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) *Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out,*
- (ii) *A Company is not allowed to issue shares at a discount to the public in general.*
- (iii) *Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.*
- (iv) *A person holding preference shares of a company cannot hold equity shares of the same company.*
- (v) *Business of partnership comes to an end on death of a partner.*
- (vi) *Cash book is a subsidiary book as well as a principal book.* ***(6 x 2 = 12 Marks)***

(b) *Discuss the basic considerations in distinguishing between capital and revenue expenditure.* ***(4 Marks)***

(c) *The balance of Machinery Account of a firm on 1st April, 2020 was ₹ 28,54;000. Out of this, a plant having book value of ₹ 2,16,090 as on 1st April, 2020 was sold on 1st July, 2020 for ₹ 82,000. On the same date a new plant was purchased for ₹ 4,58,000 and ₹ 22,000 was spent on its erection. On 1st November, 2020 a new machine was purchased for ₹ 5,60,000. Depreciation is written off@ 15% per annum under the diminishing balance method. Calculate the depreciation for the year ended 31st March, 2021.* ***(4 Marks)***

Answer

(a)

(i)	**False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.
(ii)	**True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).
(iii)	**False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting **the**

	inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.
(iv)	**False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
(v)	**False:** Surviving partners may continue to carry on the business in case of partnership.
(vi)	**True:** Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book therefore, is part of the ledger also. Hence, it has also to be treated as a principal book. The Cash Book is thus both a subsidiary book and a principal book.

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

(a)	**Nature of business:** For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is a very important criterion in separating expenditure between capital and revenue.
(b)	**Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.
(c)	**Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
(d)	**Effect on revenue generating capacity of business:** The expenses which help to generate income/revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.
(e)	**Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

(c) Calculation of depreciation for the year ended 31.3.21

	Machine I (28,54,000 - 2,16,000) ₹	Machine II Purchased on 1st July ₹	Machine III Purchased on 1st Nov ₹	Depreciation on sold machine IV ₹
Book value as on 1st April, 2020	26,38,000	4,80,000	5,60,000	2,16,000
Depreciation @15%	3,95,700 (for full year)	54,000 (for 9 months)	35,000 (for 5 months)	8,100 (for 3 months)

Total depreciation (I + II + III + IV) ₹ 4,92,800

Question 2

(a) Mr. Ratan was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(i) Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.

(ii) Purchase account was over cast by ₹ 1,00,000.

(iii) A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.

(iv) Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.

(v) Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.

(vi) ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.

(vii) Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.

(viii) Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries. ***(10 Marks)***

(b) From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:

(i) Debit balance as per Bank Pass Book ₹ 3,500. ***(5 Marks)***

(ii) A cheque amounting to ₹ 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.

(iii) During March, two bills amounting to ₹ 2,500 and ₹ 500 were collected by the Bank but no entry was made in the Cash Book.

(iv) A bill for ₹ 5,000 due from Mr. Balaji previously discounted for ₹ 4,800 was dishonored. The Bank debited the account, but no entry was passed in the Cash Book.

(v) A Cheque for ₹ 1,500 was debited twice in the cash book.

(c) From the following information, calculate the historical cost of closing inventories using adjusted selling price method:

Purchase during the year	*- ₹ 5,00,000*	
Sales during the year	*- ₹ 7,50,000*	
Opening Inventory	*Nil*	
Closing Inventory at selling price	*- ₹ 1,00,000*	***(5 Marks)***

Answer

(a)

Date	**Particulars**		**Dr. ₹**	**Cr. ₹**
(1)	Scooter Account To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of ₹27,000, i.e., ₹30,000 less 10% depreciation)	Dr.	27,000	 27,000
(2)	Suspense Account To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year error now rectified).	Dr.	1,00,000	 1,00,000
(3)	Profit & Loss Adjustment A/c To X's Account (Credit purchase from X₹20,000, entered as sales last year, now rectified)	Dr.	40,000	 40,000
(4)	Bhaskar's Account To Anand's Account (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified)	Dr.	10,000	 10,000
(5)	Suspense Account	Dr.	10,000	

