PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

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

   (a) Accrual concept implies accounting on cash basis.

   (b) The Sales book is kept to record both cash and credit sales.

   (c) Bank reconciliation statement is prepared to arrive at the bank balance.

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

   (e) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

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

   (g) A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

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

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

Theoretical Framework

2. Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) Pass a journal entry in each of the following cases:

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or Revenue Expenditure

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

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

   (ii) Amount spent to reduce working expenses.

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

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

Cash Book

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

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

Rectification of Errors

(b) The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2020:

(i) Balance as per Pass Book is ₹ 10,000.

(ii) Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

(iii) Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.

(iv) Withdrawal column of the Pass Book undercast by ₹ 100.

(v) The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

(vi) The payment of a cheque of ` 350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of ` 1,000 deposited by Shri Hari (another customer of the bank).

Valuation of Inventories

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

   (i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

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

   (iii) Sales Return ₹ 1,000.

   (iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

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

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

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

Concept and Accounting of Depreciation

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

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

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

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

Bills of Exchange

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

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

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

Consignment

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

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

   B is entitled to a commission of ₹ 25 per DVD player sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ ₹ 125 per DVD player sold. B sent the amount due to A on 30th June, 2020.

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

Sales of goods on approval or return basis

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

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

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

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

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

Goods on sales or return total account.

Account current

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

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

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

Final accounts and Rectification of entries

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

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

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

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

(i) ₹ 20,000 drawn from bank was debited to Drawings account, but out of this amount withdrawn ₹ 12,000 was used in the business for day-to-day expenses.

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2019, but the goods were included in stock.

(iii) Purchase returns of ₹ 1,000 was recorded in Sales Return Journal and the amount was correctly posted to the Party's A/c on the correct side.

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2019.

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

Partnership Accounts

Calculation of Goodwill

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

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

Retirement of Partner

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

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

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

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Stock of goods to be valued at ₹10,000.

(iv) Old credit balances of Sundry creditors, ₹2,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.

(vii) Goodwill of the entire firm is valued at ₹14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. P is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

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

Financial Statements of Not for Profit Organizations

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

(1)

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

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

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

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2020.

Issue of Shares

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

Issue of Debentures

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

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

18. Write short notes on the following:

    (i) Fundamental Accounting Assumptions.

    (ii) Objectives of preparing Trial Balance.

    (iii) Accounting conventions.

    (iv) Machine Hour Rate method of calculating depreciation.

SUGGESTED ANSWERS/HINTS

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

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

   (c) **False -** Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

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

   (e) **True -** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

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

   (g) **False -** Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

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

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

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

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

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

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by Mohan by taking over a running business).

(ii)

Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000

(iii)

Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	
To Rahim			₹ 600

(b) (i) Capital Expenditure.

(ii) Revenue Expenditure.

(iii) Revenue Expenditure.

(iv) Capital Expenditure.

4. (a) **Purchase Returns Book**

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

(b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
No Entry Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Correct Entry	*Entry Made Wrongly*
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	*After Trial Balance*	*After Final Accounts*
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr.660 To Mantri & Co. 660

5. (i) Bank Reconciliation Statement as at 31.03.2020

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

6. Statement of Valuation of Stock on 31st March, 2020

		₹	₹
Value of stock as on 15th April, 2020			50,000
Add:	Cost of sales during the period from 31st March, 2020 to 15th April, 2020		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	

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

7. Machinery Account in the books of M/s. Green Channel Co.

		₹			₹
1.1.2017	To Bank A/c	1,60,000	31.12.2017	By Depreciation A/c (₹ 20,000 + ₹ 4,000)	24,000
	To Bank A/c (Erection charges)	40,000	31.12.2017	By Balance c/d (₹ 1,80,000 + ₹ 76,000)	2,56,000
1.7.2017	To Bank A/c	80,000			
		2,80,000			2,80,000
1.1.2018	To Balance b/d	2,56,000	31.12.2018	By Depreciation A/c (₹ 20,000 + ₹ 8,000)	28,000
			31.12.2018	By Balance c/d (₹ 1,60,000 + ₹ 68,000)	2,28,000
		2,56,000			2,56,000
1.1.2019	To Balance b/d	2,28,000	1.7.2019	By Bank A/c	1,00,000
30.9.2019	To Bank A/c	30,000		By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
			31.12.2019	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
		2,58,000			2,58,000
1.1.2020	To Balance b/d	89,250	31.12.2020	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	*Machine II*	*Machine III*
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2017	20,000	4,000	
Written down value as on 31.12.2017	1,80,000	76,000	
Depreciation for 2018	20,000	8,000	
Written down value as on 31.12.2018	1,60,000	68,000	
Depreciation for 2018	10,000	8,000	750
Written down value as on 31.12.2019	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **In the books of Siriman**

