# MAY 2022

## 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) *A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability.* ·

(ii) *At the end of the accounting year, all the nominal accounts of the ledger book are balanced.*

(iii) *The specific due date excludes the addition of grace days to arrive at the due date.*

(iv) *Any amount spent for replacement of worn out part of a machine is capital expenditure.*

(v) *Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.*

(vi) *If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.* ***(6 x 2 = 12 Marks)***

(b) *Briefly explain the following Concepts of Accounting:*

(i) *Money Measurement Concept*

(ii) *Periodicity Concept.* ***(4 Marks)***

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

| | Dr. | Cr. |
|---|---|---|
| X's Capital | | 4,668 |
| X's Drawings | 1,692 | |
| Leasehold Premises | 2,250 | |
| Sales | | 8,250 |
| Due from customers | | 1,590 |
| Purchases | 3,777 | |
| Purchase Return | 792 | |

| | | |
|---|---|---|
| *Loan from Bank* | | *768* |
| *Trade Expense* | *2,100* | |
| *Trade Payable* | *1,584* | |
| *Bills Payable* | *300* | |
| *Salaries and Wages* | *1,800* | |
| *Cash at Bank* | *678* | |
| *Opening Inventory* | | *792* |
| *Rent and Rates* | *1,389* | |
| *Sales Return* | | *294* |
| | *16,362* | *16,362* |

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

**Answer**

**(a)** (i) **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

(ii) **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

(iii) **True:** Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.

(iv) **False:** Amount spent for replacement of any worn- out part of a machine is revenue expense since it is part of its maintenance cost.

(v) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

(vi) **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 and/or Errors of Omission, which can be rectified without opening a suspense account.

**(b)** Money Measurement concept: As per this 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.

Periodicity concept: According to this concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

(c) **Corrected Trial Balance of Mr. X as on 31st March, 2022**

| Particulars | Dr. Amount ₹ | Cr. Amount ₹ |
|---|---|---|
| X's Capital | | 4,668 |
| X's Drawings | 1,692 | |
| Leasehold premises | 2,250 | |
| Sales | | 8,250 |
| Due from customers | 1,590 | |
| Purchases | 3,777 | |
| Purchases returns | | 792 |
| Loan from Bank | | 768 |
| Trade expenses | 2,100 | |
| Trade Payable | | 1,584 |
| Bills payable | | 300 |
| Salaries and Wages | 1,800 | |
| Cash at Bank | 678 | |
| Inventory (1.4.2021) | 792 | |
| Rent and rates | 1,389 | |
| Sales return | 294 | |
| | 16,362 | 16,362 |

Reasons:

1. Due from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets goes out.
3. Trade Payable is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come in.

**Question 2**

(a) *The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April,2020. The Books of Accounts*

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

*Prepare Machinery Account for the year ended 31st March,2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes.* ***(10 Marks)***

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

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

*The following further information is also provided:*

(i) *At the time of valuing stock on 31st March,2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March,2021 for ₹ 6,40,000.*

(ii) *Except for the above transaction, the rate of gross profit during the year was 1/3rd on cost.*

*Ascertain the value of Stock as on 31st March,2021.* ***(5 Marks)***

(c) *From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2021·*

| Particulars | Amount (₹) |
|---|---|
| Bank balance as per Pass Book | 25,00,000 |
| Bills discounted dishonored not recorded in Cash Book | 12,50,000 |
| Cheque received entered twice in Cash Book | 25,000 |
| Bank charges entered twice in Cash Book | 5,000 |
| Insurance premium paid directly by Bank under-standing instruction | 1,50,000 |
| Cheque issued but not presented to Bank for payment | 12,50,000 |

| | |
|---|---|
| *Cheque received, but not sent to Bank* | *28,00,000* |
| *Cheque deposited in Bank, but no entry passed in the Cash Book* | *12,50,000* |
| *Credit side of the Bank column cast short* | *5,000* |