	To Chandu's Account			10,000
	(₹ 5,000 received from Chandu wrongly debited to his account; now rectified)			
(6)	Trade receivables (Ramesh) / Ramesh	Dr.	5,000	
	To Suspense Account			5,000
	(₹5,000 due by Mr. Ramesh not taken into trial balance now rectified)			
(7)	Ram's Account	Dr.	20,000	
	To Profit & Loss Adjustment A/c			20,000
	(Sales to Ram omitted last year; now adjusted)			
(8)	Suspense Account	Dr.	1,980	
	To Profit & Loss Adjustment A/c			1,980
	(Excess posting to purchase account last year, ₹25,930, instead of ₹23,950, now adjusted)			
(9)	Profit & Loss Adjustment A/c	Dr.	1,08,980	
	To Ratan's Capital Account			1,08,980
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)			
(10)	Ratan's Capital Account	Dr.	1,06,980	
	To Suspense Account			1,06,980
	(Balance of Suspense Account transferred to Capital Account)			

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

Particulars	*Amount ₹*
Balance as per Pass Book (Dr.)	(3,500)
Add: Cheques deposited but returned on 24th March,2021	2,500
Discounted bill from Mr. Balaji dishonoured	5,000
Wrong debit in passbook	1,500
	5,500
Less: Bill discounted by bank (2,500+500)	(3000)
Balance as per Cash book (Dr. / Favourable)	2,500

(c) Sales 7,50,000

Add: Closing inventory (at selling price) 1,00,000

Selling price of goods available for sale: 8,50,000

Less: Cost of goods available for sale 5,00,000

Gross margin 3,50,000

Rate of gross margin $=\frac{3,50,000}{8,50,000} \times 100 = 41.18\%$

Cost of closing inventory = 1,00,000 less 41.18% of ₹1,00,000 = ₹ 58,820

*This rate may also be considered as 41.176% in that case, the closing inventory will be valued at ₹ 58,824

OR as 41.17% in that case, the closing inventory will be valued at ₹ 58,830

Question 3

(a) Ramesh lent ₹ 1,50,000 to Deepak on 1st January, 2016 at the rate of 12% per annum. The loan is repayable as under:

(i) ₹ 10,000 on 1st January, 2017

(ii) ₹ 20,000 on 1st January, 2018

(iii) ₹ 30,000 on 1st January, 2019

(iv) ₹ 40,000 on 1st January, 2020

(v) ₹ 50,000 on 1st January, 2021

You are required to determine the average due date for settling all the above installments by a single payment and compute interest. ***(5 Marks)***

(b) ABC Limited supplied goods on sale or return basis to customers.

Goods are to be returned within 15 days from the date of dispatch, failing which it is treated as sales. The books of BC Limited are closed on 31st March, 2021. The particulars of the same are as under:

Date of Dispatch	*Party Name*	*Amount*	*Remarks*
10.03.2021	*PQR*	*25,000*	*No information till 31.03 .2021*
12.03.2021	*DEF*	*15,000*	*Returned on 16.03.2021*
15.03.2021	*GHI*	*40,000*	*Goods worth ₹ 8,000 Returned on 20.03.2021*
20.03.2021	*DEF*	*10,000*	*Goods Retained on 24.03.2021*
25.03.2021	*PQR*	*22,000*	*Goods Retained on 28.03.2021*
30.03.2021	*XYZ*	*35,000*	*No information till 31.03.2021*

You are required to prepare the following accounts in the books of ABC Limited:

(i) Goods on sale or return, sold and returned day books

(ii) Goods on sales or return total account **(5 Marks)**

(c) Max Chemical Works consigned 700 boxes of medicines to Raja Medical Stores at an invoice price of ₹ 1,68,000 which was·20% above the actual cost price and paid ₹ 14,000 for Insurance and freight. In the course of transit, 50 boxes were lost and the transporter paid ₹ 22,000 for the loss. The Consignee took the delivery of the remaining boxes and incurred ₹ 9,750 for carriage. The Consignee sold 500 boxes for ₹ 1,60,000 and incurred ₹ 6,000 for selling expenses. The Consignee is entitled to a commission of 6% on gross sales.

