. Q at ₹ 60 per share paid-up as ₹ 70 per share.

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

Issue of Debentures

18. 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.

Basic accounting Ratios

19. Working capital of a company is ₹ 6,00,000. Its Current Ratio is 2.5:1. You are required to calculate value of (i) Current Liabilities, (ii) Current Assets, and (iii) Liquid Ratio/Quick Ratio/Acid Test Ratio, assuming inventories of ₹ 4,00,000.

Short Notes

20. Write short notes on any three 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) Joint venture account.

    (v) Journal.

SUGGESTED ANSWERS/HINTS

1. **(i)** *False*: Net income is determined by preparing income and expenditure in case of persons practicing vacation.

   (ii) *True*: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

   (iii) *False*: Consignment account is a nominal-cum-personal account.

   (iv) *True*: The balance represents the cash physically in existence and is therefore an asset.

   (v) *True*: Because it depicts that one aspect of the double entry has been completed.

   (vi) *True*: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

   (vii) *True*: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

   (viii) *True*: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.

2. **(a)** The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

   (b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

   On the other hand, mercantile system of accounting is a system of classifying and summarizing trandsactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

   Mercantile system of accounting is generally accepted accounting system by business entities

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by mohan by taking over a running business).

(ii) Advertisement Expenses A/c Dr. 1,000

To Purchases A/c 1,000

(iii) Cash A/c Dr. 300

Bad Debts A/c Dr. 300

To Rahim ₹ 600

(b) Complete repaint: revenue.

-- Installation of new heating system: capital.

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Legal fees on acquisition of land: capital

-- Carriage costs on replacement part: revenue.

4. (a) Triple Column Cash Book

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2017			₹	₹	₹	*2017*			₹	₹	₹
April 1	To	Balance b/d		4,500	18,000	April 2	By	Bank (C)		1,500	
April 2	To	Cash (C)			1,500	April 5	By	Furniture A/c			2,250
April 12	To	Mr. K	30	1,470		April 8	By	Purchase A/c		750	
April 14	To	Sales A/c		7,500		April 16	By	Mr. P	75		2,175
April 19	To	Cash (C)			750	April 19	By	Bank (C)		750	
April 24	To	Mr.B (Note 2)	30	2,145		April 23	By	Drawings A/c			900
April 26	To	Cash (C)			2,145	April 26	By	Bank (C)		2,145	

April 28	To	Bank (C)		3,000		April 28	By	Cash (C)			3,000
						April 30	By	Rent A/c			1,200
			—	—	—	April 30	By	Balance c/d	—	13,470	12,870
			60	18,615	22,395				75	18,615	22,395
May 1	To	Balance b/d		13,470	12,870						

Note:

(1) Discount allowed and discount received ₹ 60 and ₹ 75 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

5. Bank Reconciliation Statement as at 31.03.2018

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

6. Valuation of Physical Stock as at March 31, 2018

		₹
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		

	₹ (70,000 – 3,000 + 4,000)		71,000	
(3)	Cost of sales return ₹ (1,000 – 200)		800	72,000
				1,52,000
Less:(1)	Overcasting of a page total ₹ (6,000 – 5,000)		1,000	
(2)	Goods sold and dispatched during January – March, 2018			
	₹ (90,000 – 5,000 + 4,000)	89,000		
	Less: Profit margin $\left(89{,}000\times\frac{25}{125}\right)$	17,800	71,200	72,200
Value of stock as on 31st March, 2018				79,800

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 4,000 goods delivered in March 2018 for which invoice was received in April, 2018, would be treated as purchases of the accounting year 2017-2018 and thus excluded. Similarly, goods dispatched in March, 2018 but invoiced in April, 2018 would be excluded and treated as sale of the year 2017-2018.

7. In the books of M/s. Green Channel Co.

Machinery Account

		₹			₹
1.1.2015	To Bank A/c	1,60,000	31.12.2015	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)		31.12.2015	By Balance c/d	2,56,000
1.7.2015	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	
		2,80,000			2,80,000
1.1.2016	To Balance b/d	2,56,000	31.12.2016	By Depreciation A/c	28,000
				(₹ 20,000 + ₹ 8,000)	
			31.12.2016	By Balance c/d	2,28,000
				(₹ 1,60,000 + ₹ 68,000)	
		2,56,000			2,56,000
1.1.2017	To Balance b/d	2,28,000	1.7.2017	By Bank A/c	1,00,000
30.9.2017	To Bank A/c	30,000		By Profit and Loss A/c	50,000
				(Loss on Sale – W.N. 1)	
			31.12.2017	By Depreciation A/c	18,750
				(₹ 10,000 + ₹ 8,000 + ₹ 750)	
				By Balance c/d	89,250

				(₹ 60,000 + ₹ 29,250)	
		2,58,000			2,58,000
1.1.2018	To Balance b/d	89,250	31.12.2018	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	*Machine II*	*Machine III*
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **Books of K. Katrak**

Journal Entries

			Dr. ₹	*Cr.* ₹
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of ₹ 1,000 and a new bill for ₹1,550 including ₹ 50 as interest)			

(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to M. Mehta dishonoured, ₹ 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

9. **In the books of Mr. Jill**

Consignment Account

Date		***Particulars***	***₹***	***Date***		***Particulars***	***₹***
2018				**2018**			
Jan. 1	To	Goods sent on Consignment A/c		Jan. 1	By	Goods sent on Consignment A/c (Loading)	
		(Invoice price)	1,50,000			₹ (1,50,000 – 1,00,000)	50,000
	To	Bank A/c – Consignor's Expenses	10,000	Mar.31	By	Jack – Sales	1,20,000
					By	Stock on Consignment A/c	
Mar.31	To	Jack – Expenses	3,000			1/5×₹(1,50,000+10,000+3,000)	32,600
		– Commission*					
		(0.05 × ₹ 1,20,000)	6,000				
Mar.31	To	Stock Reserve A/c (₹ 50,000 × 1/5)	10,000				

	To	Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600				
			2,02,600				2,02,600

*Invoice price of goods sold: = 4/5 of ₹ 1,50,000 = ₹ 1,20,000.

The goods were sold for ₹ 1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Jack.

Jack's Account

	Particulars	₹		*Particulars*	₹	₹
To	Consignment A/c – Sales	1,20,000	By	Consignment A/c:		
				Expenses	3,000	
				Commission	6,000	9,000
			By	Bills Receivable A/c		1,00,000
			By	Bank A/c (Balancing figure)		11,000
		1,20,000				1,20,000

10. (a) Memorandum Joint Venture Account

		₹			₹	₹
To	A (Expenses):		By	Bank A/c:		
	Printing and Stationery	5,000.00		(Sale proceeds of shares):		
	Postage	1,000.00		September 30	1,08,000	
	Advertisement	3,000.00		October 31	1,02,000	2,10,000.00
To	B (Expenses):		By	Loss transferred to:		
	Postage	750.00		A		8,450.00
	Solicitor's fees	3,500.00		B		8,450.00
	Entertainment	4,000.00				
To	Bank A/c					
	(Loan for purchase)	2,00,000.00				
To	Bank A/c					
	(Interest on Bank loan)	8,650.00				
To	Bank A/c					

	(Shares transfer fees)	1,000.00				________
		2,26,900.00				2,26,900.00

Working Notes:

			₹
(i)	Sale proceeds: On 30th September 12,000 shares at ₹ 9 per share		1,08,000
	On 31st October 12,000 shares at ₹ 8.50 per share		1,02,000
			2,10,000
	Total liability: (5,00,000- 4,80,000 +4,000) = 24,000		
	Two equal lot = 24,000/2= 12,000 each		
(ii)	Interest on Bank Loan:		
	On ₹ 2,00,000 for 3 months @ 15% p.a.		7,500
	On ₹ 92,000 (i.e. ₹ 2,00,000 – ₹ 1,08,000) for 1 month @ 15% p.a.		1,150
			8,650
(iii)	Joint Venture Bank Account		
	Sale proceeds of shares		2,10,000
	Less: Loan	2,00,000	
	Interest and Shares transfer fee	9,650	2,09,650
	Balance given to A		350

Joint Venture with B Account in the Books of A

Dr. *Cr.*

	Particulars	₹		*Particulars*	₹
To	Bank A/c (Expenses)	9,000	By	Profit and Loss (Share of loss)	8,450
			By	Joint Venture Bank A/c	350
			By	Bank A/c (Balance received from B)	200
		9,000			9,000

Joint Venture with A Account in the Books of B

Dr. *Cr.*

	Particulars	₹		Particulars	₹
To	Bank A/c (Expenses)	8,250	By	Profit and Loss (Share of loss)	8,450
To	Bank A/c (Balance paid to A)	200			
		8,450			8,450

(b) Statement showing amount of royalty payable

Date	Output (in tones)	Royalty @ ₹ 2 per tone	Minimum Rent	Short-workings allowable	Short-workings recouped	Amount payable
2015	7,500	15,000	17,500	2,500		17,500
2016	8,000	16,000	17,500	1,500		17,500
2017	10,000	20,000	17,500		2,500	17,500
2018	12,500	25,000	17,500		1,500	23,500

11. (a) Taking 19.6.2018 as a Base date

Transaction Date	Due Date	Amount	Amount	
8.3.2018	11.7.2018	4,000	22	88,000
16.3.2018	19.6.2018	5,000	0	0
7.4.2018	10.9.2018	6,000	83	4,98,000
17.5.2018	20.8.2018	5,000	62	3,10,000
		20,000		8,96,000

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2018 + ₹ 8,96,000/₹20,000

= 19.6.2018 + 44.8 days (or 45 days approximately)

= 3.8.2018

Mehnaaz wants to save interest of ₹ 157. The yearly interest is ₹ 20,000 × 18%

= ₹ 3,600.

Assume that days corresponding to interest of ₹ 157 are Y.

Then, 3,600 × Y/365 = ₹ 157

or Y = 157 × 365/3,600 = 15.9 days or 16 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 157 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2018 (3.8.2018 – 16 days).

(b) B in Account Current with A

(Interest from Due Date to Dec.31, 2017 @ 10% p.a.)

Dr. *Cr.*

Date		Particulars	Due Date	Amount (₹)	Days	Product	Date		Particulars	Due Date	Amount (₹)	Days	Product
July 1	To	Balance b/d	July 1	600	184	1,10,400	Aug. 1	By	Cash A/c	Aug. 1	650	152	98,800
July 17	To	Sales A/c	July 17	50	167	8,350	Sept. 1	By	Cash A/c	Sept. 1	350	121	42,350
Aug. 19	To	Sales A/c	Aug 19	700	134	93,800	Sept. 1	By	Bills Receivable A/c	Dec. 4	250	27	6,750
Aug.30	To	Sales A/c	Aug. 30	40	123	4,920	Oct. 22	By	Purchases A/c	Oct. 22	30	70	2,100
Nov.12	To	Sales A/c	Nov. 12	20	49	980	Dec. 14	By	Cash A/c	Dec. 14	80	17	1,360
Dec.31	To	Interest A/c ₹ (67,090 × 0.1 / 365)		18.38			Dec. 31	By	Balance c/d		68.38		67,090
				1428.38		2,18,450					1428.38		2,18,450

12. Trading and Profit and Loss Account of Mr. Hari

for the year ended 31st December, 2017

	₹	₹		₹	₹
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		*Less:* Returns	8,600	3,81,000
Add: Omitted invoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	5,800				
	3,16,300				
Less: Drawings	600	3,15,700			
To Carriage		19,600			
To Gross profit c/d		77,500			
		4,59,600			4,59,600

To Rent and taxes		4,700	By Gross profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and stationary	14,400				
Less: Prepaid (1/4)	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			
To Postage & telegram expenses		2,330			
To Travelling expenses		870			
To Provision for bad debts [W.N.(ii)]		1,150			
To Provision for discount on debtors [W.N.(iii)]		437			
To Depreciation on furniture & fittings		500			
To Net profit		34,503			
		81,940			81,940

Balance Sheet of Hari as at 31st December, 2017

Liabilities	₹	₹	*Assets*	₹	₹
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		*Less:* Depreciation	500	4,500
	1,11,193		Sundry debtors (W.N.1)	23,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 30,000			& doubtful debts (W.N.2)	1,150	
Goods 600	30,600	80,593		21,850	
Bank loan		20,000	*Less:* Provision for		
Bank interest due		1,700	discount (W.N.2)	437	21,413
Sundry creditors (W.N.3)		14,200	Stock		78,600
			Prepaid expenses:		
			Printing & stationary		3,600

		Bank balance	8,000
		Cash balance	380
	1,16,493		1,16,493

Working Notes:

(1) Sundry debtors

Balance as per trial balance	24,000
Less: Due to Ram	1,000
	23,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 23,000	1,150
Provision for discount:	
2% on ₹ 21,850 (23,000 -1,150)	437

(3) Sundry creditors

Balance as per trial balance	14,800
Less: Set off in respect of Ram	1,000
	13,800
Add: Purchase invoice omitted	400
	14,200

13.

Valuation of Goodwill:		₹
(1)	*Average Capital Employed*	
	Total Assets *less* Trade payables as on 31.12.2017	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2017	(1,00,000)
		6,00,000
(2)	*Super Profit :*	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	*Value of Goodwill*	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

14. **Revaluation Account**

	₹		₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P 30,400	
		Q 18,240	
		R 12,160	60,800
	63,800		63,800

Capital Accounts of Partners

Particulars	*P*	*Q*	*R*	*T*	*Particulars*	*P*	*Q*	*R*	*T*
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	₹		₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of NEHA Co.

as at 1st April, 2018

Liabilities	₹	*Assets*	₹
Capital Accounts:		Land	10,000
P 80,000		Buildings	1,90,000
Q 80,000		Plant and Machinery	1,04,000

R 40,000	2,00,000	Furniture		43,000
Long Term Debts	3,00,000	Inventories		1,30,000
Trade payables	1,70,000	Trade receivables	1,39,000	
Q's Loan Account	22,760	*Less:* Provision for Doubtful Debts	(27,800)	1,11,200
		Balance at Bank		1,04,560
	6,92,760			6,92,760

15. Subscription for the year ended 31.3.2018

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	₹	*Assets*	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

16. Pehal Ltd.

Journal

2017			*Dr.* ₹	*Cr.* ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000

	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

17. Journal entries

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹ 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x ₹ 20)			50,000
To Preference Share First Call A/c (2,500 x ₹ 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (2,000 x ₹60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x ₹10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 75,000/2500 = ₹ 30

Loss on re-issue =₹ 70 – ₹ 60 = ₹ 10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 2000 = ₹ 40,000.

18. **In the books of A Limited**

Date	Particulars		₹ '000	₹ '000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)			

19. Current Ratio = 2.5 : 1 (Given)

Let Current Liabilities = x

Then, Current Assets= 2.5 x

Working Capital = Current Assets - Current Liabilities

₹ 6,00,000 = 2.5x = x

₹ 6,00,000 = 1.5x

Therefore,

(i) Current Liabilities (x) = $\frac{Rs.6,00,000}{1.5}$ = ₹ 4,00,000

(ii) Current Assets = ₹ 4,00,000 x 2.5 = ₹ 10,00,000

(iii) Liquid Ratio/Acid Test Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹\,6,00,000}{4,00,000} = 1.5:1$

Quick Assets = Current Assets – Inventories

= ₹ 10,00,000 – ₹ 4,00,000 = ₹ 6,00,000

20. **(i)** Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.

(d) The system permits accounts to be kept in as much detail as necessary and therefore, affords significant information for the purpose of control etc.

(e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.

(ii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

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

There are three parties to a bill of exchange:

(i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

(iv) A joint venture account is a nominal account prepared by the co-venturers involved in the joint ventures. The objective of preparing a joint venture account is to ascertain the profit or loss arising out of the joint venture business. The joint venture account is debited with the value of goods or stores bought or used on account of joint venture. It is also debited with expenses incurred. The credit will be to the trading account or cash account or to the party which has supplied the goods or incurred the expenses. When the sale proceeds are received, the party receiving it will debit bank account (or sundry debtors) and credit the joint venture account. The other party will debit the party which has received the sale proceeds and credit the joint venture account.

Thus, joint venture account will reflect profit or loss, which must be transferred to the profit and loss account and the other party's account in agreed proportions.

(v) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

QUESTIONS

True and false

1. State with reasons, whether the following statements are true or false:

   (i) The results and position disclosed by final accounts are not exact.

   (ii) The rationale behind the opening of a suspense account is to tally the trial balance.

   (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

   (iv) Accounting can be viewed as an information system which has its input processing methods and output.

   (v) The value of human resources is generally shown as assets in the Balance Sheet.

   (vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (vii) The debit notes issued are used to prepare Sales Return Book.

   (viii) In Account Current, Red Ink Interest is treated as negative interest.

   (ix) A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

Theoretical Framework

2. (a) Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.

   (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

Journal Entries

3. (a) M/s Suman & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

   (i) A purchase of ₹ 5,600 from M/s Minu & Co. was recorded in the accounts of M/s Mintu & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.

   (ii) A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.

   (iii) Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of of ₹ 90 to M/s Bantu Bros. has been omitted.

(iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Capital or revenue expenditure

(b) Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire.

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*
04.01.2018	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2018		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2018	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2018		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Rectification of errors

(b) Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹10,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹15,000 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of ₹20,000 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹2,000;

(4) Bad Debts aggregating ₹45,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2018 amounting to ₹25,000 was not posted.

Bank Reconciliation Statement

5. On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examination of the two records showed the following errors:

   (i) The debit side of the Cash Book was undercast by ₹ 400.