***(5 Marks)***

**Answer**

**(a)** **Plant and Machinery Account for the year ended 31st March,2021**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| 01-04-20 | To Balance b/d | 95,00,000 | 01-09-20 | By Bank (Sales) | 3,75,000 |
| 01-09-20 | To Bank (14,00,000 + 44,600) | 14,44,600 | | By Depreciation (on sold machine) | 73,811 |
| | | | | By Loss on sale | 13,22,659 |
| | | | | By Loss on scrapping the machine | 18,84,562 |
| | | | | By Depreciation (on Scrapped machinery) | 81,938 |
| | | | | By Depreciation (Note iii) | 6,60,471 |
| | | | | By Balance c/d | 65,46,159 |
| | | 109,44,600 | | | 109,44,600 |

**Working Note:**

| | | | |
|---|---|---|---|
| (i) | Calculation of loss on sale of machine on 01-09-2020 | | ₹ |
| | Cost on 1-4-2018 | | 21,87,000 |
| | Less: Depreciation @ 10% on ₹ 21,87,000 | | (2,18,700) |
| | W.D.V. on 31-03-2019 | | 19,68,300 |
| | Less: Depreciation @ 10% on ₹ 19,68,300 | | (1,96,830) |
| | W.D.V. on 31-03-2020 | | 17,71,470 |
| | Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months | | (73,811) |
| | | | 16,97,659 |
| | Less: Sale proceeds on 01-09-2020 | | (3,75,000) |
| | Loss | | 13,22,659 |

| | | | |
|---|---|---|---|
| (ii) | Calculation of loss on scrapped machine | | |
| | Cost on 1-4-2019 | | 21,85,000 |
| | Less: Depreciation @ 10% on ₹ 21,85,000 | | (2,18,500) |
| | W.D.V. on 31-3-2020 | | 19,66,500 |
| | Less: Depreciation @ 10% on ₹19,66,500 for 5 months | | (81,938) |
| | Loss | | 18,84,562 |
| (iii) | Depreciation | | |
| | Balance of machinery account on 1-4-2020 | | 95,00,000 |
| | Less: W.D.V of machinery sold | 17,71,470 | |
| | W.D.V. of machinery scrapped | 19,66,500 | (37,37,970) |
| | Balance of other machinery after sale and scrap on 1-4-2020 | | 57,62,030 |
| | Depreciation @ 10% on ₹ 57,62,030 for 12 months | | 5,76,203 |
| | Depreciation @ 10% on ₹ 14,44,600 for 7 months | | 84,268 |
| | | | 6,60,471 |

Note: The figures are rounded off to nearest rupee.

**(b) Statement of Valuation of Stock as on 31st March, 2021**

| | | ₹ |
|---|---|---|
| Value of stock as on 1st April, 2020 | | 28,00,000 |
| Add: Purchases during the year | | 1,38,40,000 |
| Add: Manufacturing expenses during the above period | | 28,00,000 |
| | | 1,94,40,000 |
| Less: Cost of sales during the period: | | |
| Sales | 2,08,80,000 | |
| Less: Gross profit | 51,40,000 | 1,57,40,000 |
| Value of stock as on 31.3.2021 | | 37,00,000 |

**Working Note:**

| | ₹ |
|---|---|
| Calculation of gross profit: | |
| Gross profit on normal sales 25/100 x (2,08,80,000 -6,40,000) | 50,60,000 |
| Gross profit on the particular (abnormal) item 6,40,000 - (8,00,000 – 2,40,000) | 80,000 |
| | 51,40,000 |

The value of closing stock on 31st March, 2021 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2021.

Alternatively the solution can be presented in the following manner:

**Dr Trading account for the year ended 31st March, 2021 Cr**

| | Normal | Abnormal | Total | | Normal | Abnormal | Total |
|---|---|---|---|---|---|---|---|
| To Opening Stock | 22,40,000 | 5,60,000 | 28,00,000 | By Sales | 2,02,40,000 | 6,40,000 | 2,08,80,000 |
| To Purchases | 13,8,40,000 | 0 | 1,38,40,000 | By Closing Stock | 37,00,000 | 0 | 37,00,000 |
| To Manufacturing Expenses | 28,00,000 | 0 | 28,00,000 | | | | |
| To Gross Profit (Working Note)* | 50,60,000 | 80,000 | 51,40,000 | | | | |
| Total | 2,39,40,000 | 6,40,000 | 2,45,80,000 | | 2,39,40,000 | 6,40,000 | 2,45,80,000 |