Show the Consignment Account. **(10 Marks)**

Answer

(a)

Due date	Amount (in ₹)	No. of months from 1.1.2016	Products
1st January 2017	10,000	12	1,20,000
1st January 2018	20,000	24	4,80,000
1st January 2019	30,000	36	10,80,000
1st January 2020	40,000	48	19,20,000
1st January 2021	50,000	60	30,00,000
	1,50,000		66,00,000

Average due date= Base date + $\frac{\text{Total of product}}{\text{Total of amount}}$

1st January 2016+ $\frac{66,00,000}{1,50,000}$ = 44 months

Average due date= 1st January 2016+ 44 months = 1st September 2019.

Interest for the 44 months = $\frac{1,50,000 \times 12 \times 44/12^{*}}{100}$ = ₹ 66,000.

*may be considered as 3.67 years, in this case, interest will be calculated as ₹ 66,060.

(b) **In the books of 'ABC'**

Goods on sales or return, sold and returned day book

Date 2021	Party to whom goods sent	L.F	Amount ₹	Date 2021	Sold ₹	Returned ₹
Mar.10	M/s PQR		25,000	Mar. 25	25,000	-

Mar.12	M/s DEF		15,000	Mar. 16	-	15,000
Mar.15	M/s GHI		40,000	Mar. 20	32,000	8,000
	M/s DEF		10,000	Mar. 24	10,000	-
Mar.20						
Mar.25	M/s PQR		22,000	Mar. 28	22,000	-
Mar.30	M/s GHI		35,000	-		
			1,47,000		89,000	23,000

Goods on Sales or Return Total Account

Date	*Particulars*	*Amount* ₹	*Date*	*Particulars*	*Amount* ₹
2021			2021		
Mar. 31	To Returns	23,000	Mar. 31	By Goods sent	
	To Sales	89,000		on sales or return	1,47,000
	To Balance c/d	35,000			
		1,47,000			1,47,000

(c) **Books of Max Chemical works**

Consignment to Raja Medical store Account

	Particulars	₹	₹		*Particulars*	₹
To	Goods sent on Consignment A/c (700 box)		1,68,000	By	Goods sent on Consignment A/c (loading)	28,000
To	To Cash A/c		14,000	By	Abnormal Loss (50 box)	11,000
To	Raja Medial Store -			By	Raja medical store	1,60,000
	Carriage Expenses on 650 box		9,750		(Sales- 500 box)	
	Selling exp		6,000			
To	Commission		9,600	By	Inventories on Consignment A/c	41,250
To	Inventories Reserve A/c		6,000			
To	General Profit & Loss A/c		26,900			
			2,40,250			2,40,250

Working Notes:

1. Calculation of value of goods sent on consignment

   Value of goods sent on consignment = 1,68,000

   Loading of goods sent on consignment 1,68,000 X 20 / 120 =28,000

2. Calculation of abnormal loss (50 boxes in transit):

   Abnormal Loss paid by transporter = ₹ 22,000.

   Abnormal Loss at Invoice price = ₹ 1,68,000 / 700 * 50 = ₹ 12,000

   Abnormal Loss at cost = 12,000/120*100 = ₹ 10,000

   Add: Proportionate expenses of Max chemical works (₹ 14,000/700X50) = ₹ 1,000

   ₹ 11,000

3. Calculation of closing Inventories (700-50-500 boxes = 150 box):

   Invoice price per box =1,68,000 / 700= ₹240

Max chemical works Basic Invoice price of consignment (150 x240)	36,000
Add: consigner expenses 14,000/700X 150	3000
Add: consignee expenses 9,750/650X150	2,250
Closing Inventory	41,250

Loading in closing Inventories = ₹28,000 / 700 x 150 = ₹6,000

Where ₹36,000 (150/700 of ₹ 1,68,000) is the basic invoice price of the goods sent on consignment remaining unsold.

