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) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future.

(ii) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

(iii) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

(iv) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

(v) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.

(vi) A fixed charge generally covers all the assets of the company including future one.

(6 x 2 = 12 Marks)

(b) Differentiate between Provisions and Contingent Liabilities. ***(4 Marks)***

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

Under existing practice, the company is charging depreciation @ 20% p.a. on the original cost. However, from 1st April, 2021 it decided to adopt WDV method and charge depreciation @15% p.a. You are required to prepare Machinery Account from 1st April, 2019 to 31st March, 2022. ***(4 Marks)***

Answer

(a) (i) False: 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.

(ii) True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

(iii) **True:** According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

(iv) **False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be errors of principle, compensating errors, errors of complete omission which can be rectified without opening a suspense account.

(v) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

(vi) **False:** A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

(b) The distinction between Provision and Contingent Liability is 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 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 recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(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 the firm to settle the obligation, it discloses the obligation as a contingent liability.

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

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount(₹)
01.04.2019	To Bank	1,50,000	31.03.2020	By Depreciation	30,000

	(1,30,000+20,000)		31.03.2020	By Balance c/d	1,20,000
		1,50,000			1,50,000
01.04.2020	To Balance b/d	1,20,000	31.03.2021	By Depreciation	30,000
			31.03.2021	By Balance c/d	90,000
		1,20,000			1,20,000
01.04.2021	To Balance b/d	90,000	01.10.2021	By Bank A/c	1,00,000
01.10.2021	To Bank	50,000	01.10.2021	By Depreciation	6,750
01.10.2021	To Profit on Sale	16,750	31.03.2022	By Depreciation	1,875
			31.03.2022	By Balance c/d	48,125
		1,56,750			1,56,750

Alternative: Calculation of Book Value of Machines

	Machine 1 (in ₹)	**Machine 2 (in ₹)**
Date of Purchase	01.04.2019	01.10.2021
Original Cost	1,50,000	
Depreciation for (2019-20) (SLM)	(30,000)	
WDV on 31.03.2020	1,20,000	
Depreciation for (2020-21) (SLM)	(30,000)	
WDV on 31.03.2021	90,000	
Depreciation for (2021-22) (WDV)	(6,750)	
WDV (original cost of Machine 2) on 1.10.2021	83,250	50,000
Sale Proceeds	(1,00,000)	
Profit on Sale	16,750	
Depreciation for 2021-22 (WDV @ 15%) (3 months)	-	(1,875)
WDV on 31.03.2022	-	48,125

Question 2

(a) *The cash book of Mr. Karan shows ₹2,60,400 as the balance of bank as on 31st December, 2021 but you find that it does not agree with the balance as per the bank pass book. On analysis, you found the following discrepancies:*

(i) *On 15th December, 2021 the payment side of the cash book was overcast by ₹10,000.*

(ii) *A Cheque for ₹ 1,18,000 issued on 6th December, 2021 was not taken in the bank Column.*

(iii) On 20th December, 2021 the debit balance of ₹ 8,460 as on the previous day, was brought forward as credit balance in the cash book.

(iv) Of the total cheques amounting to ₹ 12,370 drawn in the last week of December 2021, cheques aggregating ₹ 9,360 were encashed in December, 2021.

(v) Dividends of ₹ 35,000 collected by the bank and fire insurance premium of ₹ 7,900 paid by the bank were not recorded in the cash book.

(vi) A Cheque issued to a creditor of ₹ 1,75,000 was recorded twice in the cash book.

(vii) Bill for collection amounting to ₹ 53,000 credited by the bank on 21st December, 2021 but no advice was received by Mr. Karan till 31st December, 2021.

(viii) A Customer, who received a cash discount of 3% on his account of ₹ 60,000 paid a cheque on 10th December, 2021. The cashier erroneously entered the gross amount in the bank column of the cash book.

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

(10 Marks)

(b) Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them.

(i) Minor Repairs made to the building amounting to ₹ 1,850 were debited to the Building Account.

(ii) An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.

(iii) Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.

(iv) Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.

(v) College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.

(vi) Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.

(vii) Goods amounting to ₹ 6,200 had been returned by a customer and were taken into inventory, but no entry was made in the books.