**(c) Bank Reconciliation Statement as on 31st March,2021**

| | ₹ | ₹ |
|---|---|---|
| Bank balance as per Pass book | | 25,00,000 |
| *Add*: Bills dishonoured not recorded in the cash book | 12,50,000 | |
| Cheque received entered twice in the cash book | 25,000 | |
| Insurance premium paid directly not recorded in the cash book | 1,50,000 | |
| Cheque received but not sent to the bank | 28,00,000 | |
| Credit side of the bank column cast short | 5,000 | 42,30,000 |
| | | 67,30,000 |
| *Less:* Cheque deposited into the bank but no entry was passed in the cash book | 12,50,000 | |
| Bank charges recorded twice in the cash book | 5,000 | |
| Cheque issued but not presented to the bank | 12,50,000 | (25,05,000) |
| Bank balance as per Cash book | | 42,25,000 |

**Question 3**

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

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

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

*Write up the consignment account finding out the profit/loss on the consignment and A's account in the books of M.* ***(10 Marks)***

(b) *P sends out goods on approval to few customers and includes the same in the Sales Account. On 31.3.2021, the Trade receivables balance stood at ₹ 3,00,000 which included ₹ 21,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price and were sent to Mr. A ₹12,000 and Mr. B ₹ 9,000.*

*Mr. A sent intimation of acceptance on 30th April and Mr. B returned the goods on 10th April,2021.*

*Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March,2021. Also show the entries to be made during April,2021. Value of closing inventories as on 31st March,2021 was ₹ 1,80,000.* ***(5 Marks)***

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

(i) *The following particulars are sent by Mr. A to Mr. K:*

| ***Date*** | ***Particulars*** | ***Amount (₹)*** |
|---|---|---|
| 15/7/2021 | Balance due from Mr. K | 6,000 |
| 20/8/2021 | Sold goods to Mr. K | 10,000 |
| 25/8/2021 | Goods returned by Mr. K | 1,600 |
| 15/9/2021 | Cheque paid by Mr. K | 6,400 |
| 20/10/2021 | Cash received from Mr. K | 4,000 |

*Prepare an Account Current as sent by Mr. A to Mr. K as on 31st October,2021 by means of product method charging interest @ 8% per annum. Round off the amounts to the nearest rupee.* ***(5 Marks)***

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

| ***Particulars*** | ***Amount (₹)*** |
|---|---|
| Capital Invested in business | 9,00,000 |
| Market rate of interest on investment | 8% |
| Rate of risk return on capital invested in business | 3% |

| | |
|---|---|
| *Remuneration per annum from alternative employment of proprietor if he was not engaged in business* | *36,000* |

*The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020.*

*Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.* ***(5 Marks)***

**Answer**

**(a)** **In the books of Mr. M**

**Consignment to Agra Account**

| 2020 | | | ₹ | 2020 | | ₹ |
|---|---|---|---|---|---|---|
| March 1 | To Goods sent on consignment A/c | | 4,00,000 | Dec. 31 | By A's A/cs | 6,00,000 |
| | To Cash A/c (freight and insurance) | | 48,000 | | | |
| Dec. 31 | To A's A/c: | | | | | |
| | Clearance expenses | 12,000 | | | | |
| | Selling expenses | 8,000 | | | | |
| | Commission | | | | | |
| | @ 5% on ₹ 6,00,000 = | 30,000 | | | | |
| | Del-credere commission @ 3% on ₹ 6,00,000 = | 18,000 | 68,000 | | | |
| Dec. 31 | To Provision for expenses (bank charges) | | 1,040 | | | |
| | To Profit and loss A/c (profit on consignment) | | 82,960 | | | |
| | | | 6,00,000 | | | 6,00,000 |