   (ii) A cheque for ₹ 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.

   (iii) A cheque for ₹ 172 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 127 but was shown correctly in the Bank Statement.

   (iv) A cheque for ₹ 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

   (v) The Bank had debited a cheque for ₹ 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr. Kar's Account.

   (vi) A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.

   (vii) Cheques totalling ₹ 1,300 drawn on November was not presented for payment.

   (viii) Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.

   (ix) Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

   You are required to prepare a Bank Reconciliation Statement on 30th November, 2018.

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, 2018 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, 2018.

   (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, 2018.

Concept and Accounting of Depreciation

7. A lease is purchased on 1st April, 2014 for 4 years at a cost of ₹ 2,00,000. It is proposed to depreciate the lease by the annuity method charging 5 percent interest. A reference to the annuity table shows that to depreciate ₹ 1 by annuity method over 4 years charging 5% interest, one must write off a sum of ₹ 0.282012 [To write off ₹ 2,00,000 one has to write off every year ₹ 5,6402.40 i.e. 0.282012 × 2,00,000].

   You are required to show the Lease Account for four years (2014-15 to 2017-18) and also the relevant entries posted to the profit and loss account.

Bill of Exchange

8. Rita owed ₹1,00,000 to Siriman. On 1st October, 2018, 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, 2018. 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

9. (a) Mr. Green of New Delhi purchased, 10,000 pieces of sarees at ₹ 100 per saree. Out of these 6,000 sarees were sent on consignment to Mr. White of Calcutta at the selling price of ₹ 120 per saree. The consignor paid ₹ 3,000 for packing and freight. Mr. White sold 5,000 sarees at ₹ 125 per saree and incurred ₹ 1,000 for selling expenses and remitted ₹ 5,00,000 to New Delhi on account. Mr. White is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

   You are required to prepare Consignment Account in the books of Mr. Green and Mr. Green's account in the books of agent Mr. White.

Joint venture

(b) A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth ₹ 60,000 to B incurring expenses amounting to

₹ 2,000 for freight and insurance. During transit goods costing ₹ 5,000 became damaged and a sum of ₹ 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance stock lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the joint venture share of profit, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totaled ₹ 1,000. B had earlier remitted an advance of ₹ 10,000. B duly paid the balance due to A by Draft.

You are required to prepare in A's books :

(i) Joint Venture Account.

(ii) B's Account

Sale of Goods on Approval or Return Basis

10. (a) On 31st December, 2018 goods sold at a sale price of ₹ 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Royalty

(b) Write short notes on:

Minimum Rent.

Recoupment of short-workings.

Average Due Date

11. (a) Ram purchases goods on credit. His due dates for payments were as under:

Transaction Date	₹	*Due Date*
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 10

Calculate Average due date.

Account current

(b) The following are the transactions that took place between G and H during the period from 1st October, 2017 to 31st March, 2018:

2017		*₹*
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*
2018		*₹*
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, 2018 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

Final accounts and Rectification of entries

12. The following is the Trial Balance of T on 31st March, 2018 :

	Dr. ₹	*Cr.* ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2018)	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 31.8.2018)	17,000	-
Investments 12% (01.8.2017)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2018 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 31.03.2018, 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, 2018.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2018.

Partnership Accounts: Calculation of goodwill

13. The profits and losses for the previous years are: 2015 Profit ₹ 10,000, 2016 Loss ₹ 17,000, 2017 Profit ₹ 50,000, 2018 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

Admission of a new partner

14. A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	12,900	Building		26,000

Bill Payable	4,100	Furniture		5,800
Bank Overdraft	9,000	Stock-in-Trade		21,400
Capital Account:		Debtors	35,000	
A 44,000		Less: Provision	200	34,800
B 36,000	80,000	Investment		2,500
		Cash		15,500
	1,06,000			1,06,000

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

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' 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 'C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.

(v) It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'.

Financial statements of Not for Profit Organizations

15. The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		450	By	Expenses *(including Payment for sports material ₹ 2,700)*	6,300
To	Annual Income from Subscription	4,590				

	Add: Outstanding of			By	Loss on Sale of Furniture	
	last year received this year	180			(cost price ₹ 450)	180
		4,770		By	Balance c/d	90,450
	Less: Prepaid of last year	90	4,680			
To	Other fees		1,800			
To	Donation for Building		90,000			
			96,930			96,930

Additional information:

Trustwell club had balances as on 1.4.2017 : -

Furniture ₹ 1,800; Investment at 5% ₹ 27,000;

Sports material ₹ 6,660;

Balance as on 31.3.2018 : Subscription Receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

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.

Forfeiture of Shares

17. Kumar 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 Lal at ₹ 65 per share paid-up as ₹ 75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

18. Suvidha Ltd. purchased machinery worth ₹1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 10% discount; and (iii) Debentures are issued at 10% premium

Basic accounting Ratios

19. (a) From the following information, calculate (i) Net Assets Turnover (ii) Fixed Assets Turnover and (iii) Working Capital Turnover Ratios :

(₹)	(₹)
Preference Shares Capital 4,00,000	Plant and Machinery 8,00,000
Equity Share Capital 6,00,000	Land and Building 5,00,000
General Reserve 1,00,000	Motor Car 2,00,000
Profit and Loss Account 3,00,000	Furniture 1,00,000
15% Debentures 2,00,000	Stock 1,80,000
14% Loan 2,00,000	Debtors 1,10,000
Creditors 1,40,000	Bank 80,000
Bills Payable 50,000	Cash 30,000
Outstanding Expenses 10,000	
Sales for the year 2018 were ₹ 30,00,000	

(b) Calculate current assets of a company from the following information: Stock turnover ratio = 4 times Stock at the end is ₹ 20,000 more than the stock in the beginning. Sales ₹ 3,00,000 and gross profit ratio is 20% of sales. Current liabilities = ₹ 40,000 Quick ratio = .75

Short Notes

20. Write short notes on:
    (i) Noting Charges.
    (ii) Fundamental Accounting Assumptions.
    (iii) Retirement of bills of exchange.
    (iv) Over-riding Commission.

SUGGESTED ANSWERS/HINTS

1. (i) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

   (ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

   (iii) **True:** In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

   (iv) **True:** Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.

   (v) **False:** The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.

   (vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (vii) **False:** The debit notes issued are used to prepare purchases return book.

   (viii) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of Account Current. This Red Ink Interest is treated as negative interest.

   (ix) **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

2. (a) Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management.

   Different accounting policies are frequently encountered in the areas like valuation of inventory and investments etc.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

3. (a) Journal Proper of Suman & Co.

Rectification Entries

	Particulars	Dr.	Cr.
		Amount	Amount
		₹	₹
(i)	M/s Mintu & Co. A/c	6,500	
	To M/s Minu & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated….as ₹ 6,500 in M/s Mintu & Co.'s Account in place of M/s Minu & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900
	(Rectification of sale entry for ₹ 9,800 dated ….as ₹ 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Bantu Bros. A/c		90

	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated….).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated…. is being rectified).		

Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications are not done.

(b) (i) Capital expenditure

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

4. (a) **Purchase Returns Book**

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2018				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

(b) **JOURNAL**

	Particulars		***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account	Dr.		10,000	
	To Suspense Account				20,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		30,000	
	To Mr. Philip				30,000
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				

(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		25,000	
	To Suspense Account				25,000
	(The total of Discount allowed during September, 2018 not posted from the Cash Book; error now rectified)				

5. **Bank Reconciliation Statement as on 30th November, 2018**

Particulars			₹	₹
Bank Overdraft as per Bank Statement				3,200
Add:	(i)	Debit side of the Cash Book was undercast	400	
	(ii)	Cheque issued but debited by the Bank to another customer's account by mistake	1,600	
	(vi)	Dividend directly collected by the Bank but not entered in the Cash Book	100	
	(vii)	Cheque issued but yet to be presented for payment	1,300	3,400
				6,600
Less:	(iii)	Cheque issued for ₹ 172 posted in the Cash Book as ₹ 127	45	
	(iv)	Cheque dishonoured but not recorded in the Cash Book	425	
	(v)	Wrong debit by the Bank to Hari's A/c	150	
	(viii)	Cheque deposited but yet to be credited	1,200	

(ix)	Interest debited by the Bank and yet to be entered in the Cash Book	300	2,120
Bank overdraft as per the Cash Book (Cr.)			4,480

6. **Statement of Valuation of Stock on 31st March, 2018**

		₹	₹
Value of stock as on 15th April, 2018			50,000
Add:	Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2018 to 15th April, 2018	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

7. **Lease Account**

Dr. 2014-15		₹	2014-15		Cr. ₹
April. 1	To Bank A/c	2,00,000.00	Mar. 31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c			By Balance c/d	1,53,597.60
	(5% on ₹ 2,00,000)	10,000.00			
		2,10,000.00			2,10,000.00
2015-16			2015-16		
April. 1	To Balance b/d	1,53,597.60	Mar.31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c			By Balance c/d	1,04,875.08
	(5% on ₹ 1,53,597.60)	7,679.88			
		1,61,277.48			1,61,277.48
2016-17			2016-17		
April 1	To Balance b/d	1,04,875.08	Mar 31	By Depreciation A/c	56,402.40

Mar. 31	To Interest A/c	5,243.75	Mar 31	By Balance c/d	53,716.43
		1,10,118.83			1,10,118.83
2017-18			2017-18		
April. 1	To Balance b/d	53,716.43	Mar. 31	By Depreciation A/c	56,402.25
Mar. 31	To Interest A/c	2,685.82			
		56,402.25			56,402.25

Profit and Loss Account

2014-15		₹	2014-15		₹
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	10,000.00
2015-16			2015-16		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	7.679.88
2016-17			2016-17		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	5,243.75
2017-18			2017-18		
Mar. 31	To Depreciation A/c	56,402.25	Mar. 31	By Interest A/c	2,685.82

8. **In the books of Siriman**

Journal Entries

Particulars	***L.F.***		***Dr.*** ₹	***Cr.*** ₹
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				

Bank A/c To Rita (Being the receipt of a portion of the amount due on the bill together with interest)		Dr.	51,500	 51,500
Bills Receivable A/c To Rita (Being the new bill drawn for the balance)		Dr.	50,000	 50,000
Rita To Bills Receivable A/c (Being the dishonour of the bill due to Rita's insolvency)		Dr.	50,000	 50,000
Bank A/c Bad Debts A/c To Rita (Being the receipt of 40% of the amount due on the bill from Rita's estate)		Dr. Dr.	20,000 30,000	 50,000

9. (a) **In the Books of Mr. Green**

Consignment A/c

	₹		₹
To Goods sent on Consignment A/c (6,000 × ₹ 120)	7,20,000	By White's A/c – Sales (5000 × ₹ 125)	6,25,000
To Bank A/c – Packing, Freight charges To White's A/c – Selling expenses	3,000 1,000	By Goods sent on Consignment A/c (6000 × ₹ 20)	1,20,000
To White's Account – Commission 5% on ₹ 6,25,000 = 31,250 20% on ₹ 25,000 = 5,000	 36,250	By Consignment stock account (Refer working note)	1,20,500
To Stock reserve A/c (1000 × ₹ 20)	20,000		
To Profit and Loss account	85,250		
	8,65,500		8,65,500

In the Book of Mr. White
Mr. Green's Account

	₹		₹
To Bank – Selling expense	1,000	By Sales – debtors	6,25,000
To Commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	6,25,000		6,25,000

Working Note:

Closing Stock valuation:

	₹
Cost price of 1000 sarees	1,20,000
1000×120 =1,20,000	
Add: Proportionate expenses ($3,000 \times 1,000/6,000$)	500
	1,20,500

(b)

Books of A
Joint Venture Account

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Purchases (Cost of goods supplied)	60,000	By Bank (Insurance claim)	3,000
To Bank (Expenses)	2,000	By B (Sales)	64,350
To B (Expenses)	1,000	By B (agreed value	
To B (Commission – 1/21 of 8,896)	424	for damaged goods)	4,546
To Profit transferred to:			
Profit & Loss A/c	5,648		
B	2,824		
	71,896		71,896

B's Account

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000

To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Expenses)	1,000
		By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

Working Notes:

1. It has been assumed that the goods damaged in transit have no residual value.
2. **Computation of Sales**

	₹
Cost of goods sent	60,000
Less : Cost of damaged goods	5,000
	55,000
Less : Cost of goods remaining unsold	5,500
Cost of goods sold	49,500
Add : Profit @ 30%	14,850
Sales	64,350

3. Claim for loss of fire admitted by B

Cost of goods	5,500
Add : Proportionate expenses (2,000 × 5,500)/60,000	183
	5,683
Less : 20%	1,137
	4,546

10. (a) **Journal Entries**

Date 2018	***Particulars***		***Dr.*** ₹	***Cr.*** ₹
31st Dec.	Sales A/c To Ritu's A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	3,000	3,000
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	2,250	2,250

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹3,000
Less: Profit (3,000 x 20/120)	₹ 500
Cost of goods	₹2,500

Market price = 2,500 - (2,500 x 10%) = ₹ 2,250.

(b) **(i)** **Minimum Rent** is the amount of rent which the lessee is required to pay to the lessor whether he has derived any benefit or not out of the right vested to him by the lessor. It is also called Dead Rent or Rock Rent or Fixed Rent.

(ii) **Short-Workings** represents excess of Minimum Rent over the Actual Royalty. Right of Recoupment implies that lessor allows the lessee the **right to carry forward and set off** the short-workings against the excess or surplus of royalties over the Minimum Rent in the subsequent years as per the agreement.

11. (a). Calculation of average due date (Base date: 8th April)

Due Date	*Amount*	*No. of days from base date*	*Product*
	₹		₹
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
10th July	400	93	37,200
	1,175		63,350

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th April + 63,350/1,175

= 8th April + 54 days = 1st June

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

H in Account Current with G

(interest to 31st March,2018@10%p.a.)

Date	*Due date*	*Particulars*	*No. of days till 31.3.18*	*Amt.*	*Product*	*Date*	*Due date*	*Particulars*	*No. of days till 31.3.18*	*Amt.*	*Product*
2017	*2017*			₹	₹	*2017*	*2017*			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2018	2018					2018	2018				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

12. Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000
	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of T
for the year ending 31st March, 2018

Dr.					Cr.
		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation	10,000	24,000			

$\left(2,00,000\times\frac{10}{100}\times\frac{6}{12}\right)$			$\left(2,50,000\times\frac{12}{100}\times\frac{8}{12}\right)$		
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2018

Liabilities		₹	***Assets***		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

13. Total Profit for 3 years = (₹ 17,000)+₹ 50,000+₹ 75,000= ₹ 1,08,000.

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

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration

= ₹ 36,000 – ₹ 6,000 = ₹ 30,000

Normal Profit=Interest on Capital employed

= ₹ 20,000 (i.e. ₹ 2,00,000 x10/100) = ₹ 20,000

Super Profit = Average Profit-Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000

Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 =₹ 20,000

14. (i) **Revaluation Account**

		₹			₹
To	Furniture	870	By	Building	3,200

To	Stock	1,070	By	Sundry creditors	1,400
To	Provision of doubtful debts (₹ 1,750 – ₹ 200)	1,550	By	Investment	450
To	Outstanding wages	1,560			
		5,050			5,050

(ii) Partners' Capital Accounts

		A	B	C			A	B	C
		₹	₹	₹			₹	₹	₹
To	Balance c/d	71,000	54,000	25,000	By	Balance b/d	44,000	36,000	–
					By	Cash A/c	–	–	25,000
					By	Goodwill A/c (Working Note)	27,000	18,000	
		71,000	54,000	25,000			71,000	54,000	25,000

(iii) Balance Sheet of New Partnership Firm

(after admission of C) as on 1.1.18

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	45,000
A 71,000		Building (26,000 + 3,200)	29,200
B 54,000		Furniture (5,800 – 870)	4,930
C 25,000	1,50,000	Stock-in-trade (21,400 – 1,070)	20,330
Bills Payable	4,100	Debtors 35,000	
Bank Overdraft	9,000	Less: Provision for bad debts (1,750)	33,250
Sundry creditors (12,900-1,400)	11,500	Investment (2,500 + 450)	2,950
Outstanding wages	1,560	Cash (15,500 + 25,000)	40,500
	1,76,160		1,76,160

Working Note:

Calculation of goodwill

C's contribution of ₹ 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.

But combined capital of A, B and C amounts ₹ 44,000 + 36,000 + 25,000 = ₹ 1,05,000.

Thus Hidden goodwill is ₹ 45,000 (₹ 1,50,000 – ₹ 1,05,000).