Note :

1. In the above solution, abnormal loss has been shown at the full amount of cost ₹ 11,000 without considering the amount of ₹ 22,000 received from transporter. Otherwise, there would have been gain of ₹ 11,000 (Money received from transporter ₹ 22,000 less cost of boxes lost ₹ 11,000)
2. Consignment account given above has been prepared at the loaded price. The alternative way of preparing the consignment account at cost is also possible.

Question 4

(a) Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2020	-	*₹ 15,000 principal+ ₹ 9,000 interest*
30th September, 2020	-	*₹ 15,000 principal+ ₹ 8,550 interest*
31st December, 2020	-	*₹ 15,000 principal+ ₹ 8,100 interest*
31st March, 2021	-	*₹ 15,000 principal+ ₹ 7,650 interest.*

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	*Amount*	*Particulars*	*Amount*
Total Sales	*20,00,000*	*Total Purchases*	*17,00,000*
Electricity Expenses paid	*40,000*	*Telephone Charges*	*50,000*
Cartage Outwards	*60,000*	*Travelling Expenses*	*45,000*
Entertainment Expenses	*5,000*	*Maintenance Expenses*	*25,000*
Misc. Expenses	*15,000*	*Electricity Expenses Payable*	*20,000*

Other Information:

(i) She withdrew ₹ 5,000 by cheque each month for her personal expenses.

(ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

(iii) Closing stock in hand as on 31st March, 2021: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date. ***(10 Marks)***

(b) Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

Receipts	*Amount*	*Payments*	*Amount*
Subscription Received	*5,00,000*	*Payment for Medicine Supply*	*3,00,000*
Donation Raised for meeting revenue expenditure	*1,50,000*	*Honorarium to Doctors*	*1,00,000*
Interest on Investments @ 9% p.a.	*90,000*	*Salaries*	*2,80,000*
Charity Show Collection	*1,25,000*	*Sundry Expenses*	*10,000*
		Equipment Purchase	*1,50,000*
		Charity Show Expenses	*15,000*

Additional Information:

Particulars	*01.04.2020*	*31.03.2021*
Subscription due	*15,000*	*22,000*
Subscription received in advance	*12,000*	*7,000*
Stock of medicine	*1,00,000*	*1,50,000*
Amount due for medicine supply	*90,000*	*1,30,000*
Value of equipment	*2,10,000*	*3,00,000*
Value of building	*5,00,000*	*4'80 '000*
Cash Balance	*80,000*	*90,000*
Opening Balance of Capital Fund	*18,03,000*	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March, 2021.

(ii) Balance Sheet as on 31st March, 2021 ***(10 Marks)***

Answer

(a) In the books of M/s Designer wear

Trading and Profit & Loss Account (for the year ending 31.3.2021)

			₹			₹
To	Purchases		17,00,000	By	Sales	20,00,000
To	Gross profit		8,50,000	By	Closing stock	5,50,000
			25,50,000			25,50,000
To	Interest (9,000+8,550+8,100+7,650)		33,300	By	Gross profit	8,50,000
To	Telephone charges		50,000			
To	Travelling expenses		45,000			
To	Maintenance expenses		25,000			
To	Entertainment expenses		5,000			
To	Electricity exp	40,000				
	Add: outstanding	20,000	60,000			
To	Carriage outward		60,000			
To	Depreciation					
	Building 5%	30,000				
	Furniture 10%	1,000	31,000			
To	Misc. exp		15,000			

To	Net profit	5,25,700			
		8,50,000			8,50,000

Balance Sheet as on 31st March, 2021

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital	3,00,000		Building	6,00,000	
Further Capital	2,00,000		Less: dep	30,000	5,70,000
Less: Drawings	(60,000)		Furniture	10,000	
Add: Net profit	5,25,700	9,65,700	Less: dep	1,000	9,000
			Security deposit-Telephone		7,000
Bank Loan	3,00,000				
Less: repayment	60,000	2,40,000	Bank		89,700
outstanding electricity exp		20,000	Closing stock		5,50,000
		12,25,700			12,25,700