**A's Account**

| 2020 | | ₹ | 2020 | | | ₹ |
|---|---|---|---|---|---|---|
| Dec. 31 | To Consignment A/c | 6,00,000 | Dec. 31 | By Consignment A/c- | | |
| | | | | Clearance expenses | 12,000 | |
| | | | | Selling expenses | 8,000 | |
| | | | | Commission | 30,000 | |
| | | | | Del-credere commission | 18,000 | 68,000 |
| | | | | By Balance c/d | | 5,32,000 |
| | | 6,00,000 | | | | 6,00,000 |

(b) **In the Books of P**

**Journal Entries**

| Date | Particulars | | L.F. | ₹ | ₹ |
|---|---|---|---|---|---|
| 2021 | Sales A/c | Dr. | | 21,000 | |
| Mar, 31 | To Trade receivables A/c* | | | | 21,000 |
| | (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval) | | | | |
| | *To Mr. A ₹ 12,000 and To Mr. B ₹ 9,000 can be given | | | | |
| Mar,31 | Inventories with Customers on Sale or Return A/c | Dr. | | 16,800 | |
| | To Trading A/c | | | | 16,800 |
| | (Being the adjustment for cost of goods lying with customers awaiting approval) | | | | |
| April,30 | Trade receivables A/c or Mr. A A/c | Dr. | | 12,000 | |
| | To Sales A/c | | | | 12,000 |
| | (Being goods costing ₹ 9,600 sent to Mr. A on sale or return basis has been accepted by him) | | | | |

**Balance Sheet of P as on 31st March, 2021 (Extracts)**

| Assets | ₹ | ₹ |
|---|---|---|
| Trade receivables (₹3,00,000 - ₹ 21,000) | | 2,79,000 |
| Inventories-in-trade | 1,80,000 | |
| *Add*: Inventories with customers on Sale or Return | 16,800 | 1,96,800 |
| 100/125 x ₹ 21,000 = ₹ 16,800 | | |
| | | 4,75,800 |

(c) (i) **K in Account Current with A**

**(Interest to 31st October 2021, @ 8% p.a.)**

| Date 2021 | Particulars | Amount ₹ | Days | Products | Date 2021 | Particulars | Amount ₹ | Days | Products |
|---|---|---|---|---|---|---|---|---|---|
| 15.7.21 | To Balance b/d | 6,000 | 109 | 6,54,000 | 25.8.21 | By Sales Returns | 1,600 | 67 | 1,07,200 |
| 20.8.21 | To Sales A/c | 10,000 | 72 | 7,20,000 | 15.9.21 | By Bank A/c | 6,400 | 46 | 2,94,400 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 31.10.21 | To Interest A/c | 203 | - | - | 20.10.21 | By Cash A/c | 4,000 | 11 | 44,000 |
| | | | | | 31.10.21 | By Balance of products | - | - | 9,28,400 |
| | | | | | | By Balance c/d | 4,203 | - | - |
| | | 16,203 | | 13,74,000 | | | 16,203 | | 13,74,000 |

Calculation of interest:

Interest = $\frac{9,28,400}{365} \times \frac{8}{100}$ = ₹ 203

**OR**

**(ii) Computation of Goodwill of Mr. X**

| Average maintainable profits: | | ₹ |
|---|---|---|
| Trading profit during | 2018 | 2,40,000 |
| | 2019 | 2,16,000 |
| | 2021 | 3,00,000 |
| | | 7,56,000 |
| Less: Loss during | 2020 | (36,000) |
| Total | | 7,20,000 |
| Average Profits (₹ 7,20,000 / 4) | | 1,80,000 |
| Less: Remuneration for the proprietor | | (36,000) |
| Average maintainable Profit | | 1,44,000 |
| Less: Normal Profit (11% on capital employed of ₹ 9,00,000) | | (99,000) |
| Super Profit | | 45,000 |
| Goodwill at 6 year's purchase of Super Profit | | 2,70,000 |

**Alternative:**

| | | ₹ |
|---|---|---|
| Total profit (` 2,40,000 + ₹ 2,16,000 + ₹ 3,00,000 - ₹ 36,000) | = | ₹ 7,20,000 |
| Normal Profit (11% on capital employed of ₹ 9,00,000) | = | (99,000) |
| Remuneration for the proprietor | = | (36,000) |
| | | (1,35,000) |
| Average Profits (₹ 7,20,000 / 4) | | 1,80,000 |
| Super Profit | | 45,000 |
| Goodwill at 6 year's purchase of Super Profit | = | 2,70,000 |