15. Corrected Receipts and Payments Account of Trustwell Club for the year ended 31st March, 2018

Receipts		₹	Amount ₹	Payments		Amount ₹
To	Balance b/d		450	By	Expenses (₹ 6,300 – ₹ 2,700)	3,600
To	Subscription			By	Sports Material	2,700
	Annual Income	4,590		By	Balance c/d (Cash in Hand and at Bank)	90,720
	Less: Receivable as on 31.3.2018	270				
	Add: Advance received for the year 2018–2019	90				
	Add: Receivable as on 31.3.2017	180				
	Less: Advance received as on 31.3.2017	90	4,500			
To	Other Fees		1,800			
To	Donation for Building		90,000			
To	Sale of Furniture		270			
			97,020			97,020

Income and Expenditure Account of Trustwell club for the year ended 31st March, 2018

Expenditure			Amount ₹	Income		Amount ₹
To	Sundry Expenses		3,600	By	Subscription	4,590
To	Sports Material			By	Other fees	1,800
	Balance as on 1.4.2017	6,660		By	Interest on investment (5% on ₹ 27,000)	1,350
	Add: Purchases	2,700				
	Less: Balance as on 31.3.2018	1,800	7,560	By	Deficit: Excess of Expenditure over Income	3,600
To	Loss on sale of Furniture		180			
			11,340			11,340

Balance Sheet of Trustwell club
as on 31st March, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Fund	36,000		Furniture	1,800	
Less: Excess of Expenditure over Income	3,600	32,400	*Less*: Sold	450	1,350
			5% Investment		27,000
Building Fund		90,000	Interest Accrued on Investment		1,350
Subscription Received in Advance		90	Sports Material		1,800
			Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			1,22,490

Working Note:

Balance Sheet of Trustwell Club
as on 1st April, 2017

Liabilities	*Amount*	Assets	*Amount*
	₹		₹
Subscription Received in Advance	90	Furniture	1,800
		Investment	27,000
Capital Fund (Balancing Figure)	36,000	Sports Material	6,660
		Subscription Receivable	180
		Cash in Hand and at Bank	450
	36,090		36,090

16.

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000

(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	19,250	
Calls-in-Arrears A/c	Dr.	2,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			1,250
(First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)			

17.

Journal		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000
(Being the forfeiture of 4,000 preference shares ₹75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No…..dated….)			

Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	45,000	 45,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

18. **Books of Suvidha Ltd.**

Journal

Machinery A/c	Dr.	1,98,000	
To Hemant Ltd.			1,98,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,98,000
(12% Debentures issued to Hemant Ltd.)			
Case(ii) When debentures are issued at 10% discount:			
Hemant Ltd.	Dr.	1,98,000	
Discount on Issue of Debentures A/c	Dr.	22,000	
To 12% Debentures A/c			2,20,000
(12% Debentures issued to Hemant Ltd. at 10% discount)			
Case(iii) When debentures are issued at 10% premium:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,80,000
To Premium on Issue of Debentures A/c			18,000
(12% Debentures issued to Hemant Ltd. at 10% premium)			

Workings:

(a) Number of debentures issued in case of 10% discount:

	(₹)
Face value	100
Less: Discount 10%	10
Value at which issued	90

₹ 1,98,000/90 = 2,200 Debentures

(b) Number of debentures issued in case of 10% premium:

	(₹)
Face value	100
Add: Premium 10%	10
Value at which issued	110
₹1,98,000/ 110	= 1,800 Debentures

19. (a) Sales = ₹ 30,00,000

Capital Employed or Net Assets = Share Capital + Reserves and Surplus + Long-term Debt = (₹4,00,000 + ₹6,00,000) + (₹1,00,000 + ₹3,00,000) + (₹2,00,000 + ₹ 2,00,000)

= ₹ 18,00,000

Fixed Assets = ₹8,00,000 + ₹5,00,000 + ₹2,00,000 + ₹1,00,000

= ₹ 16,00,000

Working Capital = Current Assets – Current Liabilities

= ₹4,00,000 – ₹2,00,000 = ₹ 2,00,000

Net Assets Turnover Ratio = ₹30,00,000/₹18,00,000 = 1.67 times

Fixed Assets Turnover Ratio = ₹30,00,000/₹16,00,000 = 1.88 times

Working Capital Turnover = ₹30,00,000/₹2,00,000 = 15 times.

(b) Cost of Goods Sold

= Sales – gross profit

= ₹ 3,00,000 – (₹ 3,00,000 × 20%)

= ₹ 3,00,000 – ₹ 60,000

= ₹ 2,40,000

Stock Turnover Ratio = Cost of Goods Sold / Average stock

4 = Cost of Goods Sold/Average stock

Average stock = Cost of Goods Sold /4

Average stock = ₹ 2,40,000/4

= ₹ 60,000= Average Stock

(Opening stock + Closing stock)/2= ₹ 60,000

= [Opening stock + (Opening stock+₹20,000)]/2= ₹ 60,000

= Opening stock = ₹ 70,000

Liquid Ratio = Liquid assets/Current liabilities

75 = Liquid assets/₹ 40,000

Liquid assets = ₹ 40,000 × .75 = ₹ 30,000

Current Assets = Liquid assets + Closing stock

= ₹ 30,000 + ₹ 70,000

= ₹ 1,00,000.

20. (i) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(ii) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS-1) 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

(i) *Going Concern*: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(iii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

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.

Journal Entries

3. (a) Pass a journal entry in each of the following cases:

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or Revenue Expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

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 errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they are detected before preparation of Trial Balance.

(b) they are detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they are detected after preparing Final Accounts.

Bank Reconciliation Statement

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.

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.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally 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

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.

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.

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

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.

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		Printing and Stationery	1,250
debtors	1,375	Cash in hand	1,450
Sundry Debtors	1,20,000	Cash at bank	3,125
Sundry Creditors	47,500	Office Expenses	10,160
Bad debts	1,100	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.

Partnership Accounts

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	30,000		
	6,55,000		6,55,000

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.

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	600	8,400
		33,100			33,100

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

(a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.

(b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account.

(c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.

(d) After death of N, L and M share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners.

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 For 2020		24,500 2,400	By	Printing and Stationery		2,400
To	Government Grant:			By	Diet expenses		15,600
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(₹ 300 for 2020)		2,000
	Fees from sundry			By	Electricity and water		
	Patients		4,800		charges		2,400
To	Donations (not to be		8,000	By	office expenses		2,000
	capitalized)			By	Investments		20,000
To	Net collections from			By	Balances:		
	benefit shows		6,000		Cash	1,400	
					Bank	6,800	8,200
			1,56,800				1,56,800

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.	

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.

SUGGESTED ANSWERS/HINTS

1. (i) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

(ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

(iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

(v) False: 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 amount received on shares forfeited.

2. (a) (i) Distinction between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(b) Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by Mohan by taking over a running business).

(ii)

Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000

(iii)

Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	
To Rahim			₹ 600

(b) (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

4. (a) **PETTY CASH BOOK**

Receipts ₹	Date 2019	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	***After Trial Balance***	***After Final Accounts***
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	***Entry Made Wrongly***
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. (i) Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2019		₹	**2019**		
Sept. 30			Sept. 30		
	To Party A/c	32,000		By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

(ii) Bank Reconciliation Statement as on 30th September, 2019

Particulars	Amount
	₹
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected upto 30th Sept., 2019	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment upto 30th Sept., 2019	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6th September, 2019. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

6. Statement showing the valuation of stock as on 31st March, 2019

		₹
A	Value of Stock as on 10th April, 2019	1,67,500

B	*Add:* Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	*Less*: Purchases for the next period (net)	8,100
D	*Less*: Cost of Sales Returns	225
E	*Less*: Loss on revaluation of slow moving inventories	600
F	*Less*: Reduction in value on account of default	300
G	Value of Stock on 31st March, 2019	1,63,431

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

7. Machinery Account in the books of M/s. Green Channel Co.

		₹			₹
1.1.2015	To Bank A/c	1,60,000	31.12.2015	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)		31.12.2015	By Balance c/d	2,56,000
1.7.2015	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	
		2,80,000			2,80,000
1.1.2016	To Balance b/d	2,56,000	31.12.2016	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.2016	By Balance c/d	2,28,000
				(₹ 1,60,000 + ₹ 68,000)	
		2,56,000			2,56,000
1.1.2017	To Balance b/d	2,28,000	1.7.2017	By Bank A/c	1,00,000
30.9.2017	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.12.2017	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				By Balance c/d	89,250
				(₹ 60,000 + ₹ 29,250)	
		2,58,000			2,58,000
1.1.2018	To Balance b/d	89,250	31.12.2018	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d	75,862.5
				(₹ 51,000 + ₹ 24,862.5)	
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **Journal Entries in the Books of Mr. A**

Date		*Particulars*	*L.F.*	*Dr. Amount ₹*	*Cr. Amount ₹*
2017					
August	1	Bills Receivable A/c Dr.		10,000	
		To B			10,000
		(Being the acceptance received from B to settle his account)			
August	1	Bank A/c Dr.		9,800	
		Discount A/c Dr.		200	
		To Bills Receivable			10,000
		(Being the bill discounted for ₹ 9,800 from bank)			
November	4	B Dr.		10,000	
		To Bank Account			10,000
		(Being the B's acceptance is to be renewed)			
November	4	B Dr.		240	
		To Interest Account			240
		(Being the interest due from B for 3 months i.e., 8000x3/12× 12%=240)			

November	4	Cash A/c Dr.	2,240	
		Bills Receivable A/c Dr.	8,000	
		To B		10,240
		(Being amount and acceptance of new bill received from B)		
December	31	B A/c Dr.	8,000	
		To Bills Receivable A/c		8,000
		(Being B became insolvent)		
December	31	Cash A/c Dr.	3,200	
		Bad debts A/c Dr.	4,800	
		To B		8,000
		(Being the amount received and written off on B's insolvency)		

9. Consignment to Jaipur Account in the Books of Manoj

Particulars	₹	***Particulars***	₹
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran(Expenses)	12,000	By Kiran(Sales)	1,50,000
To Kiran(Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	2,36,531		2,36,531

Working Notes:

1. Calculation of value of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹ 18,750

   Abnormal Loss as a percentage of total consignment = 10%.

   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

   Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. Calculation of abnormal loss (10%):

   Abnormal Loss at Invoice price = ₹ 18,750.

   Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000

   Add: Proportionate expenses of Manoj (10 % of ₹ 15,000) = ₹ 1,500

   ₹ 16,500

3. **Calculation of closing Inventories (15%):**

Manoj's Basic Invoice price of consignment	=	₹ 1,87,500
Manoj's expenses on consignment	=	₹ 15,000
		₹ 2,02,500

Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375

Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625

Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold= 75% of ₹ 1,87,500 = ₹ 1,40,625

Excess of selling price over invoice price = ₹ 9,375 (₹ 1,50,000 - ₹ 1,40,625)

Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

= ₹ 14,062.5 + ₹ 2,343.75 = ₹ 16,406

10. Goods on sales or return, sold and returned day book in the books of 'X'

Date 2019	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2019*	*Sold ₹*	*Returned ₹*
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2019		*Amount ₹*	2019		*Amount ₹*
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			
		77,000			77,000

11. Taking 19.6.2018 as a Base date

Transaction Date	Due Date	Amount	Amount	
8.3.2018	11.7.2018	4,000	22	88,000
16.3.2018	19.6.2018	5,000	0	0
7.4.2018	10.9.2018	6,000	83	4,98,000
17.5.2018	20.8.2018	5,000	62	3,10,000
		20,000		8,96,000

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2018 + ₹ 8,96,000/₹20,000

= 19.6.2018 + 44.8 days (or 45 days approximately)

= 3.8.2018

Mehnaaz wants to save interest of ₹ 157. The yearly interest is ₹ 20,000 × 18%

= ₹ 3,600.

Assume that days corresponding to interest of ₹ 157 are Y.

Then, 3,600 × Y/365 = ₹ 157

or Y = 157 × 365/3,600 = 15.9 days or 16 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 157 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2018 (3.8.2018 – 16 days).

12. Mr. A in Account Current with Mr. X

(Interest upto 15th March, 2019 @ 10% p.a.)

Dr.											*Cr.*
Date		*Particulars*	*Amount*	*Days*	*Product*	*Date*		*Particulars*	*Amount*	*Days*	*Product*
2019						*2019*					
Jan. 01	To	Balance b/d	4,000	75	3,00,000	Jan. 29	By	Purchase account	1,200	46	55,200
Jan. 15	To	Sales account	2,230	60	1,33,800	Feb. 10	By	Cash account	1,000	34	34,000
Mar. 13	To	Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By	Bills Receivable account	2,000		
Mar. 15	To	Interest account $\left(\frac{₹4,02,600 \times 10 \times 1}{100 \times 366}\right)$	110			Mar. 15	By	Balance of product			4,02,600
							By	Balance c/d (amount to	2,140		

			6,340	4,91,800			be paid)	6,340	4,91,800

13. **Rectification Entries**

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	Returns inward account	Dr. 2,575	
	Sales account	Dr. 1,725	
	To Purchases account		2,575
	To Returns outward account		1,725
	(Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)		
(ii)	Drawings account	Dr. 3,500	
	To Purchases account		3,500
	(Being goods withdrawn for own consumption included in purchases, now rectified)		
(iii)	Plant and machinery account	Dr. 450	
	To Wages account		450
	(Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)		
(iv)	Advertisement expenses account	Dr. 825	
	To Purchases account		825
	(Being free samples distributed for publicity out of purchases, now rectified)		

Trading and Profit and Loss Account of Mr. XYZ

for the year ended 31st March, 2019

Dr. *Cr.*

		₹	Amount ₹			₹	Amount ₹
To	Opening stock		32,250	By	Sales	2,13,575	
To	Purchases	1,53,100			*Less*: Sales return	2,575	2,11,000
	Less: Purchases return	1,725	1,51,375	By	Closing stock		

To	Carriage inward		1,125		$\left(₹\,80{,}000 \times \frac{100}{80} \times \frac{100}{80}\right)$		1,25,000
To	Wages		11,715				
To	Gross profit c/d		1,39,535				
			3,36,000				3,36,000
To	Salaries		22,550	By	Gross profit b/d		1,39,535
To	Rent		4,300	By	Bad debts recovered		450
To	Advertisement expenses		4,175				
To	Printing and stationery		1,250				
To	Bad debts		1,100				
To	Carriage outward		1,350				
To	Provision for doubtful debts						
	5% of ₹ 1,20,000	6,000					
	Less: Existing provision	3,200	2,800				
To	Provision for discount on debtors						
	2.5% of ₹ 1,14,000	2,850					
	Less: Existing provision	1,375	1,475				
To	Depreciation:						
	Plant and machinery	3,000					
	Furniture and fittings	1,025	4,025				
To	Office expenses		10,160				
To	Interest on loan		3,000				
To	Net profit						
	(Transferred to capital account)		83,800				
			1,39,985				1,39,985

Balance Sheet of Mr. XYZ as on 31st March, 2019

		Amount			*Amount*
Liabilities	₹	₹	*Assets*	₹	₹
Capital account	65,000		Plant and machinery	20,000	
Add: Net profit	83,800		*Less*: Depreciation	3,000	17,000
	1,48,800		Furniture and fittings	10,250	
Less:	11,500	1,37,300	*Less*: Depreciation	1,025	9,225

Drawings					
Bank overdraft		80,000	Closing stock		1,25,000
Sundry creditors		47,500	Sundry debtors	1,20,000	
Payable salaries		2,450	*Less*: Provision for doubtful debts	6,000	
			Provision for bad debts	2,850	1,11,150
			Prepaid rent		300
			Cash in hand		1,450
			Cash at bank		3,125
		2,67,250			2,67,250

14.

Valuation of Goodwill:		₹
(1)	*Average Capital Employed*	
	Total Assets *less* Trade payables as on 31.12.2019	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2019	(1,00,000)
		6,00,000
(2)	*Super Profit :*	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	*Value of Goodwill*	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

15. (a) (i) Journal Entry in the books of the M/s LMN

Date	Particulars		Dr. ₹	Cr. ₹
Jan 3 2018	L's Capital A/c	Dr.	1,000	
	M's Capital A/c	Dr.	1,000	
	To N's Capital A/c			2,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii) Revaluation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 5,600 – 4,600)	1,000	By Machinery A/c (₹ 11,700 - 10,000)	1,700
To Inventory A/c (₹ 1,900 – 1,500)	400		
To Partners' Capital A/cs (L - ₹ 100, M - ₹ 100, N - ₹ 100)	300		
	1,700		1,700

Partners' Capital Accounts

	L	M	N		L	M	N
To N (Goodwill)	1,000	1,000	–	By Balance b/d	8,200	8,200	9,000
To Cash A/c	–	–	2,000	By General Reserve A/c	1,000	1,000	1,000
To Executors A/c	–	–	10,100	By Revaluation A/c (Profit)	100	100	100
To Balance C/d	8,300	8,300	–	By L (Goodwill)	–	–	1000
				By M (Goodwill)	–	–	1000
	9,300	9,300	12,100		9,300	9,300	12,100

Working Note:

Statement showing the Required Adjustment for Goodwill

Particulars	L	M	N
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

16. **Jeevan Hospital**

Income & Expenditure Account
for the year ended 31 December, 2019

Expenditure	(₹)	Income	(₹)
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	16,000		
	64,100		64,100

Balance Sheet as at 31st Dec., 2019

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	50,000	1,40,000
Over Expenditure	16,000	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	17,000	51,000
Add : Govt. Grant	80,000	1,60,000	Furniture		6,000
Subscriptions			Investments-		
received in advance		2,400	8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800

			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		2,27,700			2,27,700

Working Notes:

(1) Balance sheet as at 31st Dec., 2019

Liabilities	₹	Assets	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	7,200	Cash in hand	800
	1,36,500		1,36,500

(2)	**Value of Building**	₹
	Balance on 31st Dec. 2019	1,40,000
	Paid during the year	50,000
	Balance on 31st Dec. 2018	90,000
(3)	**Value of Equipment**	
	Balance on 31st Dec. 2019	51,000
	Paid during the year	(17,000)
	Balance on 31st Dec. 2018	34,000
(4)	**Subscription due for 2018**	
	Receivable on 31st Dec. 2018	6,500
	Received in 2019	5,100
	Still Receivable for 2018	1,400

17. **Pehal Ltd.**

Journal

2017			***Dr.*** ₹	***Cr.*** ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000

	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
March 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

18. In the books of Company

Journal

Particulars		*Dr.* ₹	*Cr.* ₹
Preference Share Capital A/c (4,000 x ₹75)	Dr.	3,00,000	
To Preference Share Allotment A/c			1,00,000
To Preference Share First Call A/c			1,00,000
To Forfeited Share A/c			1,00,000

(Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (3,000 x ₹65)	Dr.	1,95,000	
Forfeited Shares A/c (3,000 x ₹10)	Dr.	30,000	
To Preference Share Capital A/c			2,25,000
(Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	45,000	
To Capital Reserve A/c (Note 1)			45,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

19. **Books of Pihu Ltd.**

Journal

Particulars	L.F.	Debit (₹)	Credit (₹)
Bank A/c	Dr.	20,00,00,000	
To Debenture Application A/c			20,00,00,000
(Debenture application money received)			
Debenture Application A/c	Dr.	20,00,00,000	
To 9% Debentures A/c			20,00,00,000
(Application money transferred to 9% debentures account consequent upon allotment)			
Debenture allotment A/c	Dr.	25,00,00,000	
Discount on issue of debentures A/c	Dr.	5,00,00,000	

To 9% Debentures A/c			30,00,00,000
(Amount due on allotment)			
Bank A/c	Dr.	25,00,00,000	
To Debenture Allotment A/c			25,00,00,000
(Money received consequent upon allotment)			

20. **(i)** Preparation of trial balance serves the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(ii) **Rules regarding posting of entries into ledger**

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(iii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

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

There are three parties to a bill of exchange:

(i) The **drawer**, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The **drawee**, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The **payee**, the person who is to receive the payment. The drawer in many cases is also the payee.