(viii) ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.

(ix) Salary paid to a clerk ₹ 12,000 has been debited to his personal account.

(x) A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book. ***(10 Marks)***

Answer

(a) Bank Reconciliation Statement of Mr. Karan as on 31st Dec., 2021

Particulars		**Details ₹**	**Amount ₹**
Balance as per the Cash Book			2,60,400
Add: Wrong Casting in Cash book as on 15th December,2021		10,000	
Mistake in bringing forward ₹ 8,460 debit balance as credit balance on 20th Dec., 2021		16,920	
Cheques issued but not presented:			
Issued	12,370		
Encashed	9,360	3,010	
Dividends directly collected by bank but not yet entered in the Cash Book		35,000	
Cheque recorded twice in the Cash Book		1,75,000	
Bill for Collection credited in Bank not entered in Cash Book		53,000	2,92,930
			5,53,330
Less: Cheques issued but not entered in the Bank column		1,18,000	
Fire Insurance Premium paid by the bank directly not yet recorded in the Cash Book		7,900	
Discount allowed wrongly entered in Cash Book		1,800	(1,27,700)
Balance as per the Pass Book			4,25,630

Note: The above answer has been given considering that the books are not closed on 31st December, 2021. Alternatively, **If the books are to be closed on 31st December, then adjusted cash book will be prepared as given below:**

Adjusted Cash Book

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	2,60,400	By cheques not entered	1,18,000
To wrong casting	10,000	By Fire Insurance Premium	7,900

To error for wrong posting	16,920	By discount wrongly entered	1,800
To dividends collected by bank	35,000	By balance c/d	3,69,620
To cheques recorded twice	1,75,000		
	4,97,320		4,97,320

Bank Reconciliation Statement

Particulars	₹
Balance as per the Cash Book (corrected)	3,69,620
Add: Cheques issued but not yet presented	3,010
Bill for collection credited by Bank	53,000
Balance as per the Pass Book	4,25,630

(b) **In the books of Hare Rama & Sons**

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Repairs A/c Dr.		1,850	
	To Building A/c			1,850
	(Correction of wrong debit to building A/c for repairs made)			
(ii)	Shyam Lal A/c Dr.		3,000	
	To Bad Debts Recovered A/c			3,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(iii)	Furniture A/c Dr.		20,000	
	To Purchases A/c			20,000
	(Correction of wrong debit to Purchases A/c for furniture purchased)			
(iv)	Purchases A/c Dr.		8,000	
	To Ram Singh A/c			8,000
	(Purchases of goods from Ram Singh remained unrecorded)			
(v)	Drawings A/c Dr.		15,000	
	To Audit Fees A/c			15,000
	(Correction of wrong debit to Audit Fees A/c for college fees of proprietor's son)			

(vi)	Pinki Rani A/c Dr.		4,500	
	To Meet Kumar A/c			4,500
	(Correction of wrong credit to Pinki Rani. instead of Meet Kumar.)			
(vii)	Returns Inwards / Sales Return A/c Dr.		6,200	
	To Customer/Debtors A/c			6,200
	(Entry of goods returned by customer and taken in inventory omitted from records)			
(viii)	Furniture A/c Dr.		1,500	
	To Wages A/c			1,500
	(Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified)			
(ix)	Salaries A/c Dr.		12,000	
	To Clerk's (Personal) A/c			12,000
	(Correction of wrong debit to Clerk's personal A/c for salaries paid)			
(x)	Purchases A/c Dr.		20,000	
	Sales A/c Dr.		20,000	
	To Raghav A/c			40,000
	(Correction of wrong entry in the sales Book for purchases of goods from Raghav)			

Question 3

(a) *T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹ 1,72,800. T 'immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paisa in a rupee.*

Give the journal entries in the books of T and J. ***(15 Marks)***

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

(i) *The following are the transactions that took place between G and H during the period from 1st October, 2021 to 31st March, 2022:*

2021		*Amount (₹)*
Oct. 1	*Balance due to G by H*	*4,500*
Oct. 18	*Goods sold by G to H*	*3,750*

Nov. 16	*Goods sold by H to G (invoice dated November, 26)*	*6,000*
Dec. 7	*Goods sold by H to G (invoice dated December, 17)*	*5,250*
2022		
Jan. 3	*Promissory note given by G to H; at three months*	*7,500*
Feb. 4	*Cash paid by G to H*	*1,500*
Mar. 21	*Goods sold by G to H*	*6,450*
Mar. 28	*Goods sold by H to G (invoice dated April, 8)*	*4,050*

Draw up an account current up to March 31st, 2022 to be rendered by G to H, charging interest at 10% per annum.