**Question 4**

(a) *The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2021:*

***Receipt and Payment Account of Mumbai Club***

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

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

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

*For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March,2021 and the Balance Sheet as at that date.* ***(10 Marks)*** *(b) X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March,2021 was as follows:*

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

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

*(i) Building to be appreciated by 25%.*

*(ii) X and Y to bring in additional capital of ₹ 5,00,000 each.*

*(iii) Machinery to be depreciated by 10%.*

*(iv) Stock is revalued at ₹ 3,72,250.*

*(v) Provision for Doubtful Debts to be created at 4%.*

*(vi) Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.*

*(vii) Goodwill was not to be raised in the Books of Accounts.*

*(viii) Balance payable to Z was to be paid immediately.*

*Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.* ***(10 Marks)***

**Answer**

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

**for the year ending 31st March, 2021**

| Expenditure | | ₹ | Income | ₹ |
|---|---|---|---|---|
| To Groundsman's fee | | 75,000 | By Donations and Subscription (W.N.2) | 2,45,000 |
| To Rent of Ground | | 25,000 | | |
| To Club night' Expenses | 38,000 | | By Receipts from bar room | 20,000 |
| Less: Contribution | (10,000) | 28,000* | | |

| | | | | |
|---|---|---|---|---|
| To Printing & Office Expenses (W.N. 3) | | 28,000 | By Proceeds of club night | 78,000* |
| To Repairs to Equipment (W.N.4) | | 45,000 | By Interest (5,000+2,000) | 7,000 |
| To Depreciation on Machinery (W.N. 5) | | 52,000 | | |
| To Honorarium to Secretary | | 60,000 | | |
| To Bonus to Groundsman | | 20,000 | | |
| To Excess of Income over Expenditure | | 17,000 | | |
| | | 3,50,000 | | 3,50,000 |

* Alternatively, the profits from club night can be shown as the net amount of ₹ 50,000 (₹ 78,000 - ₹ 28,000) on the credit side of Income and Expenditure Account.

**Balance Sheet of Mumbai Club as on 31st March,2021**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Outstanding Expenses: | | | | |
| Groundsman Bonus | | 20,000 | Cash in hand | 25,000 |
| Printing | | 8,000 | Cash in Saving A/c | 2,04,000 |
| Honorarium (40,000+20,000) | | 60,000 | Subscription Receivable | 10,000 |
| Bank Overdraft (25,000-20,000) | | 5,000 | Interest Due | 2,000 |
| Capital Fund: Opening | 2,88,000 | | Machinery & Equipment's | 1,75,000 |
| Add: Surplus for the year | 17,000 | | | |
| Add: Entrance Fees | 18,000 | 3,23,000 | | |
| | | 4,16,000 | | 4,16,000 |

**Balance Sheet as on 1st April,2020**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| *Outstanding Expenses* | | Cash in hand | 20,000 |
| Printing | 10,000 | Cash in Saving A/c | 1,93,000 |

| | | | |
|---|---|---|---|
| Honorarium to Secretary | 40,000 | Cash in Current A/c | 30,000 |
| Capital Fund (Balancing Figure) | 2,88,000 | | |
| | | Subscription Receivable | 15,000 |
| | | Machinery & Equipment's | 80,000 |
| | 3,38,000 | | 3,38,000 |

**Calculation of Donations and Subscriptions** ₹

| | |
|---|---|
| Donations and Subscriptions as per Receipt and Payments A/c | 2,50,000 |
| Add: Outstanding as on 31.03.21 | 10,000 |
| Less: Outstanding as on 01.04.20 | 15,000 |
| | 2,45,000 |

**Printing and Office Expenses** ₹

| | |
|---|---|
| Printing and Office Expenses as per Receipt and Payments A/c | 30,000 |
| Add: Outstanding as on 31.03.21 | 8,000 |
| Less: Outstanding as on 01.04.20 | 10,000 |
| | 28,000 |