Working note:

Bank Account

	PARTICULARS	RS.		PARTICULARS	RS.
To	Capital	3,00,000	By	Building	6,00,000
To	Further capital	2,00,000	By	Furniture	10,000
To	Bank loan	3,00,000	By	Bank loan repaid	60,000
To	Sales	20,00,000	By	Interest	33,300
			By	Security deposit	7,000
			By	Drawings	60,000
			By	Purchase	17,00,000
			By	Telephone charges	50,000
			By	Travelling expenses	45,000
			By	Maintenance expenses	25,000
			By	Entertainment expenses	5,000
			By	Electricity	40,000

			By	Carriage outward	60,000
			By	Misc. expenses	15,000
			By	Balance c/d	89,700
		28,00,000			28,00,000

(b) In the books of AMA society

Income and Expenditure Account for the year ending 31st March, 2021

	Expenditure	₹	₹		Income	₹	₹
To	Medicine		2,90,000	By	Subscription		5,12,000
To	Honorarium		1,00,000	By	donation		1,50,000
To	Salaries		2,80,000	By	Interest on investment		90,000
To	Sundry expenses		10,000	By	Charity show	1,25,000	
To	Depreciation				Less: Charity show expenses	(15,000)	1,10,000
	Equipment		60000				
	Building		20000				
To	Surplus		1,02,000				
			8,62,000				8,62,000

Balance Sheet of AMA society
as on 31st March, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Equipments	2,10,000	
Opening balance	18,03,000		Add: Purchases.	1,50,000	
Add: Surplus	1,02,000	19,05,000		3,60,000	
Adv subscription		7,000	Less: dep. (bal. fig)	(60,000)	3,00,000
Creditors (medicine)		1,30,000	Building	5,00,000	
			Less: dep. (bal. fig)	(20,000)	4,80,000
			Investment (₹ 90,000/9%)		10,00,000
			Closing outstanding subscription		22,000
			Closing stock(medicine)		1,50,000
			Cash		90,000
		20,42,000			20,42,000

Working Note:

(i) Subscription for the year ended 31st March, 2021

Particulars	**Amount**
Subscription Received during the year	5,00,000
Less: Subscription outstanding as on 1" April, 2020	(15,000)
Add: Subscription outstanding as on 31" March, 2021	22,000
Add: Subscription received in advance as on 1" April, 2020	12,000
Less: Subscription received in advance as on 31°' March, 2021	(7,000)
Total	5,12,000

(ii) Medicines purchased during the year ended 31st March, 2021

Particulars	**Amount**
Opening due for medical supply	90,000
Less: Payment made during the year	(3,00,000)
Less: Closing due for medical supply	(1,30,000)
Medicines purchased during the year	3,40,000

(iii) Medicines consumed during the year ended 31st March, 2021

Particulars	**Amount**
Opening stock	1,00,000
Add: Purchase during the year	3,40,000
Less: Closing Stock	(1,50,000)
Medicines consumed during the year	2,90,000

(iv) Depreciation on Equipment

Particulars	Amount
Opening Balance	2,10,000
Add: Purchase during the year	1,50,000
Less: Closing Balance	(3,00,000)
Depreciation for the year	60,000

Question 5

(a) From the following information prepare the Purchase. Book of Mis. Shyam & Company:

(i) Purchased from Red & Company on credit:

10 pairs of black shoes.@ ₹ 800 per Pair.

5 pairs of brown shoes @ 900 per pair

Less: Trade Discount @ 10%

(ii) Purchased Computer from M/s. Rahul. Enterprises on credit for ₹ 40,000.

(iii) Purchased from Blue & Company in cash:

5 pairs of black shoes @ ₹ 700 per pair

15 pairs of brown shoes@ ₹ 100 per pair

Less: Trade Discount @ 15% ***(5 Marks)***

(b) Attempt any ONE of the following two sub-parts i.e. either (i) or (ii): ***(5 Marks)***

(i) Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2017	*Nil*
2018	*₹ 900*
2019	*₹ 2,000*
2020	*₹ 3,600*

Rama retired on 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis).