(v) **Fundamental Accounting Assumptions**: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.

3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of

past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(vi) **Accounting conventions** emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(vii) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}} = ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

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.

Journal Entries

3. (a) Give journal entries (narrations not required) to rectify the following:

   (i) Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300.

   (ii) A Sales Return of ₹ 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.

   (iii) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.

   (iv) An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Capital or revenue expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) Money spent to reduce working expenses.

   (ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.

(iii) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.

(iv) Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

Cash book

4. (a) Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2019			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20
	14	Cash sales	5,000
	16	Paid to Amar by cheque	1,450
		Discount received	50
	19	Paid into Bank	500
	23	Withdrawn from Bank for Private expenses	600
	24	Received cheque from Parul	1,430
		Allowed him discount	20
	26	Deposited Parul's cheque into Bank	
	28	Withdrew cash from Bank for Office use	2,000
	30	Paid rent by cheque	800

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.

(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.

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

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

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.

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 paisa in a rupee could be recovered from his estate.

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

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

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.

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.

Account current

(b) From the following transactions in the books of Mr. Perfact, 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

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	**30,73,400**	**30,73,400**

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:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017

(e) Provision for bad debts is to be maintained at 5% of Sundry debtors.

(f) 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.

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:

(i) By Capitalization Method; and

(ii) 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	10,000	40,000		
		72,500		72,500

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

(i) Suresh shall bring ₹ 8,000 towards his capital.

(ii) 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.

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:

Receipts	₹	*Payments*	₹
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.

Issue of Shares

17. Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

    (i) ₹ 2 per share payable on application, to be received by 1st July, 2018;

    (ii) Allotment to be made on 10th July, 2018 and a further ₹ 5 per share (including the premium) to be payable;

    (iii) The final call for the balance to be made, and the money received by 30th April, 2019.

    Applications were received for 4,20,000 shares and were dealt with as follows:

    (1) Applicants for 20,000 shares received allotment in full;

    (2) Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

    (3) Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

    (4) The money due on final call was received on the due date.

    You are required to record these transactions (including cash items) in the journal of Piyush limited.

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.

SUGGESTED ANSWERS/HINTS

1. (i) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

(ii) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

(iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) **False:** There are three ways of preparing an Account Current: (i)With help of interest table; (ii) By means of products and (iii) By means of products of balances.

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

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

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

2. (a) Difference between Provision and Contingent liability

	Provision	***Contingent liability***
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(b) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and ease in comparison.

3. (a) Journal Entries

	Particulars	***L.F.***	***Dr. (₹)***	***Cr. (₹)***
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	
	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000

	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

(b) (i) Capital expenditure.

(ii) Revenue expenditure.

(iii) Capital expenditure.

(iv) Revenue expenditure.

4. (a) **Triple Column Cash Book**

Dr.												*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2019			₹	₹	₹	*2019*			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b)

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			
(ii)	X	Dr.	5,000	

	To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)			5,000
(iii)	Suspense A/c	Dr.	630	
	To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)			630
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P (Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)			3,100
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu (Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			1,190
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam (Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			1,500
(vii)	Suspense A/c	Dr.	90	
	To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)			90

Suspense A/c

	₹		₹
To P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram	1,500	By Difference in Trial Balance (Balancing figure)	2,720
To Shyam	1,500		
To P&L Adjustment A/c	90		
	3,720		3,720

5. (a) Bank Reconciliation Statement as on 31st March, 2018

Particulars	Details ₹	Amount ₹
Debit balance as per Cash Book		18,60,000
Add: Cheque issued but not yet presented to bank for payment	3,60,000	
Dividend received by bank not entered in cash book	2,50,000	
Interest credited by bank	6,250	6,16,250
		24,76,250
Less: Cheques deposited into bank but not yet collected	7,70,000	
Bank charges debited by Bank	1,000	
Cheque deposited into bank was dishonoured	1,60,000	
House tax paid by bank	1,75,000	(11,06,000)
Credit balance as per Pass Book		13,70,250

6. Valuation of Physical Stock as at March 31, 2018

		₹
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		
₹ (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return ₹ (1,000 – 200)	800	72,000
		1,52,000
Less:(1) Overcasting of a page total ₹ (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January – March, 2018		
₹ (90,000 – 5,000 + 4,000) 89,000		
Less: Profit margin $\left(89{,}000 \times \frac{25}{125}\right)$ 17,800	71,200	72,200
Value of stock as on 31st March, 2018		79,800

7. In the books of Firm

Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – (₹ 1,00,000 × 4) = ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

8. Journal Entries in the books of Akshay

2018			*Dr.* (₹)	*Cr.* (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No.1) A/c			16,000
	(Being the reversal entry for bill No.1 on renewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal 's A/c			16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2018 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			

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

9. **In the books of Ganpath**

Consignment to Rawat of Jaipur Account

Particulars	₹	*Particulars*	₹
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
To Bank (Expenses: 15,000+45,000+15,000)	75,000	By Goods lost in Transit 50 cases @ ₹ 1,650 each (WN1)	82,500
To Rawat (Expenses: 18,000+25,000+7,000)	50,000	By Consignment Inventories: In hand 50 @ ₹ 1,695 each (WN2)	84,750
To Rawat (Commission)	73,500	By Consignment Inventories:	
To Profit on Consignment ts/f to Profit & Loss A/c	36,250	In transit 50 @ ₹ 1,650 each (WN3)	82,500
	9,84,750		9,84,750

Rawat's Account

Particulars	₹	*Particulars*	₹
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c (Expenses)	50,000
		By Consignment A/c(Commission)	73,500
		By Balance c/d	6,11,500
	7,35,000		7,35,000

Working Notes:

1. Consignor's expenses on 500 cases amounts to ₹ 75,000; it comes to ₹ 150 per case. The cost of cases lost will be computed at ₹ 1,650 per case i.e. 1,500+150.
2. Rawat has incurred ₹ 18,000 on clearing 400 cases, i.e., ₹ 45 per case; while valuing closing inventories with the agent ₹ 45 per case has been added to cases in hand with the agent i.e. 1,500+150+45.
3. The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value i.e. 1,500+150 =1,650.
4. It has been assumed that balance of ₹ 6,11,500 is not yet paid.

10. In the Books of Mr. Ganesh

Journal Entries

Date	*Particulars*		*L.F.*	*Dr.* ₹	*Cr.* ₹
2018	Sales A/c	Dr.		6,500	
March 31	To Trade receivables A/c				6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				
March 31	Inventories with Customers on Sale or Return A/c	Dr.		5,000	
	To Trading A/c (Note 1)				5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April 25	Trade receivables A/c	Dr.		3,900	
	To Sales A/c				3,900
	(Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)				

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	₹	*Assets*	₹	₹
		Trade receivables (₹ 75,000 - ₹ 6,500)		68,500

		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	55,000
				1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x ₹ 6,500 = ₹ 5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

11. (a) Calculation of Average Due Date

Taking Base Date 21.07.2018

Date of bill	*Period*	*Due Date*	*Amount*	*Number of Days from Base Date*	*Product*
			₹		₹
9.4.2018	4 months	12.08.2018	3,000	22	66,000
18.4.2018	3 months	21.07.2018	5,500	0	0
25.5.2018	6 months	28.11.2018	3,000	130	3,90,000
5.6.2018	3 months	8.09.2018	6,000	49	2,94,000
			17,500		7,50,000

$$\text{Average Due Date} = 21\text{st July} + \frac{7{,}50{,}000}{17{,}500}$$ = 21.7.2018 + 43 days = 2.09.2018.

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2018 + 4 months = 4.11.2018;

Second Bill- 1.7.2018+ 6 months = 4.1.2019.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2018 to 4.11.2018)

= ₹ 10,000 x 10% x 63/365 = ₹ 172.60

2nd bill = Interest will be charged on ₹ 7,500 (₹ 17,500 - 10,000) @ 10% p.a. for 124 days (2.09.2018 to 4.1.2019)

= ₹ 7,500 x 10% x 124/365 = ₹ 254.80.

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (7,500+ 172.60+ 254.80) = ₹ 7,927.4

(b) In the books of Mr. Perfact

Mr. Smart in Account Current with Mr. Perfact

(Interest to 31st March, 2019 @ 12% p.a.)

(By means of product)

Date 2019	*Particulars*	*Due Date*	*Amount ₹*	*Days*	*Product*	*Date 2019*	*Particulars*	*Due Date*	*Amount ₹*	*Days*	*Product*
Jan 12	To Sales A/c	Feb. 1	30,000	58	17,40,000	Jan. 1	By Balance b/d	Jan. 1	3,500	90	3,15,000
Jan 31	To Sales A/c	Feb. 15	27,500	44	12,10,000	Feb. 15	By Cash A/c	Feb. 15	40,000	44	17,60,000
Mar. 31	To Interest		130			Feb. 20	By Cash A/c	Feb. 20	7,500	39	2,92,500
	3,96,500/365 x $\frac{12}{100}$					Mar. 10	By Sales returns	Mar. 10	7,000	21	1,47,000
						Mar. 25	By Cash A/c	Mar. 25	6,500	6	39,000
Mar. 31	To Balance c/d		6,870			Mar. 31	By Balance of products				3,96,500
			64,500		29,50,000				64,500		29,50,000

12. M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		*Less:* Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Raghuram & Associates

Profit and Loss Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			
To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Raghuram & Associates

as at 31st March 2018

Liabilities	*Details*	*Amount*	*Assets*	*Details*	*Amount*
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		*Less:* Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	

Less: proprietor's Insurance Premium	(42,000)	13,58,100	*Less:* Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	*Less:* Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	*Less:* Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000
			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium

	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months $\left(\frac{6,000}{15}\times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	=	4,500
Less: interest as per Trial Balance	=	(4,400)
Amount (Outstanding)		100

(4) Provision for bad debts A/c

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

13. Profit and Loss Appropriation Account for the year ended 31st December, 2019

Dr. *Cr.*

		₹	₹			₹
To	Interest on capital			By	Net profit b/d	1,59,000
	A (5% of ₹ 3,20,000)	16,000				
	B (5% of ₹ 2,00,000)	10,000				
	C (5% of ₹ 1,60,000)	8,000	34,000			
To	Partners' capital accounts:					
	[profit (₹ 1,59,000 – ₹ 34,000) transferred]					
	A $\left(\frac{5}{10} \text{ of ₹ } 1,25,000\right)$	62,500				
	Less: Transferred to C	5,000	57,500			
	B $\left(\frac{3}{10} \text{ of ₹ } 1,25,000\right)$		37,500			
	C $\left(\frac{2}{10} \text{ of ₹ } 1,25,000\right)$	25,000				
	Add: Transferred from A	5,000	30,000			
			1,59,000			1,59,000

14. (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

15. Revaluation Account

2018			₹	2018		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs:					
	(Profit on revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

Partners' Capital Accounts

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–

& Ramesh					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.	1,500	
Suresh (6/24 of ₹18,000)	Dr.	4,500	
To Dinesh (6/24 od ₹18,000)			4,500
To Ramesh (2/24 of ₹18,000)			1,500

Balance Sheet of Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	**₹**	**₹**	***Assets***	**₹**	**₹**
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners:			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		*Less:* Provisions	(535)	10,165

Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			86,245

16. Income and Expenditure Account

for the year ended 31st March, 2019

	₹		₹
To Medicines consumed		By Prescription fees	3,30,000
Purchases 1,22,500		By Visiting fees	1,25,000
Less: Closing Stock (47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)	40,000		
To Salaries (₹ 52,500 – ₹ 15,000)	37,500		
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over expenditure	2,42,000		
	4,67,000		4,67,000

Capital Account

for the year ended 31st March, 2019

	₹		₹
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice	2,42,000
Marriage expenses	1,07,500	(derived from income	
To Salary of domestic servants	15,000	and expenditure a/c)	
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		4,92,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	*Assets*	₹
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

17. Journal of Piyush Limited

Date 2018	*Particulars*		*Dr. ₹*	*Cr. ₹*
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with allotment and on 90,000 shares refunded as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No….dated….)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	

	To Equity Share Capital A/c (Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No…..dated….)			6,50,000
2019 April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c (Being final call money on 1,30,000 shares @ ₹ 5 each received)			6,50,000

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

18. **In the books of Bhagwati Ltd.**

Journal Entries

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	9,00,000	
To Equity Share Application A/c			9,00,000
(Being the application money received for 3,00,000 shares at ₹ 3 per share)			
Equity Share Application A/c	Dr.	9,00,000	
To Equity Share Capital A/c (2,00,000 x ₹ 3)			6,00,000
To Share allotment A/c			3,00,000
(Being share allotment made for 2,00,000 shares and excess adjusted towards allotment)			
Equity Share Allotment A/c	Dr.	10,00,000	

To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6)	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	
To Equity Share Capital A/c (2,500 x ₹ 10)			25,000
(Being re-issue of 2,500 shares @ ₹ 6)			
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A/c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c **₹**

Forfeited amount per share = 24,000/3,000 = 8

Loss on re issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	₹ 4 x 2,500	₹ 10,000	

19. Total amount of discount comes to ₹ 60,000 (₹ 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

20. **(i)** Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(ii) Distinction between Trade bill and Accommodation bill

(a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.

(b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.

(c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.

(d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.

(e) In order to recover the debt, the drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.

(iii) Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Any measurement discipline deals with three basic elements of measurement viz., identification of objects and events to be measured, selection of standard or scale to be used, and evaluation of dimension of measurement standards or scale.

Kohler defined measurement as the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquiry or apparatus of observations in accordance with logical or mathematical rules.

Three important elements of measurement are:

(1) Identification of objects and events to be measured;

(2) Selection of standard or scale to be used;

(3) Evaluation of dimension of measurement standard or scale.

(iv) Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages :

(i) Division of work

(ii) Specialisation and efficiency

(iii) Saving of the time

(iv) Availability of information's

(v) Facility in checking

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

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.

Journal Entries

3. (a) Pass a journal entry in each of the following cases:

    (i) A running business was purchased by Mohan with following assets and liabilities:

    Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

    (ii) Goods distributed by way of free samples, ₹ 1,000.

    (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or Revenue Expenditure

(b) Classify the following expenditures as capital or revenue expenditure:

    (i) Travelling expenses of the directors for trips abroad for purchase of capital assets.

    (ii) Amount spent to reduce working expenses.

(iii) Amount paid for removal of stock to a new site.

(iv) Cost of repairs on second-hand car purchased to bring it into working condition.

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.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

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.

(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).

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.

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

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 ¼ 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.

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.

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 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	1,69,000	-
	31,19,000	31,19,000

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.

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	10,000	Cash and Bank Balances	7,000
	80,000		80,000

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..

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

(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.

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.

SUGGESTED ANSWERS/HINTS

1. (a) **False -** Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

   (b) **False -** The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

   (c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

   (d) **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.

   (e) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

   (f) **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

   (g) **False -** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

   (h) **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

   (i) **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

2. **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by Mohan by taking over a running business).