Journal Entries

Particulars	*L.F.*		*Dr.* ₹	*Cr.* ₹
Bills Receivable A/c		Dr.	1,00,000	
To Rita				1,00,000
(Being a 3 month's bill drawn on Rita for the amount due)				
Bank A/c		Dr.	99,000	
Discount A/c		Dr.	1,000	
To Bills Receivable A/c				1,00,000
(Being the bill discounted)				
Rita		Dr.	1,00,000	
To Bank A/c				1,00,000
(Being the bill cancelled up due to Rita's inability to pay it)				
Rita		Dr.	1,500	
To Interest A/c				1,500
(Being the interest due on ₹ 50,000 @ 12% for 3 months)				

Bank A/c		Dr.	51,500	
To Rita				51,500
(Being the receipt of a portion of the amount due on the bill together with interest)				
Bills Receivable A/c		Dr.	50,000	
To Rita				50,000
(Being the new bill drawn for the balance)				
Rita		Dr.	50,000	
To Bills Receivable A/c				50,000
(Being the dishonour of the bill due to Rita's insolvency)				
Bank A/c		Dr.	20,000	
Bad Debts A/c		Dr.	30,000	
To Rita				50,000
(Being the receipt of 40% of the amount due on the bill from Rita's estate)				

9. **In the books of A**

Consignment Account

Dr.			*Amount*				*Cr.* *Amount*
2020			₹	*2020*			₹
Feb. 18	To	Goods sent on consignment account	1,00,000	March 15	By	B's account (Sales) (600 × ₹ 160)	96,000
Feb. 18	To	Cash/Bank account (Expenses)	1,500	May 20	By	B's account (Sales) (300 × ₹ 170)	51,000
Feb. 18	To	B's account (Clearance charges)	3,000	June 30	By	Consignment Stock (Working note 2)	10,450
June 30	To	B's account: Selling expenses (900 × ₹ 20)	18,000				

		Commission (Working note 1)	24,900				
June 30	To	Profit and loss account (profit on consignment transferred)	10,050				
			1,57,450				1,57,450

B's Account

Dr.							*Cr.*
			Amount				*Amount*
2020			₹	*2020*			₹
March 15	To	Consignment account (Sales)	96,000	Feb 18	By	Consignment account (Clearance charges)	3,000
May 20	To	Consignment account (Sales)	51,000	June 30	By	Consignment account:	
						Selling expenses	18,000
						Commission	24,900
				June 30	By	Cash/Bank account	1,01,100
			1,47,000				1,47,000

Working Notes:

1. Calculation of total commission:

Let total commission be *x*

$$x = 900 \times ₹\ 25 + \frac{1}{4}[(₹\ 96{,}000 + ₹\ 51{,}000) - x - (900 \times ₹\ 125)]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 1{,}47{,}000 - x - ₹\ 1{,}12{,}500]$$

$$x = ₹\ 22{,}500 + \frac{1}{4}[₹\ 34{,}500 - x]$$

$$4x + x = ₹\ 90{,}000 + ₹\ 34{,}500$$

5x = ₹ 1,24,500

x = ₹ 24,900

2. Valuation of consignment stock:

	₹
100 DVD players @ ₹ 100 each	10,000
Add: Proportionate expenses of A $\frac{(₹1,500 \times 100)}{1,000}$	150
Proportionate expenses paid by B $\frac{(₹3,000 \times 100)}{1,000}$	300
	10,450

10. Goods on sales or return, sold and returned day book in the books of 'X'

Date 2019	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2019*	*Sold ₹*	*Returned ₹*
Dec.10	M/s ABC		10,000	Dec. 25	10,000	-
Dec.12	M/s DEF		15,000	Dec. 16	-	15,000
Dec.15	M/s GHI		12,000	Dec. 20	10,000	2,000
Dec.20	M/s DEF		16,000	Dec. 24	16,000	-
Dec.25	M/s ABC		11,000	Dec. 28	11,000	-
Dec.30	M/s GHI		13,000	-		
			77,000		47,000	17,000

Goods on Sales or Return Total Account

2019		*Amount ₹*	2019		*Amount ₹*
Dec. 31	To Returns	17,000	Dec. 31	By Goods sent	
	To Sales	47,000		on sales or return	77,000
	To Balance c/d	13,000			
		77,000			77,000

11. In the books of G

H in Account Current with G

(interest to 31st March,2020@10%p.a.)