OR

(ii) PQR Limited's Profit and Loss account for the year ended 31st March, 2021 includes the following information:

(1)	*Liability for Income Tax*	*₹ 40,000*
(2)	*Retained Profit*	*₹ 2,00,000*
(3)	*Proposed Dividend*	*₹ 20,000*
(4)	*Increase in Provision for Doubtful Debts*	*₹ 25,000*
(5)	*Bad Debts written off*	*₹ 20,000*

State which one of the items above is - (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

(c) It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(ii) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended

- *31st March, 2017* ₹ *70,400*
- *31st March, 2018* ₹ *56,320*
- *31st March, 2019* ₹ *48,160*
- *31st March, 2020·* ₹ *17,408*

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor. ***(10 Marks)***

Answer

(a) **PURCHASES BOOK**

Date	*Particulars*	*L.F.*	*Amount ₹*
(i)	Red & Co.		
	10 pair of black shoes @ ₹ 800		8,000
	5 pair of Brown shoes @ ₹ 900		4,500
			12,500
	Less: 10% trade discount		(1,250)
			11,250

Note:

1. Purchases made in cash are entered in cash book not in purchase book.
2. Purchase of computer cannot be entered in the Purchase Book but entered in journal proper.

(b) (i) **Joint Life Policy Account**

		₹			₹
10th June, 2017	To Bank Account	3,000	31st Dec., 2017	By Profit and Loss A/c	3,000
10th June, 2018	To Bank Account	3,000	31st Dec., 2018	By Profit and Loss A/c	2,100
				By Balance c/d	900
		3,000			3,000
1st January, 2019	To Balance b/d	900	31st Dec., 2019	By Profit and Loss A/c	1,900
10th June, 2019	To Bank Account	3,000		By Balance c/d	2,000
		3,900			3,900
1st January, 2020	To Balance b/d	2,000	31st Dec., 2020	By Profit and Loss A/c	1,400
10th June, 2020	To Bank Account	3,000		By Balance c/d	3,600
		5,000			5,000
1st January, 2021	To Balance b/d	3,600	15th April, 2021	By Bank	3,600
		3,600			3,600

(ii)

(a) Transfer to provisions - (i), (iv)

(b) Transfer to reserves - (ii)

(c) Neither related to provisions nor reserves - (iii), (v).

(c) **Ram's Capital Account**

Date 2020	**Particulars**	**₹**	**Date 2020**	**Particulars**	**₹**
Sep. 30	To Ram's current Account	1,920	Sep. 30	By bal b/d	21,600
Sep. 30	To Ram's Executor A/c	1,00,802	Sep. 30	By Bharat Capital A/c and Laxman Capital A/c (Share of goodwill)	81,122
		1,02,722			1,02,722

Ram's executor Account

Date 2020	Particulars	₹	Date 2020	Particulars	₹
31.3.2021	To Bank A/c	27,720.50	1.10.2020	By Capital A/c	1,00,802.00
	(25,200.50+2,520)		31.3.2021	By Interest	2,520.00
	To Balance c/d	75,601.50		(1,00,802 x 2.5%)	
		1,03,322.00			1,03,322
30.9.2021	To bank A/c	27,090.50	1.4.2021	By Balance b/d	75,601.50
	(25,200.50+1,890)		30.9.2021	By Interest	1,890.00
31.3.2022	To bank A/c	26,460.50		(75,601.50 x 2.5%)	
	(25,200.50+1,260)		30.3.2022	By Interest	1,260.00
31.3.2022	To balance c/d	25,200.50		(25,200.50 x 2) x 2.5%	
		78,751.50			78,751.50
30.9.2022	To bank A/c	25,830.50	1.4.2022	By balance b/d	25,200.50
	(25,200.50+630)		30.9.22	By Interest	630.00
				(25,200.50 x 2.5%)	
		25,830.50			25,830.50