(ii)

Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000

(iii)

Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	
To Rahim			₹ 600

(b) (i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

4. (a) **Purchase Returns Book**

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2020				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	*Entry Made Wrongly*
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. (i) Bank Reconciliation Statement as at 31.03.2020

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

6. Statement of Valuation of Stock on 31st March, 2020

		₹	₹
Value of stock as on 15th April, 2020			50,000
Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	

	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2020 to 15th April, 2020	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

7. **Machinery Account in the books of M/s. Green Channel Co.**

		₹			₹
1.1.2017	To Bank A/c	1,60,000	31.12.2017	By Depreciation A/c (₹ 20,000 + ₹ 4,000)	24,000
	To Bank A/c (Erection charges)	40,000	31.12.2017	By Balance c/d (₹ 1,80,000 + ₹ 76,000)	2,56,000
1.7.2017	To Bank A/c	80,000			
		2,80,000			2,80,000
1.1.2018	To Balance b/d	2,56,000	31.12.2018	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.2018	By Balance c/d (₹ 1,60,000 + ₹ 68,000)	2,28,000
		2,56,000			2,56,000
1.1.2019	To Balance b/d	2,28,000	1.7.2019	By Bank A/c	1,00,000
30.9.2019	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.12.2019	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			2,58,000
1.1.2020	To Balance b/d	89,250	31.12.2020	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	*Machine II*	*Machine III*
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2017	20,000	4,000	
Written down value as on 31.12.2017	1,80,000	76,000	
Depreciation for 2018	20,000	8,000	
Written down value as on 31.12.2018	1,60,000	68,000	
Depreciation for 2018	10,000	8,000	750
Written down value as on 31.12.2019	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **In the books of Siriman**

Journal Entries

Particulars	*L.F.*		*Dr.* ₹	*Cr.* ₹
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				

Bank A/c		Dr.	51,500	
To Rita				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Rita				50,000
(Being the new bill drawn for the balance)				
Rita		Dr.	50,000	
To Bills Receivable A/c				50,000
(Being the dishonour of the bill due to Rita's insolvency)				
Bank A/c		Dr.	20,000	
Bad Debts A/c		Dr.	30,000	
To Rita				50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

9. **In the books of A**

Consignment Account

Dr.			*Amount*				*Cr.* *Amount*
2020			₹	*2020*			₹
Feb. 18	To	Goods sent on consignment account	1,00,000	March 15	By	B's account (Sales) (600 × ₹ 160)	96,000
Feb. 18	To	Cash/Bank account (Expenses)	1,500	May 20	By	B's account (Sales) (300 × ₹ 170)	51,000
Feb. 18	To	B's account (Clearance charges)	3,000	June 30	By	Consignment Stock (Working note 2)	10,450
June 30	To	B's account: Selling expenses (900 × ₹ 20)	18,000				

		Commission (Working note 1)	24,900				
June 30	To	Profit and loss account (profit on consignment transferred)	10,050				
			1,57,450				1,57,450

B's Account

Dr.							*Cr.*
			Amount				*Amount*
2020			₹	*2020*			₹
March 15	To	Consignment account (Sales)	96,000	Feb 18	By	Consignment account (Clearance charges)	3,000
May 20	To	Consignment account		June 30	By	Consignment account:	
		(Sales)	51,000			Selling expenses	18,000
						Commission	24,900
				June 30	By	Cash/Bank account	1,01,100
			1,47,000				1,47,000

Working Notes:

1. **Calculation of total commission:**

Let total commission be *x*

$$x = 900 \times ₹\ 25 + \frac{1}{4}[(₹\ 96{,}000 + ₹\ 51{,}000) - x - (900 \times ₹\ 125)]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 1{,}47{,}000 - x - ₹\ 1{,}12{,}500]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 34{,}500 - x]$$

$$4x + x = ₹\ 90{,}000 + ₹\ 34{,}500$$

5x = ₹ 1,24,500

x = ₹ 24,900

2. Valuation of consignment stock:

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹1,500 \times 100)}{1,000}$	150
Proportionate expenses paid by B $\frac{(₹3,000 \times 100)}{1,000}$	300
	10,450

10. Goods on sales or return, sold and returned day book in the books of 'X'

Date 2019	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2019*	*Sold ₹*	*Returned ₹*
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2019		*Amount* ₹	2019		*Amount* ₹
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			
		77,000			77,000

11. **In the books of G**

H in Account Current with G

(interest to 31st March,2020@10%p.a.)

Date	*Due date*	*Particulars*	*No. of days till 31.3.20*	*Amt.*	*Product*	*Date*	*Due date*	*Particulars*	*No. of days till 31.3.20*	*Amt.*	*Product*
2019	*2019*			*₹*	*₹*	*2019*	*2019*			*₹*	*₹*
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2020	2020					2020	2020				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$ = ₹ 50 (approx.)

12. **Journal Entries**

	Particulars		*Dr. (₹)*	*Cr. (₹)*
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000

	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of T
for the year ending 31st March, 2019

Dr.					*Cr.*
		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation	10,000	24,000	$\left(2,50,000\times\frac{12}{100}\times\frac{8}{12}\right)$		
$\left(2,00,000\times\frac{10}{100}\times\frac{6}{12}\right)$					
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2019

Liabilities		₹	***Assets***		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000

Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

13. (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

14. (a) Revaluation Account

Date		*Particulars*	*₹*	*Date*		*Particulars*	*₹*
2020				*2020*			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000

	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred) Mr. P (2/7) 2,000 Mr. Q (3/7) 3,000 Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(b) Partners' Capital Accounts

Dr. Cr.

	Particulars	P	Q	R		*Particulars*	P	Q	R
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(c) Cash and Bank Account

	Particulars	₹		*Particulars*	₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c –		By	Balance b/d	20,550

	surrender value of joint life policy	7,550			
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2020

Liabilities		₹	*Assets*		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

15. Subscription for the year ended 31.3.2020

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2019	11,250	
Less: Subscription received in advance on 31.3.2020	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2020	16,500	
Add: Subscription received in advance on 1.4.2019	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2019	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2020	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2019	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2020	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 20 (An extract)

Liabilities	₹	***Assets***	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

will be 2,000 hours × ₹ 20 = ₹ 40,000.

16.

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	19,250	
Calls-in-Arrears A/c	Dr.	2,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			1,250
(First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)			

17. **In the books of A Limited**

Date	*Particulars*		*₹ '000*	*₹ '000*
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No…..dated…)			

April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No….dated…)			

18. (i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.
3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) Objectives of preparing Trial Balance

The preparation of trial balance has the following objectives:

1 *Checking of the arithmetical accuracy of the accounting entries:* Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. *Basis for preparation of financial statements:* Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial

statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. *Summarized ledger:* Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarized in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

(iii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

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

(i) 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) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

(vi) Interest coverage ratio indicates the firm's ability to pay off current interest and installments. ***(6 statements x 2 Marks = 12 Marks)***

(b) Differentiate between provision and contingent liability, ***(4 Marks)***

(c) Give journal entries (narrations not required) to rectify the following:

(i) Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300.

(ii) A Sales Return of ₹ 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.

(iii) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.

(iv) An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account. ***(4 Marks)***

Answer

(a) (i) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

(ii) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

(iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

(iv) **False:** There are three ways of preparing an Account Current: (i)With help of interest table; (ii) By means of products and (iii) By means of products of balances.

(v) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

(vi) **False:** Interest coverage ratio is computed as Earnings before interest and taxes divided by Interest. This indicates the firm's ability to meet only the interest and other fixed-charges obligations and not instalments.

(b) Difference between Provision and Contingent liability

	Provision	***Contingent liability***
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(c) Journal Entries

	Particulars	***L.F.***	***Dr. (₹)***	***Cr. (₹)***
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	
	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

Question 2

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

Particulars	***₹***
Carriage	*15,000*
Freight	*45,000*
Loading Charges	*15,000*

Shri 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 and another 50 cases were in transit. Shri Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Shri Ganpath. ***(10 Marks)***

(b) Mr. Alok owes Mr. Chirag ₹ 650 on 1st January 2018. From January to March, the following further transactions took place between Alok and Chirag

January 15	*Alok buys goods*	*₹ 1,200*
February 10	*Alok buys goods*	*₹ 850*
March 7	*Alok received Cash loan*	*₹ 1,500*

Alok pays the whole amount on 31st March, 2018 together with interest @ 6% per annum. Calculate the interest by average due date method. ***(5 Marks)***

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

(i) Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017.

December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 80,000

December 10th - Goods returned by customers ₹ 35,000

December 17th - Received letters from customers for approval ₹ 35,000

December 23rd - Goods with customers awaiting approval ₹ 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2017.

OR

(ii) From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st March, 2018 by means of products method charging interest @ 5% per annum:

Date	*Particulars*	*Amount (₹)*
2018 January 1	*Balance due from Bhuvanesh*	*1,800*
January 10	*Sold goods to Bhuvanesh*	*1,500*
January 15	*Bhuvanesh returned goods*	*650*
February 12	*Bhuvanesh paid by cheque*	*1,000*
February 20	*Bhuvanesh accepted a bill drawn by Avinash for one month*	*1,500*
March 11	*Sold goods to Bhuvanesh*	*720*
March 14	*Received cash from Bhuvanesh*	*800*

(5 Marks)

Answer

(a) In the books of Shri Ganpath

Consignment to Rawat of Jaipur Account

Particulars		₹	*Particulars*		₹
To	Goods sent on Consignment	7,50,000	By	Rawat (Sales)	7,35,000
			By	Goods lost in Transit 50 cases @ ₹ 1,650 each*	82,500

To	Bank (Expenses: 15,000+45,000+15,000)	75,000	By	Consignment Inventories:	
To	Rawat (Expenses: 18,000+25,000+7,000)	50,000		In hand 50 @ ₹ 1,695 each	84,750
To	Rawat (Commission)	73,500	By	Consignment Inventories:	
To	Profit on Consignment ts/f to Profit & Loss A/c	36,250		In transit 50 @ ₹ 1,650 each**	82,500
		9,84,750			9,84,750

**Considered as abnormal loss.*

*** The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value.*

Rawat's Account

Particulars	**₹**	***Particulars***	**₹**
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c(Expenses)	50,000
		By Consignment A/c(Commission)	73,500
		By Balance c/d	6,11,500
	7,35,000		7,35,000

Working Notes:

(i) Consignor's expenses on 500 cases amounts to ₹ 75,000; it comes to ₹ 150 per case. The cost of cases lost will be computed at ₹ 1,650 per case.

(ii) Rawat has incurred ₹ 18,000 on clearing 400 cases, i.e., ₹ 45 per case; while valuing closing inventories with the agent ₹ 45 per case has been added to cases in hand with the agent.

(iii) It has been assumed that balance of ₹ 6,11,500 is not yet paid.

(b) Calculation of average due date

Alok pays the whole amount on 31st March, 2018 together with interest at 6% per annum.

Due Date	***Amount***	***No. of days from Jan. 1***	***Product***
2018	**₹**		
Jan. 1	650	0	0
Jan. 15	1,200	14	16,800
Feb. 10	850	40	34,000
March 7	1,500	65	97,500
	4,200		1,48,300

Average due date = Base date + days equal to $\frac{\text{Sum of Products}}{\text{Sum of the amounts}}$

= Jan. 1 + $\left[\frac{1,48,300}{4,200}\right]$

= Jan. 1 + 35.31*days

= Feb. 6

Interest therefore has been calculated on ₹ 4,200 from 6th Feb. to 31st March, i.e., for 54 days.

4,200 x 6% x 54/365= ₹ 37.28

(c) (i) In the books of Mr. Badhri

Journal Entries

Date	***Particulars***		***L.F.***	***Dr. (in ₹)***	***Cr. (in ₹)***
2017					
Dec. 2	Trade receivables A/c	Dr.		80,000	
	To Sales A/c				80,000
	(Being the goods sent to customers on sale or return basis)				
Dec. 10	Return Inward A/c (Note 1)	Dr.		35,000	
	To Trade receivables A/c				35,000
	(Being the goods returned by customers to whom goods were sent on sale or return basis)				
Dec. 23	Sales A/c	Dr.		15,000	
	To Trade receivables A/c				15,000
	(Being the cancellation of original entry of sale in respect of goods on sale or return basis)				
Dec. 31	Inventories with customers on Sale or Return A/c	Dr.		12,000	
	To Trading A/c (Note 3)				12,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				

Note:

(1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards account.

(2) No entry is required for receiving letter of approval from customer.

(3) Cost of goods with customers = ₹ 15,000 x 100/125 = ₹ 12,000

(4) It has been considered that the transaction values are at involve price (including profit margin).

(ii) Bhuvanesh

in Account Current with Avinash
for the period ending on 31st March 2018

Date	*Particulars*	*Amount*	*Days*	*Products*	*Date*	*Particulars*	*Amount*	*Days*	*Products*
2018		*₹*			*2018*		*₹*		
Jan.1	To Balance b/d	1,800	90*	1,62,000	Jan.15	By Sales Returns	650	75	48,750
Jan. 10	To Sales A/c	1,500	80	1,20,000	Feb. 12	By Bank A/c	1,000	47	47,000
March, 11	To Sales A/c	720	20	14,400	Feb. 20	By B/R A/c (due date: March 23)	1,500	8	12,000
March, 31	To Interest A/c	24							
					March, 14	By Cash A/c	800	17	13,600
					March, 31	By Balance of products			1,75,050
						By Balance c/d	94		
		4,044		2,96,400			4,044		2,96,400

***Calculation of interest**

Interest = (1,75,050 x 5%)/365= ₹ 24

**Opening day considered in calculation of no. of days.*

Question 3

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 Buildings	*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	***30,73,400***	***30,73,400***

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:

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) 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.

(20 Marks)

Answer

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		*Less:* Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight		62,000			
To Gross Profit c/d		3,22,000			
		18,86,000			18,86,000

M/s Raghuram & Associates

Profit and Loss Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000				
Add: Outstanding	5,000	60,000	By Discount received		12,000
To Provision for Doubtful Debts (W.N.4)		16,200			

To Rent and Taxes		24,000			
To Discount Allowed		7,500			
To Carriage outwards		8,500			
To Printing and stationery		6,000			
To Electricity charges		14,000			
To Insurance premium (W.N. 1)		4,800			
To Depreciation (W.N. 2)		80,000			
To General expenses		11,000			
To Bank Charges		3,800			
To Interest on loan	4,400				
Add: Outstanding (W.N. 3)	100	4,500			
To Motor car expenses (Repairs)		13,000			
To Net Profit transferred to Capital A/c		8,700			
		3,34,000			3,34,000

Balance Sheet of M/s Raghuram & Associates

as at 31st March 2018

Liabilities	***Details***	***Amount***	***Assets***	***Details***	***Amount***
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		*Less:* Depreciation	(25,000)	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	(42,000)	13,58,100	*Less:* Depreciation	(20,000)	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	100	60,100	*Less:* Depreciation	(30,000)	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	*Less:* Depreciation	(5,000)	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	(14,000)	2,66,000
			Cash at hand		22,000

			Cash in bank		16,000
			Prepaid insurance (W.N. 1)		1,200
		14,85,200			14,85,200

Working Notes:

(1) Insurance premium

	₹
Insurance premium as given in trial balance	48,000
Less: Personal premium	(42,000)
Less: Prepaid for 3 months $\left(\frac{6,000}{15} \times 3\right)$	(1,200)
Transfer to Profit and Loss A/c	4,800

(2) Depreciation

Building @ 5% on 5,00,000	25,000
Motor Vehicles @ 20% on 1,00,000	20,000
Furniture & Fittings @ 10% on 50,000	5,000
Office Equipment @ 15% on 2,00,000	30,000
Total	80,000

(3) Interest on Loan

Interest on Loan ₹ 60,000 X 10% X 9/12	=	4,500
Less: interest as per Trial Balance	=	(4,400)
Amount (Outstanding)		100

(4) Provision for bad debts A/c

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	26,200		26,200

Question 4

(a) *Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:*

(i) *₹ 2 per share payable on application, to be received by 1st July, 2017;*

(ii) *Allotment to be made on 10th July, 2017 and a further ₹ 5 per share (including the premium) to be payable;*

(iii) *The final call for the balance to be made, and the money received by 30th April, 2018.*

Applications were received for 4,20,000 shares and were dealt with as follows:

(1) *Applicants for 20,000 shares received allotment in full;*

(2) *Applicants for 1,00,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;*

(3) *Applicants for 3,00,000 shares received an allotment of one share for every five shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and*

(4) *The money due on final call was received on the due date.*

You are required to record these transactions (including cash items) in the journal of Piyush limited. ***(10 Marks)***

(b) *A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:*

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

B retired on 1st April, 2018 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.

(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000

(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	*₹*
2014	*90,000*
2015	*1,40,000*
2016	*1,20,000*
2017	*1,30,000*

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

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement. ***(10 Marks)***

Answer

(a) Journal of Piyush Limited

Date 2017	***Particulars***		***Dr. ₹***	***Cr. ₹***
July 1	Bank A/c (Note 1 – Column 3)	Dr.	8,40,000	
	To Equity Share Application A/c			8,40,000
	(Being application money received on 4,20,000 shares @ ₹ 2 per share)			
July 10	Equity Share Application A/c	Dr.	8,40,000	
	To Equity Share Capital A/c			2,60,000
	To Equity Share Allotment A/c (Note 1 - Column 5)			4,00,000
	To Bank A/c (Note 1–Column 6)			1,80,000
	(Being application money on 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with			

	allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			3,90,000
	To Securities Premium a/c			2,60,000
	(Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)			
	Bank A/c (Note 1 – Column 8)	Dr.	2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being balance allotment money received)			
	Equity Share Final Call A/c	Dr.	6,50,000	
	To Equity Share Capital A/c			6,50,000
	(Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)			
April 30	Bank A/c	Dr.	6,50,000	
	To Equity Share Final Call A/c			6,50,000
	(Being final call money on 1,30,000 shares @ ₹ 5 each received)			

Working Note:

Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	Amount adjusted on Allotment	Refund [3-4-5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	**4,20,000**	**1,30,000**	**8,40,000**	**2,60,000**	**4,00,000**	**1,80,000**	**6,50,000**	**2,50,000**

(b) **Revaluation Account**

	₹		₹
To Furniture A/c	40,000	By Office equipment A/c	47,000
To Stock A/c	50,000	By Building A/c	5,00,000
To Joint life policy	10,000	By Provision for doubtful debts	15,000
To Partners' capital A/cs:			
A 2,31,000			
B 1,54,000			
C 77,000	4,62,000		
	5,62,000		5,62,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By revaluation reserve	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C's capital A/c		30,000	
	12,11,000	8,14,000	5,37,000		12,11,000	8,14,000	5,37,000

Balance Sheet as on 1.4.2018 (After B's retirement)

Liabilities	₹	₹	***Assets***	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	5,07,000	16,28,000	Office equipment		3,27,000
B's loan account		8,14,000	Stock		2,00,000
Sundry creditors		3,70,000	Sundry debtors	3,00,000	
			Less: Provision for doubtful debts	(15,000)	2,85,000

			JLP		1,50,000
			Cash at bank		1,50,000
		28,12,000			28,12,000

Working Notes:

Calculation of goodwill:

1. **Average of last 4 year's profit**

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

   = ₹ 1,20,000

2. **Goodwill at three years' purchase**

   ₹ 1,20,000 x 3 = ₹ 3,60,000

Goodwill adjustment

	Share of goodwill (Old ratio)	***Share of goodwill (New ratio)***	***Adjustment***
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

Question 5

(a) You are provided with the following details:

Current ratio	*2.5*
Liquidity ratio	*1.5*
Net Working Capital	*₹ 3,00,000*
Stock Turnover Ratio	*6 times*
Ratio of Gross Profit on Sales	*20%*
Turnover to Fixed assets (net)	*2 times*
Average debt collection period	*2 months*
Fixed Assets to net worth	*0.8*
Reserve and Surplus to Capital	*0.5*

Draw up the Balance Sheet as at 31st March, 2018 of Zoom Ltd. with appropriate figures:

Zoom Ltd.