**Repairs to Equipment** ₹

| | |
|---|---|
| Repairs as per Receipt and Payments A/c | 50,000 |
| Add: Outstanding as on 31.03.21 | 25,000 |
| Less: Outstanding as on 01.04.20 | 30,000 |
| | 45,000 |

**Depreciation on Machinery and equipment** ₹

| | |
|---|---|
| Balance as on 01.04.20 | 80,000 |
| Add: Purchases during the year | 1,55,000 |
| Less: Sale of Equipment | 8,000 |
| Less: Balance as on 31.03.21 | 1,75,000 |
| | 52,000 |

**(b)** **In The Books of X, Y and Z**

**Revaluation A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Provision for Doubtful Debts | 13,000 | By Building | 62,500 |

| | | | | | |
|---|---|---|---|---|---|
| To Machinery | 33,750 | By Loss on revaluation | | | |
| To Stock | 27,750 | | X | 2,000 | |
| | | | Y | 4,000 | |
| | | | Z | 6,000 | 12,000 |
| | 74,500 | | | | 74,500 |

**Partners' Capital A/c**

| Particulars | X | Y | Z | Particulars | X | Y | Z |
|---|---|---|---|---|---|---|---|
| To Loss on Revaluation | 2,000 | 4,000 | 6,000 | By Balance b/d | 1,75,000 | 2,50,000 | 4,00,000 |
| To Bank | - | - | 9,04,000 | By General Reserve | 50,000 | 1,00,000 | 1,50,000 |
| To Z's Capital | 1,20,000 | 2,40,000 | - | By X and Y's Capital | - | - | 3,60,000 |
| To Balance c/d | 6,03,000 | 6,06,000 | - | By Bank | 5,00,000 | 5,00,000 | - |
| | 7,25,000 | 8,50,000 | 9,10,000 | | 7,25,000 | 8,50,000 | 9,10,000 |

**Bank A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 62,500 | By Z's Capital | 9,04,000 |
| To X's Capital | 5,00,000 | By Balance c/d | 1,58,500 |
| To Y's Capital | 5,00,000 | | |
| | 10,62,500 | | 10,62,500 |

**Valuation of Goodwill:**

Total Profit of past 3 years = ₹ 2,75,000 + ₹ 2,50,000 + ₹ 1,95,000 = ₹ 7,20,000

Average profit = ₹ 7,20,000 / 3 = ₹ 2,40,000

Goodwill (3 years purchase) = ₹ 2,40,000 x 3 = ₹ 7,20,000

Z's share = (3/6)th = ₹ 7,20,000 X 1/2 = ₹ 3,60,000

**Journal entry for adjustment of goodwill**

| | | | |
|---|---|---|---|
| X's capital A/c | Dr. | 1,20,000 | |
| Y's capital A/c | Dr. | 2,40,000 | |
| To Z's capital A/c | | | 3,60,000 |

(Being Goodwill adjusted through Partners Capital account as per gaining ratio)

**Question 5**

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

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

*Additional Information:*

*(i) Stock of finished goods at the end of the year was ₹ 3,50,000.*

*(ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.*

*(iii) Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.*

*(iv Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.*

*You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March,2021 and Balance Sheet as at that date.* ***(20 Marks)***

**Answer**

**In the books of Mr. B**

**Manufacturing Account for the year ended 31st March, 2021**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Opening Stock of Raw Materials | | 5,25,000 | By Cost of Manufactured goods transferred to Trading A/c | 28,28,000 |
| To Purchase | 17,50,000 | | | |
| Less: Purchase Return | 17,500 | 17,32,500 | | |
| To Carriage Inwards | | 52,500 | | |
| To Direct Wages | | 2,80,000 | | |
| To Power | | 1,05,000 | | |
| To Coal and fuel | | 52,500 | | |
| To Factory Rent and Rates | | 70,000 | | |
| To Depreciation on Machinery | | 10,500 | | |
| | | 28,28,000 | | 28,28,000 |