Date	*Due date*	*Particulars*	*No. of days till 31.3.20*	*Amt.*	*Product*	*Date*	*Due date*	*Particulars*	*No. of days till 31.3.20*	*Amt.*	*Product*
2019	*2019*			*₹*	*₹*	*2019*	*2019*			*₹*	*₹*
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2020	2020					2020	2020				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

$$\text{Interest for the period} = \frac{1,81,600 \times 10 \times 1}{100 \times 365} = ₹\ 50 \text{ (approx.)}$$

12. Journal Entries

	Particulars		*Dr. (₹)*	*Cr. (₹)*
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000

	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of T for the year ending 31st March, 2019

Dr.					*Cr.*
		₹			₹
To Opening Stock		60,000	By Sales	22,00,000	
To Purchases	16,00,000		Less: Sales Return		
Add: Amount not recorded	16,000		(99,000– 1,000)	98,000	21,02,000
	16,16,000		By Closing Stock		1,00,000
Less: Purchases Returns					
(69,000+1,000)	70,000	15,46,000			
To Gross Profit c/f		5,96,000			
		22,02,000			22,02,000
To Expenses (50,000 – 6,000 + 12,000)		56,000	By Gross Profit		5,96,000
To Rent (17,000 – 5,000)		12,000	By Interest on Fixed Deposit		20,000
To Depreciation	14,000		By Interest on Investments		20,000
Add: Further Depreciation $\left(2,00,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	10,000	24,000	$\left(2,50,000 \times \frac{12}{100} \times \frac{8}{12}\right)$		
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2019

Liabilities		₹	***Assets***		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000

Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

13. (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

14. (a) Revaluation Account

Date		*Particulars*	*₹*	*Date*		*Particulars*	*₹*
2020				*2020*			
April	To	Plant & Machinery	6,000	April	By	Land and building	6,000
	To	Stock of goods	2,000		By	Sundry creditors	2,000

	To	Provision for bad and doubtful debts	550		By	Cash & Bank - Joint life Policy surrendered	7,550
	To	Capital accounts (profit on revaluation transferred) Mr. P (2/7) 2,000 Mr. Q (3/7) 3,000 Mr. R (2/7) 2,000	7,000				
			15,550				15,550

(b) Partners' Capital Accounts

Dr. Cr.

	Particulars	*P*	*Q*	*R*		*Particulars*	*P*	*Q*	*R*
		(₹)	*(₹)*	*(₹)*			*(₹)*	*(₹)*	*(₹)*
To	P's Capital A/c - goodwill	-	1,000	3,000	By	Balance b/d	20,000	30,000	20,000
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000	2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	-	-
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000	16,000
		26,000	36,000	38,000			26,000	36,000	38,000

(c) Cash and Bank Account

	Particulars	₹		*Particulars*	₹
To	Balance b/d	7,000	By	P's Capital A/c - 50% dues paid	13,000
To	Revaluation A/c –		By	Balance b/d	20,550

	surrender value of joint life policy	7,550			
To	Q's Capital A/c	3,000			
To	R's Capital A/c	16,000			
		33,550			33,550

(d) Balance Sheet of M/s Q & R as on 01.04.2020

Liabilities		₹	*Assets*		₹
Partners' Capital account			Land and Building	30,000	
Mr. Q	35,000		*Add:* Appreciation 20%	6,000	36,000
Mr. R	35,000	70,000	Plant & Machinery	20,000	
Mr. P's Loan account		13,000	*Less:* Depreciation 30%	6,000	14,000
Sundry Creditors		8,000	Stock of goods	12,000	
			Less: revalued	2,000	10,000
			Sundry Debtors	11,000	
			Less: Provision for bad debts 5%	550	10,450
			Cash & Bank balances		20,550
		91,000			91,000

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	14,000
Mr. P's Share (2/7)	4,000
Gaining ratio of Q & R;	
Q = ½ - 3/7 = 1/14	
R = ½ - 2/7 = 3/14	
Q:R = 1:3	

Therefore, Q will bear – ¼ × 4000 or ₹1,000

R will bear = ¾ × 4000 or ₹3,000

15. **Subscription for the year ended 31.3.2020**

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2019	11,250	
Less: Subscription received in advance on 31.3.2020	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2020	16,500	
Add: Subscription received in advance on 1.4.2019	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2020

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2019	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2020	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2019	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2020	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 20 (An extract)

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

will be 2,000 hours × ₹ 20 = ₹ 40,000.

16.

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000
(Transfer of application money on 1,000 shares to share capital)			
Equity Share Allotment A/c	Dr.	30,000	
To Equity Share Capital A/c			30,000
(Amount due on the allotment of 1,000 shares @ ₹ 30 per share)			
Bank A/c	Dr.	30,000	
To Equity Share Allotment A/c			30,000
(Allotment money received)			
Equity Share First Call A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000
(First call money due on 1,000 shares @ ₹ 20 per share)			
Bank A/c	Dr.	19,250	
Calls-in-Arrears A/c	Dr.	2,000	
To Equity Share First Call A/c			20,000
To Calls-in-Advance A/c			1,250
(First call money received on 900 shares and calls-in-advance on 50 shares @ ₹ 25 per share)			

17. **In the books of A Limited**

Date	*Particulars*		*₹ '000*	*₹ '000*
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No…..dated…)			

April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No….dated…)			

18. (i) Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.
3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(ii) Objectives of preparing Trial Balance

The preparation of trial balance has the following objectives:

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

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

statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

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

(iii) Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(iv) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}}$$

$$= ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.