Balance Sheet as at 31st March, 2018

Liabilities	*₹*	*Assets*	*₹*
Share Capital	*?*	*Fixed Assets*	*?*
Reserves and Surplus	*?*	*Stock*	*?*
Long-Term Borrowings	*1,50,000*	*Debtors*	*?*
Current Liabilities	*?*	*Bank*	*50,000*
Total	*11,00,000*		*11,00,000*

(10 Marks)

(b) *Calculate the Trade Receivables Turnover Ratio, the average collection period and Gross Profit Ratio from the following information:*

Particulars	
Total revenue from operations	*6,00,000*
Cash revenue from operations	*25% if Total revenue from operations*
Trade Receivables as at 01.04.2017	*60,000*
Trade Receivables as at 31.03.2018	*1,40,000*
Cost of Revenue from Operations	*4,20,000*

(10 Marks)

Answer

(a) Balance Sheet of Zoom Ltd. as at 31.3.2018

Capital and Liabilities	**₹**	***Assets***	**₹**
Share Capital	5,00,000	Fixed assets	6,00,000
Reserves & Surplus	2,50,000	Stock	2,00,000
Long term borrowings	1,50,000	Debtors	2,50,000
Current liabilities	2,00,000	Bank	50,000
	11,00,000		11,00,000

Working Notes:

Assume Current Liabilities	1.0
Current Assets are	2.5
Therefore, Difference or working capital	1.5
Given, Working Capital	₹ 3,00,000

Current Assets = ₹ 3,00,000 x 2.5/1.5 =	₹ 5,00,000
Current Liabilities =	₹ 2,00,000
Given, Liquidity Ratio =	1.5
Liquid Assets ₹ 2,00,000 x 1.5 =	₹ 3,00,000
Therefore, Stock = (Current Assets – Liquid Assets) = ₹ 5,00,000 - ₹ 3,00,000	
Stock = ₹ 2,00,000	
Cost of Sales (as stock turnover is 6) = ₹ 2,00,000 x 6 =	₹ 12,00,000
Sales (G.P. ratio 20%) = ₹ 12,00,000 + [20/80) x 12,00,000]	
Sales = 15,00,000*	
Fixed Assets = ₹ 12,00,000 / 2 = ₹ 6,00,000	
Debtors = ₹ 15,00,000/6 = ₹ 2,50,000**	
Net worth = ₹ 6,00,000 x 1/ 0.8 = ₹ 7,50,000	
Reserve and Surplus, 1/3rd of net worth = ₹ 2,50,000	
Share Capital = ₹ 7,50,000 - ₹ 2,50,000 = ₹ 5,00,000	

**Alternatively, candidates may use fixed assets turnover ratio for computation of sales.*

***The balance of Debtors can be calculated as balancing figure in the balance sheet.*

(b) Trade Receivables Turnover Ratio = Net Credit Sales/ Average Trade receivables

Trade Receivables Turnover Ratio = ₹ 4,50,000/ ₹ 1,00,000

= 4.5 times.

Average collection period

$$= \frac{\text{Average accounts receivable}}{\text{Average daily credit sale}}$$

Average daily credit sales = 4,50,000/360*= 1,250

= 1,00,000/1,250

= 80 days

Therefore, on an average, debtors take 80 days to pay.

** 360 days considered.*

Gross Profit Ratio

= Gross Profit/Sales x 100

= (6, 00,000 – 4, 20,000) / 6, 00,000 x 100= 30%

Working notes:

1. **Credit sales= Total sales – Cash sales**

   Cash Sales = 25% of ₹ 6,00,000 = ₹1,50,000

   Credit Sales = ₹ 6,00,000 – ₹ 1,50,000 = ₹ 4,50,000

2. **Average Trade Receivables** = (Opening Trade Receivables + Closing Trade Receivables)/ 2

   = (₹ 60,000 + ₹ 1,40,000) / 2

   = ₹ 1,00,000

Question 6

(a) The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following:

(i) A Cheque of Rs,1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.

(ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(iii) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to ₹ 7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.

(v) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.

(vi) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.

(vii) A Bill Receivable for ₹ 5,200 previously dishonoured (Discount ₹ 200) with the Bank had been dishounoured but advice was received on 1st April, 2018.

(viii) A Bill for ₹ 10,000 was retired /paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018. ***(10 Marks)*** *(b) Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.*

(i) Purchase account was undercast by ₹ 8,000.

(ii) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.

(iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.

(iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.

(v) Repairs to Machinery was debited to Machinery Account ₹ 1,800.

(vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries. ***(10 Marks)***

Answer

(a) **Bank Reconciliation Statement**

as on 31st March, 2018

Particulars	**₹**
Bank balance (Debit i.e. overdraft) as per Bank Pass book	33,575
(i) No adjustment required as there would be no difference on 31.3.18	
(ii) *Add:* No entry in Cash book for interest collection by Bank	2,800
(iii) *Less:* Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(7,500)
(iv) *Add:* Cheque credited in cash book but not debited in pass book	2,500
(v) *Add:* Reversal of wrong Credit	500
Less: Reversal of wrong debit	(300)
(vi) *Less:* Cheque of ₹ 1,0000 entered in cash book but omitted to be banked	(1,000)
(vii) *Less:* Discounted dishonored but no entry in Cash book	(5,200)
(viii) *Add:* Rebate on bill retired not entered in cash book	175
(viii) *Add:* Cheques deposited in bank not yet recorded in cash book	2,400
Balance (Cr. i.e. overdraft) as per Cash book	27,950

Note: A cheque of ₹ 1,080 credited in Pass Book on 28th March, 2018 and later debited in Pass Book on 1st April, 2018 has no effect on Bank Reconciliation statement as at 31st March, 2018.

(b) Journal Entries in the books of Miss Daisy

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
(i)	Profit & Loss Adjustment A/c	Dr.	8,000	
	To Suspense*A/c			8,000
	(Purchase Account under cast in the previous year; error now rectified)			
(ii)	Rahim's Account	Dr.	2,500	
	To Profit & Loss Adjustment A/c			2,500
	(Sales to Rahim omitted last year; now adjusted)			
(iii)	Anbu's Account	Dr.	1,200	
	To Asok's Account			1,200
	(Amount received from Asok wrongly posted to the account of Anbu; now rectified)			
(iv)	Profit & Loss Adjustment A/c	Dr.	450	
	To Suspense* A/c			450
	(Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)			
(v)	Profit & Loss Adjustment A/c	Dr.	1,800	
	To Machinery A/c			1,800
	(Repairs to machinery was wrongly debited to machinery account, now rectified)			
(vi)	Profit & Loss Adjustment A/c	Dr.	6,000	
	To Mr. Paul Account			6,000
	Credit purchase of goods from Mr. Paul sale last year, now rectified)			
(vii)	Daisy's Capital A/c	Dr.	13,750	
	To Profit and Loss Adjustment Account			13,750
	(Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c – Refer W.N. 1)			
(viii)	Suspense A/c	Dr.	8,450	
	To Daisy's Capital A/c			8,450
	(Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)			

**Considering that the difference was posted to Suspense account.*

Working Notes

1. Profit and Loss Adjustment Account

	₹		₹
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c (Bal. Transfer)	13,750
To Machinery A/c	1,800		
To Mr. Paul's A/c	6,000		
	16,250		16,250

2. Suspense Account

	₹		₹
To Daisy's Capital A/c (Balance Transfer)	8,450	By P & L Adj. A/c	8,000
		By P & L Adj. A/c	450
	8,450		8,450

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

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

(i) *Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.*

(ii) *Depreciation is a non-cash expense and does not result in any cash outflow.*

(iii) *Fees received for Life Membership is a revenue receipt as it is of recurring nature.*

(iv) *If Closing Stock appears in the Trial Balance:*

The closing inventory in then not entered in Trading Account. It is shown only in the balance sheet.

(v) *Inventory Turnover Ratio is also known as Stock Turnover Ratio.*

(vi) *If del-creders commission is paid to consignee, the loss of bad debts is to be borne by the consignor.* ***(6 x 2 = 12 Marks)***

(b) *Discuss the limitations which must be kept in mind while evaluating the Financial Statements.* ***(4 Marks)***

(c) *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.* ***(4 Marks)***

Answer

(a) (i) False: Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.

(ii) True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

(iii) False: Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

(iv) True: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.

(v) True: Inventory Turnover Ratio is also known as Stock Turnover Ratio. It establishes the relationship between the cost of goods sold during the year and average inventory held during the year.

(vi) False: To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.

(b) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

(i) The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money

(ii) Balance sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in the long run and not for the past date.

(iii) Accounting ignores changes in some money factors like inflation etc.

(iv) There are occasions when accounting principles conflict with each other.

(v) Certain accounting estimates depend on the sheer personal judgment of the accountant.

(vi) Different accounting policies for the treatment of same item adds to the probability of manipulations.

(c) Calculation of depreciation for 5th year

(a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000

(b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – ₹ 1,00,000 × 4 = ₹ 6,00,000.

(c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000

(d) Remaining useful life as per previous estimate = 6 years

(e) Remaining useful life as per revised estimate = 8 years

(f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

Question 2

(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) Sales Day Book was overcast by ₹ 1,000.

(ii) A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.

(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.

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.

(10 Marks)

(b) Define the term "Royalty" and give any four examples for the same. ***(5 Marks)***

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

(i) From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31st October, 2018 by means of product method charging interest @ 5% p.a.

Date	***Particulars***	***(₹)***
1st July	*Balance due from XY*	*1,500*
20th August	*Sold goods to XY*	*2,500*
28th August	*Goods returned by XY*	*400*
25th September	XY paid by cheque	1,600
20th October	Received cash form XY	1,000

(ii) 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. ***(5 Marks)***

Answer

(a)

(i)	P & L Adjustment A/c	Dr.	1,000	
	To Suspense A/c			1,000
	(Correction of error by which sales account was overcast last year)			
(ii)	X	Dr.	5,000	
	To Y			5,000
	(Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)			
(iii)	Suspense A/c	Dr.	630	
	To P & L Adjustment A/c			630
	(Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)			
(iv)	Bills Receivable A/c	Dr.	1,550	
	Bills Payable A/c	Dr.	1,550	
	To P			3,100
	(Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)			
(v)	P & L Adjustment A/c	Dr.	1,190	
	To Mrs. Neetu			1,190
	(Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)			
(vi)	Suspense A/c	Dr.	3,000	
	To Ram			1,500
	To Shyam			1,500
	(Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)			
(vii)	Suspense A/c	Dr.	90	
	To P&L Adjustment A/c			90
	(Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)			

Suspense A/c

	₹		₹
To P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram	1,500	By Difference in Trial Balance (Balancing figure)	2,720
To Shyam	1,500		
To P&L Adjustment A/c	90		
	3,720		3,720

(b) "Royalty" may be defined as Periodic payment made by one person (lessee) to another person (lessor) for using the right by the lessee vested in the lessor.

Examples:

1. For the extraction of oil, coal, and minerals.
2. To an author for sale of his books.
3. To a patentee for the use of patent.
4. For use of technical knowhow developed by a party

(c) (i) XY in Account Current with AB as on 31st Oct, 2018

		(₹)	*Days*	*Product (₹)*			*(₹)*	*Days*	*Product (₹)*
01.07.18	To Bal. b/d	1,500	123	1,84,500	28.08.18	By Sales Returns	400	64	25,600
20.8.18	To Sales	2,500	72	1,80,000	25.09.18	By Bank	1,600	36	57,600
31.10.18	To Interest	37			20.10.18	By Cash	1,000	11	11,000
					20.10.18	By Balance of Products			2,70,300
					31.10.18	By Bal. c/d	1,037		
		4,037		3,64,500			4,037		3,64,500

Note:

Interest $= ₹\ 2,70,300 \times \frac{5}{100} \times \frac{1}{365} = ₹\ 37$ (approx.)

(ii) In the Books of Mr. Ganesh

Journal Entries

Date	*Particulars*		*L.F.*	*Dr. ₹*	*Cr. ₹*
2018	Sales A/c	Dr.		6,500	

March 31	To Trade receivables A/c				6,500
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				
March 31	Inventories with Customers on Sale or Return A/c	Dr.		5,000	
	To Trading A/c (Note 1)				5,000
	(Being the adjustment for cost of goods lying with customers awaiting approval)				
April 25	Trade receivables A/c	Dr.		3,900	
	To Sales A/c				3,900
	(Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)				

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	₹	***Assets***	₹	₹
		Trade receivables (₹ 75,000 - ₹ 6,500)		68,500
		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	55,000
				1,23,500

Notes:

(1) Cost of goods lying with customers = 100/130 x ₹ 6,500 = ₹ 5,000

(2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

Question 3

(a) 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			

Ramesh	*15,000*			
Naresh	*10,000*	*40,000*		
			Cash in hand	*2,800*
			Cash at Bank	*2,200*
		72,500		***72,500***

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

(i) Suresh shall bring ₹ 8,000 towards his capital.

(ii) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Reserve 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.

(b) Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2018

Particulars	*(₹)*	*Particulars*	*(₹)*
To Cost of Goods sold	*22,00,000*	*By Sales*	*45,00,000*
To Gross Profit C/d	*?*		*45,00,000*
		By Gross Profit B/d	*?*
To Salaries paid	*12,00,000*	*By Other Income*	*45,000*
To General Expenses	*6,00,000*		
To Selling Expenses	*?*		
To Commission to Manager (On net profit before charging such commission)	*1,00,000*		
To Net Profit	*?*		
	?		*?*

Selling expenses amount to 1% of total Sales

You are required to compute the missing figures.

Answer

(a) **Revaluation Account**

2018			₹	2018		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs: (Profit on revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

Partners' Capital Accounts

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	-
	26,972.5	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.		1,500	
Suresh (6/24 of ₹18,000)	Dr.		4,500	
To Dinesh (6/24 od ₹18,000)				4,500
To Ramesh (2/24 of ₹18,000)				1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	₹	₹	*Assets*	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners :			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		*Less:* Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			86,245

(b) Trading and P&L A/c for the year ended 31st March 2018

Dr. *Cr.*

Particulars	₹	Particulars	₹
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	23,00,000		
	45,00,000		45,00,000
To Salaries A/c	12,00,000	By Gross Profit b/d	23,00,000

To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses (1% of 45,00,000)	45,000		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	4,00,000		
	23,45,000		23,45,000

Question 4

(a) *Raj of Gwalior consigned 15,000 kgs of Ghee at ₹ 30 per kg to his agent Siraj at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim.*

Siraj sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

(i) *The amount of abnormal loss*

(ii) *Value of stock at the end and*

(iii) *Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.*

(b) *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 allowed 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 form bank in this connection	*1,75,000*

(10 Marks + 10 Marks = 20 Marks)

Answer

(a) **Consignment Account**

	₹			₹
To Goods sent on consignment A/c (15,000 kg x ₹ 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x ₹ 60)		4,50,000
To Cash A/c (Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c (Insurance claim - WN)	9,000	
To Consignee's A/c:		Add: Abnormal Loss (WN)	5,000	14,000
Advertisement & Recurring expenses	33,000	(Profit and Loss Account)		
Commission @ 5% on ₹4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			
	7,10,690			7,10,690

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg	
Total cost (400 x ₹ 30)	12,000
Add: expenses incurred by the consignor @ ₹5 per kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

2. Valuation of Inventories

	Quantity (Kgs)	**Amount (₹)**
Total Cost (15,000 kg x ₹30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	(400)	(14,000)
	14,600	5,11,000
Less: Normal Loss	(100)	
	14,500	5,11,000
Less: Quantity of ghee sold	(7,500)	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		**2,46,690**

(b) Bank Reconciliation Statement as on 31st March, 2018

Particulars	Details ₹	Amount ₹
Debit balance as per Cash Book		18,60,000
Add: Cheque issued but not yet presented to bank for payment	3,60,000	
Dividend received by bank not entered in cash book	2,50,000	
Interest credited by bank	6,250	6,16,250
		24,76,250
Less: Cheques deposited into bank but not yet collected	7,70,000	
Bank charges debited by Bank	1,000	
Cheque deposited into bank was dishonoured	1,60,000	
House tax paid by bank	1,75,000	(11,06,000)
Credit balance as per Pass Book		**13,70,250**

Question 5

(a) You are provided with the following:

Balance Sheet as on 31st March, 2017

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital Fund	*1,06,200*	*Building*	*1,50,000*
Subscription received in Advance	*6,000*	*Outstanding Subscription*	*3,800*
Outstanding Expenses	*14,000*	*Outstanding Locker Rent*	*2,400*
Loan	*40,000*	*Cash in hand*	*20,000*
Sundry Creditors	*10,000*		
Total	***1,76,200***		***1,76,200***

The Receipts and Payment Account for the year ended on 31st March, 2018

Receipts		*(₹)*	*Payment*		*(₹)*
To Balance b/d			*By Expenses:*		
Cash in Hand		*20,000*	*For 2017*	*12,000*	
To Subscriptions:			*For 2018*	*20,000*	*32,000*
For 2017	*2000*		*By Land*		*40,000*

For 2018 21,000		*By Interest*	*4,000*
For 2019 1,000	*24,000*	*By Miscellaneous Expenses*	*4,700*
To Entrance Fees	*38,000*	*By Balance c/d*	
To Locker Rent	*7,000*	*Cash in Hand*	*18,300*
To Sale proceeds of old newspapers	*1,000*		
To Miscellaneous Income	*9,000*		
	99,000		*99,000*

You are required to prepare Income and Expenditure account for the year ended 31st March, 2018 and a Balance Sheet as at 31st March, 2018 (Workings should form part of your answer).