**Trading Account for the year ended 31st March, 2021**

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Opening Stock of finished goods | 2,62,500 | By Sales | 29,75,000 | |
| To Cost of goods transferred from Manufacturing A/c | 28,28,000 | Less: Sales Return | 35,000 | 29,40,000 |
| | | By Closing Stock | | 3,50,000 |
| To Gross Profit c/d | 1,99,500 | | | |
| | 32,90,000 | | | 32,90,000 |

**Profit and Loss Account for the year ended 31st March, 2021**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Carriage Outward | | 24,500 | By Gross Profit b/d | 1,99,500 |
| To Discount Allowed | | 10,500 | By Accrued Commission* | 43,750 |
| To Commission Paid | | 17,500 | By Accrued Interest | 52,500 |
| To Dividend Paid | | 14,000 | | |
| To General Expenses | | 14,000 | | |
| To Advertisement | | 17,500 | | |
| To Salaries | 70,000 | | | |
| Add: Outstanding | 7,000 | 77,000 | | |
| To Interest Paid | 24,500 | | | |
| Less: Prepaid | 5,250 | 19,250 | | |
| To Provision for Bad & Doubtful Debts | 7,000 | | | |
| Add: Bad Debts | 14,000 | | | |
| Less: Old Provision for Doubtful Debts | 7,000 | 14,000 | | |
| To Depreciation on Building | | 3,500 | | |
| To Net Profit c/d | | 84,000 | | |
| | | 2,95,750 | | 2,95,750 |

*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.

**Balance Sheet as on 31st March, 2021**

| Capital and Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | 3,50,000 | | Plant & Machinery | 1,05,000 | |
| Add: Net Profit** | 84,000 | | Less: Depreciation | 10,500 | 94,500 |
| | 4,34,000 | | Land & Building | 3,50,000 | |
| Less: Drawings | 70,000 | 3,64,000 | Less: Depreciation | 3,500 | 3,46,500 |
| Bills Payable | | 84,000 | Furniture & Fixtures | | 52,500 |
| Sundry Creditors | | 1,75,000 | Investments | | 87,500 |
| Salary Outstanding | | 7,000 | Closing Stock | | 3,50,000 |
| Long-Term Loans | | 7,00,000 | Loose Tools | | 1,05,000 |
| Bank Overdraft | | 80,500 | Sundry Debtors | 1,40,000 | |

| | | | | | |
|---|---|---|---|---|---|
| | | | Less: Provision for Bad & Doubtful Debts | 7,000 | 1,33,000 |
| | | | Bills Receivable | | 52,500 |
| | | | Accrued Commission | | 43,750 |
| | | | Accrued Interest | | 52,500 |
| | | | Prepaid Interest | | 5,250 |
| | | | Cash in Hand | | 70,000 |
| | | | Cash at Bank | | 17,500 |
| | | 14,10,500 | | | 14,10,500 |

**If Accrued Commission is treated as expenses in that case Net Loss of ₹ 3,500 will be deducted from Capital Account and Closing Capital figure will be ₹ 2,76,500 and Accrued Commission ₹ 43,750 will appear under liability side of Balance Sheet.

**Question 6**

(a) *A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).*

***(15 Marks)***

(b) *What is petty cash book? Write it's any two advantages.* ***(5 Marks)***

**Answer**

**(a)**

| Entry No. | Particulars | L.F. | Debit Amount (₹) | Credit Amount (₹) |
|---|---|---|---|---|
| 1 | Bank A/c Dr.<br>To Equity Share Application A/c<br>(Money received on applications for 20,000 shares @ ₹ 2 per share) | | 40,000 | 40,000 |
| | Equity Share Application A/c Dr. | | 40,000 | |