Interest is to be calculated to the nearest rupee. ***(5 Marks)***

Or

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

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

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

(5 Marks)

Answer

(a) **In the books of T**

Journal Entries

Date 2022	**Particulars**		**Debit Amount ₹**	**Credit Amount ₹**
1-Apr	Bills receivable A/c	Dr.	1,80,000	
	To J's A/c			1,80,000
	(Being acceptance received from J for mutual accommodation)			

1-Apr	Bank A/c Dr.	1,72,800	
	Discount A/c Dr.	7,200	
	To Bills receivable A/c		1,80,000
	(Being bill discounted with bank)		
1-Apr	J's A/c Dr.	60,000	
	To Bank A/c		57,600
	To Discount A/c		2,400
	(Being ₹ 57,600 sent to J)		
4-Jul	J's A/c Dr.	2,52,000	
	To Bills payable A/c		2,52,000
	(Being Acceptance given)		
4-Jul	Bank A/c Dr.	40,440	
	Discount A/c $\left[\frac{1,20,000+40,440}{2,40,660} \times 11,340\right]$ Dr.	7,560	
	To J's A/c		48,000
	(Being proceeds of second bill received from J)		
7-Oct	Bills payable A/c Dr.	2,52,000	
	To J's A/c		2,52,000
	(Being bill dishonoured due to insolvency)		
7-Oct	J's A/c (1,20,000+48,000) Dr.	1,68,000	
	To Bank A/c		84,000
	To Deficiency A/c *		84,000
	(Being insolvent, only 50% amount paid to J)		

In the books of J
Journal Entries

Date 2022	Particulars	Debit Amount ₹	Credit Amount ₹
1-Apr	T A/c Dr.	1,80,000	
	To Bills Payable A/c		1,80,000
	(Being bill of exchange accepted and send to Mr. T)		

1-Apr	Bank A/c	Dr.	57,600	
	Discount Charges A/c	Dr.	2,400	
	To T A/c			60,000
	(Being the amount received from T on account of the bill receivable)			
4-Jul	Bills Receivable A/c	Dr.	2,52,000	
	To T A/c			2,52,000
	(Being the bills accepted by T)			
4-Jul	Bank A/c	Dr.	2,40,660	
	Discount Charges A/c	Dr.	11,340	
	To Bills Receivable A/c			2,52,000
	(Being T's acceptance discounted with bank)			
4-Jul	Bills Payable A/c	Dr.	1,80,000	
	Bank A/c			1,80,000
	(Being the amount met on the due date)			
4-Jul	T A/c	Dr.	48,000	
	To Bank A/c			40,440
	To Discount A/c			7,560
	(Being the amount received and discount debited to T account)			
	$\left[\frac{1,20,000+40,440}{2,40,660} \times 11,340\right]$ = 7,560			
7-Oct	T A/c	Dr.	2,52,000	
	To Bank A/c			2,52,000
	(Being T's acceptance dishonoured due to T's bankruptcy)			
7-Octl	Bank A/c	Dr.	84,000	
	Bad Debts A/c*	Dr.	84,000	
	To T A/c			1,68,000
	(Being the amount received from T and the balance being written off as bad debts)			

(b) (i) H in Account Current with G

(Interest to 31st March,2022@10%p.a.) [Product Method]

Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Product
2021	2021			₹	₹	2021	2021			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	4,500	8,19,000	Nov 16	Nov 26	By Purchases	125	6,000	7,50,000
Oct 18,	Oct 18	To Sales	164	3,750	6,15,000	Dec 7	Dec. 17	By Purchases	104	5,250	5,46,000
2022	2022					2022	2022				
Jan 3	Apr 6	To Bills payable	(6)	7,500	(45,000)	Mar 28	Apr 8	By Purchases	(8)	4,050	(32,400)
Feb 4	Feb 4	To Cash	55	1,500	82,500	Mar 31	Mar 31	By Balance of product			2,72,400
Mar 21	Mar. 21	To Sales	10	6,450	64,500			By Balance c/d		8,475	
Mar 31	Mar 31	To Interest		75	-						
				23,775	15,36,000					23,775	15,36,000

(Interest for the period = $\frac{2,72,400 \ X \ 10 \ X \ 1}{100 \ X \ 365}$= **₹ 74.63** or rounded off to **₹ 75**)

Alternative:

(b) (i) H in Account Current with G

(Interest to 31st March,2022@10%p.a.) [Interest Method]

Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Interest	Date	Due date	Particulars	No. of days till 31.3.22	Amt.	Interest
2021	2021			₹	₹	2021	2021			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	4,500	224.38	Nov 16	Nov 26	By Purchases	125	6,000	205.48
Oct 18,	Oct 18	To Sales	164	3,750	168.49	Dec 7	Dec. 17	By Purchases	104	5,250	149.59
2022	2022					2022	2022				
Jan 3	Apr 6	To Bills payable	(6)	7,500	(12.33)	Mar 28	Apr 8	By Purchases	(8)	4,050	(8.88)
Feb 4	Feb 4	To Cash	55	1,500	22.60	Mar 31	Mar 31	By Balance of product			
Mar 21	Mar. 21	To Sales	10	6,450	17.67			By Balance c/d		8474.62	74.62
Mar 31	Mar 31	To Interest		74.62	-						
				23,774.62	420.81					23,774.62	420.81

OR

(ii) Assuming 9th January, 2022 to be the base date:

Date of Sale	Due date of payment	Amount	No. of days from base date	Product
		₹		₹
2nd Jan	9th Jan	60,000	0	0
28th Jan	4th Feb	55,000	26	14,30,000
17th Feb	24th Feb	70,000	46	32,20,000
4th March	11th Mar	42,000	61	25,62,000
		2,27,000		72,12,000

Average due date $= \text{Base date} + \dfrac{\text{Total Product}}{\text{Total Amount}}$

= 9th January,2022 + 72,12,000/2,27,000

= 9th January,2022 + 32 days = 10th February,2022

Thus, average due date = 10th February, 2022

No. of days from 10th February, 2022 to 31st March, 2022 = 49 days.

Interest payable by D on ₹ 2,27,000 for 49 days @ 12% per annum

= 2,27,000 X12/100 X 49/365 = ₹ 3,656.88 or ₹ 3,657

Question 4

(a) X and Y are in partnership business sharing profits and losses in the ratio of 2:3.

Their Balance Sheet as at 31st March, 2022 is as follows:

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

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1,00,000 as his share of capital. Goodwill was valued at

₹ 1,20,000 at the time of admission of Z. The partners decided to revalue the assets and liabilities as follows:

(i) Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bills Receivable ₹ 12,000.

(ii) Out of total Debtors, ₹ 2400 is bad and 5% provision is to be provided for bad and doubtful debts.

(iii) Building is to be appreciated by 75%.

(iv) Actual liability towards salary payable is ₹ 1200 only.

You are required to show the following accounts in the books Of the firm:

(1) Revaluation Account

(2) Partner's Capital Accounts

(3) Balance sheet of the Firm after Admission of Z. ***(10 Marks)***

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

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

This Account has been prepared after the following adjustments:

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

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

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

You are required to prepare:

(i) Receipts and Payments Account for 2022

(ii) Balance Sheet as on 31st December, 2022

(iii) Balance Sheet as on 31st December, 2021. **(10 Marks)**

Answer

(a) **In the books of X, Y and Z**
Revaluation Account

Particulars	₹	Particulars	₹
To Plant	5,000	By Building	45,000
To Bad Debts	2,400	By Salary Payable	800
To Provision for Doubtful Debts	1,800		
To Stock	600		
To Furniture	3,500		
To Bills receivable	500		
To Profit on revaluation			
X	12,800		
Y	19,200		
	45,800		45,800