(b) With the following ratios and further information given below, you are required to prepare a Trading account and Profit & Loss account and a Balance Sheet of Sri Ganesh:

(i) Gross Profit Ratio = 25%

(ii) Net Profit/Sales = 20%

(iii) Stock Turnover Ratio = 10

(iv) Net Profit/Capital = 1/5

(v) Capital to Total other Liabilities = 1/2

(vi) Fixed Assets/Capital = 5/4

(vii) Fixed Assets/Total Current Assets = 5/7

(viii) Fixed Assets = ₹ 10,00,000

(ix) Closing Stock = ₹ 1,00,000 ***(10 Marks + 10 Marks = 20 Marks)***

Answer

(a) Income and Expenditure Account for the year ended 31st March, 2018

Expenditure	₹	Income	₹
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of old newspapers	1,000
To Surplus	12,900	By Misc. income	9,000
	41,600		41,600

Balance Sheet as at 31st March, 2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription receivable (2017)	1,800
Add: Entrance fee	38,000		(3,800 – 2,000)	
Add: Surplus	12,900	1,57,100		
Loan		40,000	Cash in hand	18,300
Creditors		10,000		
Outstanding expenses (2017) (14,000-12,000)		2,000		
Subscription received in advance		1,000		
		2,10,100		2,10,100

Note: Entrance fees have been capitalized in the above solution.

(b) Trading and Profit and Loss Account for the year ended...............

	₹		₹
To Opening Stock	20,000	By Sales	8,00,000
To Purchases (Balancing figure)	6,80,000		
To Gross Profit c/d	2,00,000	By Closing stock	1,00,000
	9,00,000		9,00,000
To Expenses	40,000	By Gross Profit b/d	2,00,000
To Net Profit	1,60,000		
	2,00,000		2,00,000

Balance Sheet of Sri Ganesh as at.............

Liabilities	₹	Assets	₹
Capital		Fixed assets	10,00,000
Opening Balance	6,40,000		
Add: Net Profit	1,60,000	Closing stock	1,00,000
	8,00,000		
Current Liabilities	16,00,000	Other Current assets	13,00,000
	24,00,000		24,00,000

1. Fixed Asset is ₹10,00,000

   Fixed Assets / Capital = 5/4

   Therefore, Capital – ₹10,00,000 x 4/5 = ₹8,00,000

2. Capital is ½ of Total Liabilities

   Therefore Liabilities = ₹8,00,000 x 2 = ₹16,00,000

3. Net Profit is 1/5 of Capital

   Therefore Net Profit = ₹8,00,000 x 1/5 = ₹1,60,000

4. Net Profit is 20% of Sales

   Therefore Sales = ₹1,60,000 x 100/20 = ₹8,00,000

5. Gross Profit Ratio = 25% of Sales

   Therefore, Gross Profit = ₹8,00,000 x 25% = ₹2,00,000

6. Stock Turnover Ratio (i.e. Cost of Sales/Average Inventory) is 10

   Cost of Sales = Sales – Gross Profit

   = ₹8,00,000 – ₹2,00,000

   = ₹6,00,000

   Therefore Average Inventory = ₹6,00,000 / 10 = ₹60,000

7. Closing Stock is ₹1,00,000

   Average Inventory = ₹60,000

   Therefore, Opening Stock = (₹60, 000 x 2) - Rs1,00,000 = ₹20,000

8. Fixed Assets is ₹10,00,000

   Fixed Assets / Total Current Assets = 5/7

   Therefore, Total Current Assets is 10,00,000 x 7/5 = ₹14,00,000

   Closing Stock = ₹1,00,000

   Therefore other Current Assets = ₹13,00,000

Question 6

(a) Give necessary journal entries for the forfeiture and re-issue of shares:

(i) X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for ₹ 8 per share.

(ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.

(iii) X Ltd. forfeited 100 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 80 shares were re-issued to Simple at ₹ 8 per share and called up for ₹ 6 share.

(b) 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.

(c) Karan purchased goods from Arjun, the average due date for payment in cash is 10.08.23018 and the total amount due is ₹ 1,75,800. How much amount should be paid by Karan to Arjun, if total payment is made on following dates and interest is to be considered at the rate of 15% p.a.

(i) On average due due

(ii) On 28th August, 2018

(iii) On 29th July, 2018 ***(10 + 5 + 5 = 20 Marks)***

Answer

(a) (i) Journal Entries in the books of X Ltd.

Date			*Dr.* ₹	*Cr.* ₹
(a)	Equity Share Capital A/c	Dr.	3,000	
	To Equity Share Allotment money A/c (300 x ₹ 3)			900
	To Equity Share Final Call A/c (300 x ₹ 4)			1,200
	To Forfeited Shares A/c (300 x ₹ 3)			900
	(Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No……………dated……………..)			
(b)	Bank Account (300 x 8)	Dr.	2,400	
	Forfeited Shares Account (300x 2)	Dr.	600	
	To Equity Share Capital Account			3,000
	(Being the re-issue of 300 forfeited shares @ ₹ 8 each as fully paid up to Suresh as per			

	Board's resolution No……….dated……………..)			
(c)	Forfeited Shares Account	Dr.	300	
	To Capital Reserve Account			300
	(Being the profit on re-issue, transferred to capital reserve)			

(ii)

Date			*Dr.* ₹	*Cr.* ₹
(a)	Equity Share Capital A/c (200 x ₹ 7)	Dr.	1,400	
	To Equity Share First Call A/c (200 x ₹ 2)			400
	To Forfeited Shares A/c (200 x ₹ 5)			1,000
	(Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No………. dated……………..)			
(b)	Bank Account	Dr.	900	
	Forfeited Shares Account	Dr.	600	
	To Equity Share Capital Account			1,500
	(Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No……………. dated…………..)			
(c)	Forfeited Shares Account	Dr.	150	
	To Capital Reserve Account			150
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹750
Less: Forfeiture of 150 shares	(₹600)
Profit on re-issue of shares	₹150

(iii)

Date			*Dr.* ₹	*Cr.* ₹
(a)	Equity Share Capital A/c (100 x ₹ 6)	Dr.	600	

	To Equity Share Final Call A/c (100 x ₹ 3)			300
	To Discount on issue of shares (100 x ₹ 1)			100
	To Forfeited Shares A/c (100 x ₹ 2)			200
	(Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No…………dated…….)			
(b)	Bank Account (80 x ₹ 6)	Dr.	480	
	Discount on issue of shares (80 x ₹ 1)	Dr.	80	
	Forfeited Shares A/c (80 x ₹ 1)	Dr.	80	
	To Equity Share Capital Account (80 x ₹ 8)			640
	(Being the re-issue of 80 shares fully paid up as per Board's Resolution No………dated……….)			
(c)	Forfeited Shares Account		80	
	To Capital Reserve Account			80
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2)	₹ 200.00
Forfeited shares balance for 80 shares	₹ 160
Less: Forfeiture of 80 shares	(₹ 80.00)
Profit on re-issue of shares	₹ 80.00

Note: It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has been given strictly based on the information provided in the question.

(b) Total amount of discount comes to ₹ 60,000 (₹ 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures Outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

(c)

A	*B*	*C*	*D = B ± C*
	Principal Amount	*Interest from Average Due Date to Actual date of Payment*	*Total amount to be paid*
(i)	**Payment on average due date**		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x 0/365 =0	₹ 1,75,800
(ii)	**Payment on 28th Aug. 2018**		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x 18/365= 1,300 Interest to be charged for period of 18 days from 10th August 2018 to 28th Aug. 2018	₹ 1,77,100
(iii)	**Payment on 29th July, 2018**		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x (12)/365= (867) Rebate has been allowed for unexpired credit period of 12 days from 29.7.2018 to 10.8.2018	₹ 1,74,933

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

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

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

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

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

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

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

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

(6 Statements x 2 Marks = 12 Marks)

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

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

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

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

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

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

Answer

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

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

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

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

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

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

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

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

(c)

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

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

Question 2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Answer

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

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

(b) In the books of Firm

Machinery Account

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

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

Working Note:

Book Value of machines

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

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

Question 3

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

The following expenses were incurred in connection with above transaction -

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

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

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

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

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

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

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

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

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

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

OR

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

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

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

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

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

Answer

(a) **Ledgers Accounts**

Joint Bank Account

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

Joint Venture Account

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

R's Account

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

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

S's Account

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

(b) Journal Entries in the books of Akshay

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

	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

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

For Yusuf's payments:

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

For Yogesh's payments

Taking same base date i.e. May 21

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

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

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

= ₹ 9,13,000

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

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

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

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

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

(ii) Statement showing amount of Royalty Payable

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

Question 4

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

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

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

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

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

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

(iii) Stock is valued at ₹ 13,500

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

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

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

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

You are required to prepare:

(1) Revaluation account

(2) Capital accounts of the partners and

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

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

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

Other information :

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

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

(iii) Commission received in advance is ₹ 100.

(iv) Interest accrued on investment is ₹ 210

(v) Interest on overdraft is unpaid ₹ 300

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

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

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

(10 + 10 = 20 Marks)

Answer

(a) Revaluation Account

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

Partners' Capital Accounts

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

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

Balance Sheet of Firm as on 1.7.2018

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

Calculation of goodwill and Zoya's share

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

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

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

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

= ₹ 8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹ 8750X1/2 =₹ 4375

Yedhant =₹ 8750X1/2 = ₹ 4375

(b) Trading & Profit and Loss Account of

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

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

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

Balance Sheet of Mr. Sandeep as on 31.3.2018

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

Question 5

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

(i) Inventory Turnover Ratio: 4 Times.

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

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

(iv) Gross Profit Ratio 25%.

(v) Current Liabilities ₹ 40,000.

(vi) Quick Ratio 0.75.

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

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

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

Following Expenses were made during the year:

Sports Expenses: *₹ 50,000*

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

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

Answer

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

(ii) Calculation of Current Assets

Quick ratio = 0.75

Quick ratio = Quick Assets/Current liability

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

Cost of goods sold = Sales-Gross profit

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

= ₹ 2,25,000

Inventory turnover ratio = Cost of goods sold/ Average Inventory

Average Inventory = ₹ 2,25,000/4

= ₹ 56,250

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

₹ 56,250 x 2 = x + x + ₹ 20,000

₹ 1,12,500 =2 x + ₹ 20,000

₹ (1,12,500 - 20,000) =2x

₹ 92,500 =2x

X= ₹ 46,250 i.e. (Opening Inventory)

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

Current Assets = Quick Assets + Closing Inventory

= ₹ (30,000 + 66,250)

Current Assets = ₹ 96,250

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

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

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

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

Working Notes:

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

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

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

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

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

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

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

3. Loss on sale of furniture

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

4. Depreciation

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

5. Interest accrued on investment

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

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

Question 6

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

The amounts were payable as follows:

On application - ₹ 3 per share

On allotment - ₹ 5 per share

On first and final call - ₹ 2 per share

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

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

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

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

Pass necessary journal entries for the accounting year 2018.

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

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

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

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

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

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

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

Rate of Gross Profit is 25% on cost.

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

Answer

(a) In the books of Bhagwati Ltd.

Journal Entries

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

Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			10,00,000
(Being allotment amount due on 2,00,000 equity shares at ₹ 5 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	7,00,000	
To Equity Share Allotment A/c			7,00,000
(Being balance allotment money received for 2,00,000 shares at ₹ 5 per share.)			
Equity Share first and final call A/c	Dr.	4,00,000	
To Equity Share Capital A/c			4,00,000
(Being first and final call amount due on 2,00,000 equity shares at ₹ 2 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	3,94,000	
Calls in arrears A/c		6,000	
To Equity Share first and final call A/c			4,00,000
(Being final call received on 1,97,000 shares)			
Share capital A/c (3,000 x ₹ 10)	Dr.	30,000	
To Forfeited share A/c (3,000 x ₹ 8)			24,000
To Calls in arrears A/c (3,000 x₹ 2)			6,000
(Being forfeiture of 3,000 shares of ₹ 10 each fully called-up for non payment of first and final call @ ₹ 2 as per Directors' resolution no... dated..)			
Bank A/c (2,500 x ₹6) .	Dr.	15,000	
Forfeited share A/c (2,500 x ₹4)		10,000	
To Equity Share Capital A/c (2,500 x ₹ 10)			25,000
(Being re-issue of 2,500 shares @6)			
Forfeited share A/c (2,500 x ₹ 4)		10,000	
To capital reserve A/c (2,500 x ₹ 4)			10,000
(Being profit on re-issue transferred to capital reserve)			

Working Note:

Calculation of amount to be transferred to Capital reserve A/c			**₹**
Forfeited amount per share	= 24,000/3,000	=	8
Loss on re issue (8-4)			4
Surplus per share			4
Transfer to capital reserve	4 x 2,500	₹ 10,000	

(b) Journal Entries

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

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

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

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

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

(a) State with reasons, whether the following statements are True or False:

(i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

(ii) 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.

(iii) Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.

(iv) 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.

(v) A Partnership firm cannot own any Assets.

(vi) 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)***

(c) X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.

(4 Marks)

Answer

(a) (i) False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

(ii) False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(iii) True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

(iv) False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v) True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi) True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(b) Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows:

	Provision	**Contingent liability**
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(c) **Machinery Account**

Dr. 2017		₹	2017		Cr. ₹
Jan. 1	To Bank A/c	4,80,000	Dec. 31	By Depreciation A/c	60,000
Jan. 1	To Bank A/c – erection charges	20,000		By Balance c/d	6,40,000
July 1	To Bank A/c	2,00,000			
		7,00,000			7,00,000
2018			2018		
Jan. 1	To Balance b/d	6,40,000	July 1	By Depreciation on sold machine	22,500
July 1	To Bank A/c	5,00,000		By Bank A/c	2,90,000
				By Profit and Loss A/c	1,37,500
			Dec. 31	By Depreciation A/c	44,000
				By Balance c/d	6,46,000
		11,40,000			11,40,000

Working Note:

Book Value of Machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost	5,00,000	2,00,000	5,00,000
Depreciation for 2017	50,000	10,000	
Written down value	4,50,000	1,90,000	
Depreciation for 2018	22,500	19,000	25,000
Written down value	4,27,500	1,71,000	4,75,000
Sale Proceeds	2,90,000		
Loss on Sale	1,37,500		

Question 2

(a) On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:

(i) A cheque for ₹ 11,14,000 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018.

(ii) A payment by cheque for ₹ 18,000 has been entered twice in the Cash book.

(iii) On 29th September, 2018, the bank credited an amount of ₹ 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2018.

(iv) Bank charges amounting to ₹ 280 had not been entered in the cash book.

(v) On 6th September 2018, the bank credited ₹ 30,000 to XYZ in error.

(vi) A bill of exchange for ₹ 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2018 but no entry had been made in the books of XYZ.

(vii) Cheques issued upto 30th September,2018 but not presented for payment upto that date totalled ₹ 13,46,000.

(viii) A bill payable of ₹ 2, 00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

You are required:

To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2018 and to prepare a Bank Reconciliation Statement as on that date. ***(10 Marks)***

(b) Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:

(1) The sales book has been totalled ₹ 2,100 short.

(2) Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.

(3) Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.

(4) Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.

(5) Discount received from Black and White ₹ 1,200 has not been entered in the books.

(6) Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted. ***(10 Marks)***

Answer

(a) Cash Book (Bank Column)

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
2018		*₹*	*2018*		
Sept. 30	To Party A/c	18,000	Sept. 30	By Balance b/d	8,062
	To Customer A/c (Direct deposit)	1,15,400		By Bank charges	280
	To B/R collected	59,000		By Customer A/c (B/R dishonoured)	1,60,000
	To Balance c/d	1,75,942		By Bills payable	2,00,000
		3,68,342			3,68,342

Bank Reconciliation Statement as on 30th September, 2018

Particulars	*Amount*
	₹
Overdraft as per Cash Book	1,75,942
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000
	12,89,942
Less: Cheques issued but not presented for payment up to 30th Sept., 2018	(13,46,000)
Credit by Bank erroneously on 6th Sept.	(30,000)
Balance as per bank statement	86,058

(b) (i) If a Suspense Account is not opened.