| | | | | |
|---|---|---|---|---|
| 2 | To Equity Share Capital A/c | | | 40,000 |
| | (Transfer of application money on 20,000 shares to share capital) | | | |
| 3 | Equity Share Allotment A/c | Dr. | 80,000 | |
| | To Equity Share Capital A/c | | | 60,000 |
| | To Securities Premium A/c | | | 20,000 |
| | (Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share) | | | |
| 4 | Bank A/c | Dr. | 80,000 | |
| | To Equity Share Allotment A/c | | | 80,000 |
| | (Allotment money received) | | | |
| 5 | Equity Share First Call A/c | Dr. | 40,000 | |
| | To Equity Share Capital A/c | | | 40,000 |
| | (Being first call made due on 20,000 shares at ₹ 2 per share) | | | |
| 6 | Bank A/c | Dr. | 46,000 | |
| | To Equity Share First Call A/c | | | 40,000 |
| | To Calls in Advance A/c | | | 6,000 |
| | (Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share) | | | |
| 7 | Equity Share Final Call A/c | Dr. | 60,000 | |
| | To Equity Share Capital A/c | | | 60,000 |
| | (Being final call made due on 20,000 shares at ₹ 3 each) | | | |
| 8 | Bank A/c | Dr. | 53,100 | |
| | Calls in Advance A/c | Dr. | 6,000 | |
| | Calls in Arrears A/c | Dr. | 900 | |
| | To Equity Share Final Call A/c | | | 60,000 |
| | (Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted) | | | |
| 9 | Interest on Calls in Advance A/c | Dr. | 240 | |
| | To Shareholders A/c | | | 240 |

| | | | | |
|---|---|---|---|---|
| | (Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.) | | | |
| 10 | Shareholders A/c Dr.<br>To Bank A/c<br>(Being payment of interest made to shareholder) | | 240 | <br>240 |
| 11 | Shareholders A/c Dr.<br>To Interest on Calls in Arrears A/c<br>(Being interest on calls in arrears made due at the rate of 10%) | | 15 | <br>15 |
| 12 | Bank A/c Dr.<br>To Calls in Arrears A/c<br>To Shareholders A/c<br>(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon) | | 615 | <br>600<br>15 |
| 13 | Shareholders A/c Dr.<br>To Interest on Calls in Arrears A/c<br>(Being interest on calls in arrears made due at the rate of 10%) | | 10 | <br>10 |
| 14 | Bank A/c Dr.<br>To Calls in Arrears A/c<br>To Shareholders A/c<br>(Being money received from shareholder having 100 share for calls in arrears and interest thereupon) | | 310 | <br>300<br>10 |

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

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

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

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

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

**Note:** For entry no 9&10, 11&12,13&14 combined entry can also be passed.

**(b)**
- In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work.
- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
- Later, on an analysis, the respective account may be debited.
- Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

**Advantages of Petty cash book are:**

(i) Saving of time of the chief cashier

(ii) Saving in labour in writing up the cash book and posting into the ledger

(iii) Control over small payments

# DEC 2022

## 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 |
| | | By Subscription in Advance 2021 | 550 |
| To Income & Expenditure a/c | 8,500 | | |
| 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

$= \dfrac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}}$ = ₹ 6,50,000 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 | Dr | 10,00,000 | |
| | To Equity Share Capital A/c | | | 6,00,000 |
| | To Securities Premium A/c | | | 4,00,000 |
| | (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……) | | | |
| 4 | Bank A/c | Dr | 9,75,000 | |
| | To Equity Share Allotment A/c | | | 9,75,000 |
| | (Being amount received against allotment on 1,95,000 shares @ ₹ 5 per share including premium @ ₹ 2 per share) | | | |
| | **OR** | | | |
| | Bank A/c | Dr | 9,75,000 | |
| | Calls in Arrears A/c | Dr | 25,000 | |
| | To Equity Share Allotment A/c | | | 10,00,000 |
| | (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) | | | |
| 5 | Equity Share Call A/c | Dr | 8,00,000 | |
| | To Equity Share Capital A/c | | | 8,00,00 |
| | (Being amount due from shareholders in respect of call on 2,00,000 shares @ ₹ 4 per share as per Director's resolution no......dated…….) | | | |
| 6 | Bank A/c | Dr | 7,40,000 | |
| | To Equity Share Call A/c | | | 7,40,000 |
| | (Being amount received against the call on 1,85,000 shares @ ₹ 4 per share) | | | |
| | **OR** | | | |
| | Bank A/c | Dr | 7,40,000 | |
| | Calls in Arrears A/c | Dr | 60,000 | 8,00,000 |
| | 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) | | | |

| | | | | |
|---|---|---|---|---|
| 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.