Partners' Capital A/c's

Particulars	X	Y	Z	Particulars	X	Y	Z
To X and Y (Goodwill adjustment)	-	-	24,000	By Balance b/d	60,000	1,40,000	-
To Balance c/d	98,400	1,97,600	76,000	By Bank	-	-	1,00,000
				By Z	9,600	14,400	-

				By General Reserve	16,000	24,000	-
				By Revaluation	12,800	19,200	-
	98,400	1,97,600	1,00,000		98,400	1,97,600	1,00,000

Balance Sheet as on 1st April, 2022 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,05,000
X	98,400	Plant	40,000
Y	1,97,600	Furniture	20,000
Z	76,000	Debtors*	34,200
Creditors	42,600	Bills Receivable	12,000
Bills Payable	15,400	Stock	42,000
Salary Payable	1,200	Bank	1,78,000
	4,31,200		4,31,200

* Debtors: (38,400 – 2,400 – 1,800) = ₹ 34,200

(b) **The Young Boys Club**

Receipts and Payments Account for the year ended 31st December, 2022

	Receipts	₹		Payments		₹
To	Balance b/d (balancing figure)	1,580	By	Salaries (WN-2)		3,900
To	Subscriptions (WN-1)	8,270	By	General Expenses	1500	
To	Entrance Fees	250		*Add*: Paid for 2023	150	1,650
To	Contribution for annual dinner	1,000	By	Audit fee (2021)		200
To	Annual sport meet receipt	750	By	Secy. Honorarium		1,000
			By	Stationery & Printing		450
			By	Annual Dinner Expenses		1,500
			By	Interest & Bank Charges		150
			By	Sports Equipment (WN -3)		1,400

		By Balance c/d	1,600
	11,850		11,850
To Balance b/d	1,600		

Working Note 1

Subscription A/c

To Subscription O/s 2021	700	By Balance b/d (b/f)	8,270
To Subscription in Advance 2022	370	By Subscription O/s 2022	750
To Income & Expenditure a/c	8,500	By Subscription in Advance 2021	550
Total	9,570	Total	9,570

Working Note 2

Salaries A/c

To Bank (b/f)	3,900	By Income & Expenditure a/c	3,750
To Salaries O/s 2022	450	By Salaries O/s 2021	600
	4,350		4,350

Working Note 3

Sports Equipment A/c

To Balance b/d	2,600	By Depreciation	400
To Cash / Bank (b/f)	1,400	By Balance c/d	3,600
Total	4,000	Total	4,000

Balance Sheet of Young Boys Club as on December 31, 2022

Liabilities	₹	₹	Assets	₹	₹
Subscription received in advance		370	Freehold Ground		20,000
Audit Fee Outstanding		250	Sport Equipment:		
Salaries Outstanding		450	As per last Balance Sheet	2,600	
Bank Loan		5,000	Additions	1,400	
Capital Fund:				4,000	
Balance as per previous			*Less*: Depreciation	(400)	3,600

Balance Sheet	18,530		Subscription Outstanding		750
Add: Surplus for 2022	1,500		Insurance Prepaid		150
		20,030	Cash in hand		1,600
		26,100			26,100

Balance Sheet of Young Boys Club as on 31st December, 2021

Liabilities	₹	Assets	₹
Subscriptions received in advance	550	Freehold Ground	20,000
Salaries outstanding	600	Sports Equipment	2,600
Audit fees unpaid	200	Subscriptions Outstanding	700
Bank Loan	5,000	Cash in hand	1,580
Capital Fund (balancing figure)	18,530		
	24,880		24,880

Question 5

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

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

(5 Marks)

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

(i) *Capitalization method*

(ii) *Super Profit method, if the goodwill is valued at 6 years purchase of super profits.*

(5 Marks)

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

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

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

(i) *Commission paid to selling agent ₹ 65,000*

(ii) *Discount received from creditors ₹ 75,000*

(iii) *Purchased a vehicle of ₹ 50,000 on 31st March, 2022*

(iv) *Depreciation on Furniture and Fixtures @ 10% and on Vehicle @ 20%*

(v) *A provision for doubtful debts @ 3% of the trade receivables as at 31st March, 2022*

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

(1) *prepaid expenses ₹ 15,000 and*

(2) *outstanding commission ₹ 35,000.*

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

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

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

Answer

(a) **M/s Raj Agencies**

Dr. **Cash Book** Cr.

Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹
2022						2022					
Mar 1	To Balance b/d			30,000	1,20,000	Mar 2	By Bank	C		10,000	
Mar 2	To Cash	C			10,000	Mar 5	By Furniture				15,000
Mar 12	To Mohan		200	9,800		Mar 8	By Goods / Purchase			5,000	
Mar 14	To Sales			50,000		Mar 16	By Lata		500		14,500
Mar 19	To Cash	C			5,000	Mar 19	By Bank	C		5,000	
Mar 24	To Gupta		200	14,300		Mar 23	By Drawings				6,000
Mar 26	To Cash	C			14,300	Mar 26	By Bank	C		14,300	
Mar 28	To Bank	C		20,000		Mar 28	By Cash	C			20,000
						Mar 30	By Rent				8,000
						Mar 31	By Balance c/d			89,800	85,800
			400	1,24,100	1,49,300				500	1,24,100	1,49,300

(b) (i) Capitalization Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = ₹\ 6{,}50{,}000 \text{ X } 100/20 = ₹\ 32{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 32,50,000 – ₹ 26,00,000 [i.e., ₹ 14,00,000 (R) + ₹ 12,00,000 (S)]

Goodwill = ₹ 6,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x Normal rate of return i.e. ₹ 26,00,000 x 20/100

= ₹ 5,20,000

Average Profit = ₹ 6,50,000

Super Profit = Average profit – Normal Profit

= ₹ 6,50,000 – ₹ 5,20,000 = ₹ 1,30,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,30,000 x 6 = ₹ 7,80,000

(c) **Balance Sheet of S as on 31st March, 2022**

Liabilities		₹	Assets	₹
Capital	22,00,000		Cash at Bank	5,50,000
Add: Net Profit (WN.1)	6,50,000		Trade receivables (WN. 2)	12,61,000
	28,50,000		Vehicles (WN. 3)	2,70,000
Add: Introduction of capital	3,00,000		Furniture & Fixtures (WN. 4)	5,85,000
		31,50,000	Inventories	6,50,000
Outstanding commission		35,000	Prepaid expenses	15,000
Trade payables		1,46,000		
		33,31,000		33,31,000

Working Note 1

Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding Commission	35,000	By Balance b/d	6,70,000
To Net profit	6,50,000	By Prepaid expenses	15,000
	6,85,000		6,85,000

Working Note 2

Trade Receivables

Particulars	₹	Particulars	₹
To Balance b/d	13,00,000	By Provision for Doubtful Debts	39,000
		By Balance c/d (b/f)	12,61,000
	13,00,000		13,00,000

Working Note 3

Vehicles A/c

Particulars	₹	Particulars	₹
To Balance b/d	2,75,000	By Depreciation	55,000
To Bank a/c	50,000	By Balance c/d (b/f)	2,70,000
	3,25,000		3,25,000

Working Note 4

Furniture & Fixtures A/c

Particulars	₹	Particulars	₹
To Balance b/d	6,50,000	By Depreciation	65,000
		By Balance c/d (b/f)	5,85,000
	6,50,000		6,50,000

Question 6

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

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

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

Answer

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

Journal

Entry no.	Particulars		₹	₹
1	Bank A/c	Dr	6,00,000	
	To Equity Share Application A/c			6,00,000
	(Being application money on 2,00,000 shares @ ₹ 3 per share received)			
2	Equity Share Application A/c	Dr	6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being transfer of application money to Equity Share Capital on 2,00,000 shares @ ₹ 3 per share as per Director's Resolution no… dated…)			