Working notes

1.	**Ascertainment of Value of Goodwill**	
	2017	70,400
	2018	56,320
	2019	48,160
	2020	17,408
	Total Profit for 4 years	1,92,288
	Average Profit	48,072
	Goodwill - 3 years	
	Purchase of Average Profit	1,44,216
	Ram's Share of goodwill	
	(9/16 of ₹1,44,216)	81,122

* Profit sharing ratio between Ram, Laxman and Bharat = 9:4:3, Therefore Ram's share of Profit = 9/16

2. Calculation of amount of each instalment (without interest) = ₹1,00,802 / 4 = 25,200.50

Question 6

(a) X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- *₹ 9 per share (including premium) on application and allotment*
- *Balance on the First and Final Call*

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share.

Pass necessary journal entries· for the above transactions in the books of X Limited.

(15 Marks)

(b) What are the advantages of Subsidiary Books ? ***(5 Marks)***

Answer

(a)

			Dr. ₹	***Cr.*** ₹
1	Bank Account	Dr.	27,00,000	
	To Share Application & Allotment A/c			27,00,000
	(Being Application money on 3,00,000 shares at ₹ 9 per share received.)			
2	Share Application & Allotment A/c	Dr.	27,00,000	
	To Share Capital A/c (75,000 x ₹ 4)			3,00,000
	To Securities premium A/c (75,000 x ₹ 5)			3,75,000
	To Bank A/c (2,00,000 x ₹ 9)			18,00,000
	To Share First & Final Call A/c			2,25,000
	(Being application money transferred)			
3	Share First & Final Call A/c (75,000 x6)	Dr.	4,50,000	
	To Share Capital Account			4,50,000
	(Amount First & Final Call A/c due from members as per Directors, resolution no...... dated.....)			
4	Bank Account A/c	Dr.	2,21,625	

	Calls in arrear A/c	Dr.	3,375	
	To Share First & Final Call Account			2,25,000
	(Being Receipt of the amounts due on first call.)			
5	Equity share capital A/c	Dr.	11,250	
	To Share forfeiture A/c			7,875
	To Calls in arrear A/c			3,375
	(Being 1,125 shares forfeited for non payment of final call.)			
6	Bank Account A/c (1,125 x ₹ 6)	Dr.	6,750	
	Share forfeiture A/c (1,125 x ₹ 4)		4,500	
	To Share Capital Account (1,125 x ₹ 10)			11,250
	(Being forfeited shares reissued at ₹ 4 discount)			
7	Share forfeiture A/c		3,375	
	To Capital reserve A/c			3,375
	(Being share forfeiture transferred to capital reserve*)			

Working notes:

1.

Shares Applied	Shares Allotted	Money Received on Application @ ₹ 9/-	Money Transferred to Share Capital@ ₹ 4/-	Money Transferred to Security Premium @₹ 5/-	Excess Application Money	Share First and Final Call @ ₹ 6/-	Amount received from Share First and Final Call after adjusting excess appl. money	Money Refunded
2,00000	-	18,00,000	-	-	-	-	-	18,00,000
1,00,000	75,000	9,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,25,000	-
3,00,000	75,000	27,00,000	3,00,000	3,75,000	2,25,000	4,50,000	4,46,625*	18,00,000

* ₹ 4,50,000 less ₹ 3,375.

2. **Number of shares allotted to Mr. Raj** = 1,500 x 75,000 / 1,00,000 = 1,125 shares

3. **Calculation of calls in arrear**

Application money received from Raj	(1,500 x9)	13,500
Less: actual application money	1,125 x9	10,125
Excess Application & Allotment Money Adjusted with first		3,375

and final call		
Final call due from Raj		6,750
Less: Adjusted with final call		(3,375)
Calls in arrear		3,375

(b) Advantages of Subsidiary Books

The use of subsidiary books affords the under mentioned advantages:

(i) ***Division of work**:* Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

(ii) ***Specialization and efficiency**:* When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

(iii) ***Saving of the time:*** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) ***Availability of information**:* Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.

(v) ***Facility in checking**:* When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.