(a) Since sales book has been cast ₹ 2,100 short, the Sales Account has been similarly credited ₹2,100 short. The correcting entry is as follows:

Sales A/c

Dr. Date	Particulars	₹	Date	Particulars	₹ Cr.
				By Wrong Totaling of Sales Book	2,100

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Gaurav & Co. credited. The entry is:

Returns Inward Account Dr. ₹1,800

To Gaurav & Co. ₹1,800

(Goods returned by the firm, previously omitted from the Returns Inward Book)

(c) Sen Brothers have been debited ₹2,250 instead of being credited. This account should now be credited by ₹4,500 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

Date	Particulars	₹	Date	Particulars	₹
				By errors in posting	4,500

(d) By this error Purchases Account has to be debited by ₹15,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account Dr. ₹15,000

To Purchases Account ₹15,000

(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)

(e) The discount of ₹1,200 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made :

Black & White Dr. ₹1,200

To Discount Account ₹1,200

(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

Date	Particulars	₹	Date	Particulars	₹
	To Omission of entry in the Cash Book	180			

(ii) **If a Suspense Account is opened:**

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		2,100	
	To Sales Account				2,100
	(Being the correction arising from under-casting of Sales Day Book)				
(b)	Return Inward Account	Dr.		1,800	
	To Gaurav & Co	.			1,800
	(Being the recording of unrecorded returns)				
(c)	Suspense Account	Dr.		4,500	
	To Sen Brothers				4,500
	(Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹2,250).				
(d)	Furniture Account	Dr.		15,000	
	To Purchases Account				15,000
	(Being the correction of recording purchase of furniture as ordinary purchases)				
(e)	Black & White	Dr.		1,200	
	To Discount Account				1,200
	(Being the recording of discount omitted to be recorded)				
(f)	Discount Account	Dr.		180	
	To Suspense Account				180
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).				

Question 3

(a) Anand of Bangalore consigned to Raj of Pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were ₹ 12,000. The account sales received by Anand

shows that Raj has effected sales amounting to ₹ 1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 9,600 10% of consignment goods of the value of ₹ 15,000 were destroyed in fire at the Pune godown and the insurance company paid ₹ 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and ·the account of Raj in the books of Anand along with the necessary calculations. ***(10 Marks)***

(b) *A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During May 2018, the following are the details of goods sent:*

Date (May)	*2*	*8*	*12*	*18*	*20*	*27*
Customers	*P*	*B*	*Q*	*D*	*E*	*R*
Value (₹)	*17,000*	*22,000*	*25,000*	*5,500*	*2,000*	*28,000*

Within the stipulated time, P and Q returned the goods and B, D and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer Q for Sale or Return Account as on 15th June 2019. ***(5 Marks)***

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

(i) *The following amounts are due to X by Y. Y wants B to pay on 10th July,2019.*

Interest rate of 9% p.a. is taken into consideration.

Due dates	*₹*
10th January	*750*
26th January (Republic Day)	*1,200*
23rd March	*3,300*
18th August (Sunday)	*4,100*

Determine average due date and the amount to be paid on 10th July, 2019. Assume 10th January as base date. ***(5 Marks)***

OR

(ii) *Ramesh has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2018. He has further deposited the following amounts:*

Date	*Amount (₹)*
14-07-2018	*1,23,000*
18-08-2018	*21,000*

He withdrew the following amounts:

Date	*Amount (₹)*
29-07-2018	*92,000*
09-09-2018	*11,500*

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method.

(5 Marks)

Answer

(a) Books of Anand

Consignment to Raj (Pune) Account

Dr. Particulars	₹	*Particulars*	*Cr.* ₹
To Goods sent on Consignment A/c	1,50,000	By Goods sent on Consignment A/c(loading)	30,000
To Cash A/c	12,000	By Abnormal Loss (out of which ₹ 12,000 received from insurance co.)	13,200
To Raj (Expenses)	9,600	By Raj (Sales)	1,20,000
To Raj (Commission)	13,125	By Inventories on Consignment A/c	24,300
To Inventories Reserve A/c	4,500	By General Profit & Loss A/c	1,725
	1,89,225		1,89,225

Raj's Account

Dr. *Particulars*	₹	*Particulars*	*Cr.* ₹
To Consignment A/c	1,20,000	By Consignment A/c	9,600
		By Consignment A/c	13,125
		By Bank A/c	97,275
	1,20,000		1,20,000

Working Notes:

1. Calculation of Loading of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹15,000.

   Abnormal Loss as a percentage of total consignment = 10%.

   Hence the value of goods sent on consignment = ₹15,000 x 100/ 10 = ₹1,50,000.

   Loading of goods sent on consignment = ₹1,50,000 X 25/125 = ₹30,000.

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price	=	₹15,000
Abnormal Loss at cost = ₹15,000 x 100/125	=	₹12,000
Proportionate expenses of Anand (10 % of ₹12,000)	=	₹ 1,200
		₹13,200

3. Calculation of closing Inventories (15%):

Anand's Basic Invoice price of consignment	=	₹1,50,000
Anand's expenses on consignment	=	₹ 12,000
		₹1,62,000
Value of closing Inventories = 15% of ₹1,62,000	=	₹24,300

   Loading in closing Inventories = ₹4,500 (30,000 x 15%)

4. Calculation of commission:

   Invoice price of the goods sold = 75% of ₹1,50,000 = ₹1,12,500

   Excess of selling price over invoice price = (₹1,20,000- ₹1,12,500) = 7,500

   Total commission = 10% of ₹1,12,500 + 25% of ₹7,500

   = ₹11,250 + ₹1,875

   = ₹13,125

Note: Abnormal loss is calculated at cost and value of inventories is valued at invoice price as invoice price is given.

(b) **Sale or Return Account**

Date	*Particulars*	₹	*Date*	*Particulars*	₹
2018			2018		
May 31	To Sundries: Sales	29,500	May 31	By Sundries	
June 15	To Sundries: Returned	42,000		(Goods sent on sale or return basis)	99,500

June 15	To Balance c/d	28,000			
		99,500			99,500
			June 16	By Balance b/d	28,000

Q's Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
2018			2018		
May 31	To Sale or Return A/c	25,000	June 15	By Sale or Return A/c	25,000

(c) (i) Taking 10th January as the base date

Due Date (Normal)	*Due Date (Actual)*	*No. of days from 10th January. . .*	*Amount ₹*	*Product*
10th January	10th January	0	750	0
26th January	25th January	15	1,200	18,000
23rd March	23rd March	72	3,300	2,37,600
18th August	17th August	219	4,100	8,97,900
			9,350	11,53,500

Average Due Date = 10th Jan. + $\frac{11,53,500}{9,350}$

= 10th Jan + 124 days (rounded off upward) = 14th May

(b) If the payment is deferred to 10th July, interest is to be paid from 14th May to 10th July i.e., for 17 + 30 + 10 = 57 days.

Interest = $9,350 \times \frac{9}{100} \times \frac{57}{365} = 131.41$

The amount to be paid on 10th July: ₹9,350+ 131.41 = ₹9481.41

(ii) Ramesh's Current Account with Partnership firm (as on 30.9.2018)

Date	*Particulars*	*Dr. (₹)*	*Cr. (₹)*	*Balance (₹)*	*Dr.or Cr.*	*Days*	*Dr. Product (₹)*	*Cr. Product (₹)*
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941						

30.09.18	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	1,89,441				38,90,000	5,70,000

Interest Calculation:

On₹ 38,90,000 x 10% x 1/365 = 1,066

On ₹ 5,70,000 x 8% x 1/365 = ₹ 125

Net interest to be debited = ₹ 941

Question 4

(a) Arup and Swarup were partners. The partnership deed provides inter alia:

(i) That the annual accounts be balanced on 31st December each year;

(ii) That the profits be allocated as follows:

Arup: One-half; Swarup: One-third and Carried to reserve account: One sixth;

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(1) The capital to his credit at the date of death;

(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	*Debit (₹)*	*Credit (₹)*
Arup's Capital		*90,000*
Swarup's Capital		*60,000*
Reserve		*45,000*
Bills receivable	*50,000*	
Investment	*55,000*	
Cash	*1,10,000*	
Trade payables		*20,000*
Total	*2,15,000*	*2,15,000*

The profits for the three year were 2016: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account. ***(10 Marks)***

(b) *From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:*

Income & Expenditure Account for the year 2018-19

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		25,960

Balance sheet as at 31st March 2019

Liabilities		₹	Assets	₹
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding)	770
Less: Prizes given	2,200	26,400	(2018-2019)	
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

(i) *Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018-19.*

(ii) *One fourth of entrance fee has been capitalized by transfer to General Fund.*

(iii) *Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.*

(iv) Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110.

(v) Furniture was purchased during the year. ***(10 Marks)***

Answer

(a)

(i)	**Ascertainment of Swarup's Share of Profit**		**(ii)**	**Ascertainment of Value of Goodwill**	
	2016	51,000		2016	51,000
	2017	39,000		2017	39,000
	2018	45,000		2018	45,000
	Total Profit	1,35,000		Total Profit for 3 years	1,35,000
	Average Profit	45,000		Average Profit	45,000
	4 months' Profit	15,000		Goodwill - 3 years	
	Swarup's Share in Profit (2/5th of ₹15,000)	6,000		Purchase of Average Profit	1,35,000
				Swarup's Share of goodwill (2/5 of ₹1,35,000)	54,000

Working Note:

Profit sharing ratio between Arup and Swarup = ½; 1/3; = 3: 2, Therefore Swarup's share of Profit = 2/5

Swarup's Executors Account

Date 2019	Particulars	₹	Date 2019	Particulars	₹
May 1	To Swarup's Loan A/c	1,38,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of ₹45,000)	18,000
			May 1	By Arup's Capital A/c (Share of goodwill)	54,000

			May 1	By P&L Suspense A/c (Share of Profit)	6,000
		1,38,000			1,38,000

(b) Receipts and Payments Account

for the year ending 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	16,126	By Upkeep of Ground (11,000+660)	11,660
To Subscription	19,052	By Printing (1,100+264)	1,364
To Interest on Prize Fund Investments	1,100	By Salaries	11,100
		By Furniture (9,900 +1,100)	11,000
To Lecture (fee)	1,650	By Rent	1,660
To Entrance Fee	2,860	By Prizes	2,200
To Sale of Newspapers (old)	286	By Balance c/d	2,530
To Misc. Income	440		
	41,514		41,514

Note:

₹660 paid for upkeep of ground for 2017-18 and ₹264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

		₹			₹
2018			2018	By Subscription	
April	To Subscription Outstanding (2017-18)	880	April 1	in Advance (2017-18)	220
	To Subscription In Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
				By Cash (Balancing figure)	19,052

2019 March	To	Income & Expenditure A/c	19,052			
			20,042			20,042

Question 5

(a) *An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.*

Particulars	*Debit (₹)*	*Credit (₹)*
Provision for Doubtful Debts	*250*	*-*
Cash Credit Account	*1,654*	*-*
Capital	*-*	*4,591*
Trade payables	*-*	*1,637*
Due from customers	*2,983*	*-*
Discount Received	*252*	*-*
Discount Allowed	*-*	*733*
Drawings	*1,200*	*-*
Office Furniture	*2,155*	*-*
Carriage Inward	*-*	*829*
Purchases	*10,923*	*-*
Returns Inward	*-*	*330*
Rent & Rates	*314*	*-*
Salaries	*2,520*	*-*
Sales	*-*	*16,882*
Inventory	*2,418*	*-*
Provision for Depreciation on Furniture	*364*	*-*
Total	*25,033*	*25,002*

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account. ***(5 Marks)***

(b) *Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019.* ·

Opening work-in-progress (9000 units)	*26,000*
Closing work-in-progress (14,000 units)	*48,000*

Opening inventory of Raw Materials	*2,60,000*
Closing inventory of Raw Materials	*3,20,000*
Purchases	*8,20,000*
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	*2,60,000*
Direct wages-contracted@ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	*1,80,000*
Units produced - 5,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

(5 Marks)

(c) *The balance sheet of Mittal on 1st January, 2018 was as follows:*

Liabilities	*Amount ₹*	*Assets*	*Amount ₹*
Trade payables	*16,00,000*	*Plant & Machinery*	*31,00,000*
Expenses payable	*2,50,000*	*Furniture & Fixture*	*4,00,000*
Capital	*51,00,000*	*Trade receivables*	*14,50,000*
		Cash at bank	*7,00,000*
		Inventories	*13,00,000*
	69,50,000		*69,50,000*

During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:

(i) *Interest on capital @ 6% p.a.*

(ii) *Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a..*

(iii) *A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.*

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling ₹ 1,85,000 and (2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year *he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.*

You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year. ***(10 Marks)***

Answer

(a) Trial Balance as on 31st March, 2019

Heads of Accounts	Dr. ₹	Cr. ₹
Provision for Doubtful Debts	–	250
Cash credit account (Bank overdraft)	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Dues from customers	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
Carriage inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory*	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,225	
Total	25,630	25,630

** considered as opening inventory.*

(b) In the Books of Mr. Shyamal

Manufacturing Account for the Year ended 31.03.2019

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		9,000	26,000	By Closing Work-in-Process	14,000	48,000

To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,33,600
Opening Inventory	2,60,000					
Add: Purchases	8,20,000					
	10,80,000					
Inventory	(3,20,000)		7,60,000			
To Direct Wages – W.N. (1)			4,05,600			
To Direct expenses: Hire charges on Machinery – W.N. (2)			3,50,000			
To Indirect expenses: Hire charges of Factory			2,60,000			
Repairs & Maintenance			1,80,000			
			19,81,600			19,81,600

Working Notes:

(1) Direct Wages – 5,00,000 units @ ₹0.80 = ₹4,00,000

14,000 units @ ₹0.40 = ₹ 5,600

₹ 4,05,600

(2) Hire charges on Machinery – 5,00,000 units @ ₹0.70 = ₹3,50,000

(c) Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding expenses	1,85,000	By Balance b/d	15,10,000
To Net profit	13,50,000	By Prepaid insurance	25,000
	15,35,000		15,35,000

Balance Sheet of Mittal as on 31st December, 2018

Liabilities		₹	Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000

Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		*Less:* Provision for doubtful debts	(1,05,000)	19,95,000
Less: Drawings	(6,20,000)		Plant and Machinery	31,00,000	
	58,30,000		*Less:* Depreciation	(3,10,000)	27,90,000
Add: Interest on capital	3,06,000	61,36,000	Furniture & Fixtures	4,00,000	
Outstanding expenses		1,85,000	*Less:* Depreciation	(20,000)	3,80,000
Trade payables		13,84,000	Inventories		19,95,000
			Prepaid insurance		25,000
		77,05,000			77,05,000

Question 6

(a) *B Limited issued 50,000 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 X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.*

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company. ***(15 Marks)***

(b) *Distinguish between Periodic Inventory System and Perpetual Inventory System.*

(5 Marks)

Answer

(a) In the books of B Ltd.

Journal Entries

Date	*Particulars*		Dr. ₹	Cr. ₹
	Bank A/c To Equity Share Application A/c (Application money on 50,000 shares @ ₹ 3 per	Dr.	1,50,000	 1,50,000

	share received.)			
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Directors resolution no… dated…)	Dr.	1,50,000	 1,50,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due from members in respect of allotment on 50,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Directors resolution no… dated…)	Dr.	2,50,000	 1,50,000 1,00,000
	Bank A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share.) **'OR'** Bank A/c Calls in Arrear A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share. X, holding 1,000 shares failed to pay allotment money.)	Dr. Dr. Dr.	2,45,000 2,45,000 5,000	 2,45,000 2,50,000
	Equity Share Call A/c To Equity Share Capital A/c (Amount due from members in respect of call on 50,000 shares @ ₹ 4 per share as per Directors resolution no… dated…)	Dr.	2,00,000	 2,00,000
	Bank A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share.) **'OR'** Bank A/c	Dr. Dr.	1,88,000 1,88,000	 1,88,000

	Calls in Arrear A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share. X, holding 1,000 shares and Y, holding 2,000 shares failed to pay call money.)	Dr.	12,000	2,00,000
	Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Equity Share Allotment A/c (1,000 X ₹ 5) To Equity Share Call A/c (3,000 X ₹ 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No…..dated ….) **'OR'** Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Calls in Arrear A/c (₹ 5,000 + ₹ 12,000) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No… dated…)	Dr. Dr. Dr. Dr.	30,000 2,000 30,000 2,000	 5,000 12,000 15,000 17,000 15,000
	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 2,500 shares @ ₹8 each as per Board's Resolution No…..dated….)	Dr. Dr.	20,000 5,000	 25,000
	Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	7,000	 7,000

Balance Sheet of B Limited as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000*
Total		6,03,000

*(5,83,000 +20,000)

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of ₹ 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Working Notes:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹ 4

Transferred to Capital Reserve: X share (1,000 x ₹ 1)	₹ 1,000
Y's Share (1,500 x ₹ 4)	₹ 6,000
Total	₹ 7,000

(2) Balance of Security Premium:

Total Premium amount receivable on allotment	=	1,00,000
less: Amount reversed on forfeiture	=	(2,000)
Balance remaining	=	98,000

(b)

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.