3	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Being amount due from shareholders in respect of allotment on 2,00,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Director's Resolution no……dated……)	Dr	10,00,000	 6,00,000 4,00,000
4	Bank A/c To Equity Share Allotment A/c (Being amount received against allotment on 1,95,000 shares @ ₹ 5 per share including premium @ ₹ 2 per share) **OR** Bank A/c Calls in Arrears A/c To Equity Share Allotment A/c (Being amount received against allotment on 2,00,000 share @ ₹ 5 per share including premium @ ₹ 2 per share, Mr. J holding 5,000 shares failed to pay allotment money)	Dr Dr Dr	9,75,000 9,75,000 25,000	 9,75,000 10,00,000
5	Equity Share Call A/c To Equity Share Capital A/c (Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share as per Director's resolution no......dated…….)	Dr	8,00,000	 8,00,00
6	Bank A/c To Equity Share Call A/c (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share) **OR** Bank A/c Calls in Arrears A/c To Equity Share Call A/c (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share, J holding 5,000 shares and K holding 10,000 shares failed to pay call money)	Dr Dr Dr	7,40,000 7,40,000 60,000	 7,40,000 8,00,000

7	Equity Share Capital A/c (15,000 x ₹ 10)	Dr	1,50,000	
	Securities Premium A/c (5000 x ₹ 2)	Dr	10,000	
	To Equity Share Allotment A/c (5000 x ₹ 5)			25,000
	To Equity Share Call A/c (15,000 x ₹ 4)			60,000
	To Forfeited Shares A/c			75,000
	(Being forfeiture of 15,000 equity shares for non-payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No…..dated ….)			
	OR			
	Equity Share Capital A/c (15,000 x ₹ 10)	Dr	1,50,000	
	Securities Premium A/c (5000 x ₹ 2)	Dr	10,000	
	To Calls in Arrears A/c (₹ 25,000 + ₹ 60,000)			85,000
	To Forfeited Shares A/c			75,000
	(Being forfeiture of 15,000 equity shares for non-payment of allotment and call money on 5,000 shares and for non-payment of call money on 10,000 shares as per Board's Resolution No…...dated…….)			
8	Bank A/c	Dr	90,000	
	Forfeited Shares A/c		10,000	
	To Equity Share Capital A/c			1,00,000
	(Being re-issue of 10,000 shares @ ₹ 9 each as per Board's Resolution No……dated…...)			
9	Forfeited Shares A/c	Dr	35,000	
	To Capital Reserve A/c			35,000
	(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of PQR as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital	1	19,80,000
Reserves and Surplus	2	4,25,000
Total		24,05,000

ASSETS		
Current assets		
Cash and Cash Equivalents	3	24,05,000
Total		24,05,000

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	Issued share capital		
	2,00,000 Equity shares of ₹ 10 each	20,00,000	
	Subscribed, called up and paid up share capital		
	1,95,000 Equity shares of ₹ 10 each	19,50,000	
	Add: Forfeited shares	30,000	19,80,000
2.	Reserves and Surplus		
	Securities Premium	3,90,000	
	Capital Reserve	35,000	4,25,000
3.	Cash and Cash Equivalents		
	Amount received on Share Application	6,00,000	
	Amount Received on Share Allotment	9,75,000	
	Amount Received on Share Call	7,40,000	
	Amount Received on Re-issue of Shares	90,000	24,05,000

Working Note:

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of J	₹ 3	Amount forfeited per share of K	₹ 6
Less: Loss on re-issue per share	(₹ 1)	*Less*: Loss on re-issue per share	(₹ 1)
Surplus	₹ 2	Surplus	₹ 5
Transferred to Capital Reserve: J's share (5,000 x ₹ 2)		₹ 10,000	
K's Share (5,000 x ₹ 5)		₹ 25,000	
Total		₹ 35,000	

(2) Balance of Security Premium

Total Premium amount receivable on allotment	=	4,00,000
Less: Amount reversed on forfeiture	=	(10,000)
Balance remaining	=	3,90,000

(b) Cost of Property, Plant and Equipment comprise of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

Examples of directly attributable costs are:

(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.

(b) cost of site preparation

(c) initial delivery and handling costs

(d) installation and assembly costs

(e) cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) professional fees e.g., engineers hired for helping in installation of a machine

(g) transportation cost

(h) trial run expenses

Thus, all the expenses which are necessary for asset to bring it in condition and location for desired use will become part of cost of the asset.