PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

QUESTIONS

True and false

1. State with reasons, whether the following statements are true or false:
   (i) The results and position disclosed by final accounts are not exact.
   (ii) The rationale behind the opening of a suspense account is to tally the trial balance.
   (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
   (iv) Accounting can be viewed as an information system which has its input processing methods and output.
   (v) The value of human resources is generally shown as assets in the Balance Sheet.
   (vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
   (vii) The debit notes issued are used to prepare Sales Return Book.
   (viii) In Account Current, Red Ink Interest is treated as negative interest.
   (ix) A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

Theoretical Framework

2. (a) Define Accounting Policies in brief. Identify few areas wherein different accounting policies are frequently encountered.
   (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

Journal Entries

3. (a) M/s Suman & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:
      (i) A purchase of ₹ 5,600 from M/s Minu & Co. was recorded in the accounts of M/s Mintu & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.
      (ii) A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.
      (iii) Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of of ₹ 90 to M/s Bantu Bros. has been omitted.

(iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Capital or revenue expenditure

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

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire.

Cash book

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

Date	*Debit Note No.*	*Particulars*
04.01.2018	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2018		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2018	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2018		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Rectification of errors

(b) Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹10,000 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹15,000 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of ₹20,000 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹2,000;

(4) Bad Debts aggregating ₹45,000 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and

(5) The total of “Discount Allowed” column in the Cash Book for the month of September, 2018 amounting to ₹25,000 was not posted.

Bank Reconciliation Statement

5. On 30th November, 2018, the Cash Book of Mr. Hari showed an overdrawn position of ₹ 4,480 although his Bank Statement showed only ₹ 3,200 overdrawn. An examination of the two records showed the following errors:

   (i) The debit side of the Cash Book was undercast by ₹ 400.

   (ii) A cheque for ₹ 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer’s Account.

   (iii) A cheque for ₹ 172 drawn for payment of telephone bill was recorded in the Cash Book as ₹ 127 but was shown correctly in the Bank Statement.

   (iv) A cheque for ₹ 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.

   (v) The Bank had debited a cheque for ₹ 150 to Mr. Hari’s Account by mistake, it should have been debited by them to Mr. Kar’s Account.

   (vi) A dividend of ₹ 100 was collected by the bank but not entered in the Cash Book.

   (vii) Cheques totalling ₹ 1,300 drawn on November was not presented for payment.

   (viii) Cheque for ₹ 1,200 deposited on 30th November was not credited by the Bank.

   (ix) Interest amounting to ₹ 300 was debited by the Bank but yet to be entered in the Cash Book.

   You are required to prepare a Bank Reconciliation Statement on 30th November, 2018.

Inventories

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

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

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

   (iii) Sales Return ₹ 1,000.

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

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

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

You are required to ascertain the value of Inventory as on 31st March, 2018.

Concept and Accounting of Depreciation

7. A lease is purchased on 1st April, 2014 for 4 years at a cost of ₹ 2,00,000. It is proposed to depreciate the lease by the annuity method charging 5 percent interest. A reference to the annuity table shows that to depreciate ₹ 1 by annuity method over 4 years charging 5% interest, one must write off a sum of ₹ 0.282012 [To write off ₹ 2,00,000 one has to write off every year ₹ 5,6402.40 i.e. 0.282012 × 2,00,000].

You are required to show the Lease Account for four years (2014-15 to 2017-18) and also the relevant entries posted to the profit and loss account.

Bill of Exchange

8. Rita owed ₹1,00,000 to Siriman. On 1st October, 2018, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2018. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

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

Consignment

9. (a) Mr. Green of New Delhi purchased, 10,000 pieces of sarees at ₹ 100 per saree. Out of these 6,000 sarees were sent on consignment to Mr. White of Calcutta at the selling price of ₹ 120 per saree. The consignor paid ₹ 3,000 for packing and freight. Mr. White sold 5,000 sarees at ₹ 125 per saree and incurred ₹ 1,000 for selling expenses and remitted ₹ 5,00,000 to New Delhi on account. Mr. White is entitled to a commission of 5% on total sales plus a further commission at 20% of surplus price realized over invoice price.

You are required to prepare Consignment Account in the books of Mr. Green and Mr. Green's account in the books of agent Mr. White.

Joint venture

(b) A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A supplied goods worth ₹ 60,000 to B incurring expenses amounting to

₹ 2,000 for freight and insurance. During transit goods costing ₹ 5,000 became damaged and a sum of ₹ 3,000 was recovered from the insurance company. B reported that 90% of the remaining goods were sold at a profit of 30% of their original cost. Towards the end of the venture, a fire occurred and as a result the balance stock lying unsold with B was damaged. The goods were not insured and B agreed to compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the joint venture share of profit, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totaled ₹ 1,000. B had earlier remitted an advance of ₹ 10,000. B duly paid the balance due to A by Draft.

You are required to prepare in A's books :

(i) Joint Venture Account.

(ii) B's Account

Sale of Goods on Approval or Return Basis

10. (a) On 31st December, 2018 goods sold at a sale price of ₹ 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' were recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Royalty

(b) Write short notes on:

Minimum Rent.

Recoupment of short-workings.

Average Due Date

11. (a) Ram purchases goods on credit. His due dates for payments were as under:

Transaction Date	₹	*Due Date*
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 10

Calculate Average due date.

Account current

(b) The following are the transactions that took place between G and H during the period from 1st October, 2017 to 31st March, 2018:

2017		*₹*
Oct.1	*Balance due to G by H*	*3,000*
Oct 18	*Goods sold by G to H*	*2,500*
Nov. 16	*Goods sold by H to G (invoice dated November, 26)*	*4,000*
Dec.7	*Goods sold by H to G (invoice dated December, 17)*	*3,500*
2018		*₹*
Jan. 3	*Promissory note given by G to H, at three months*	*5,000*
Feb. 4	*Cash paid by G to H*	*1,000*
Mar. 21	*Goods sold by G to H*	*4,300*
Mar.28	*Goods sold by H to G (invoice dated April, 8)*	*2,700*

Draw up an Account Current up to March 31st, 2018 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

Final accounts and Rectification of entries

12. The following is the Trial Balance of T on 31st March, 2018 :

	Dr. ₹	*Cr.* ₹
Capital	-	6,00,000
Drawings	70,000	-
Fixed Assets (Opening)	1,40,000	-
Fixed Assets (Additions 01.10.2018)	2,00,000	-
Opening Stock	60,000	-
Purchases	16,00,000	-
Purchases Returns	-	69,000
Sales	-	22,00,000
Sales Returns	99,000	-
Debtors	2,50,000	-
Creditors	-	2,20,000
Expenses	50,000	-

Fixed Deposit with Bank	2,00,000	-
Interest on Fixed Deposit	-	20,000
Cash	-	8,000
Suspense A/c	-	2,000
Depreciation	14,000	-
Rent (17 months upto 31.8.2018)	17,000	-
Investments 12% (01.8.2017)	2,50,000	-
Bank Balance	1,69,000	-
	31,19,000	31,19,000

Stock on 31st March, 2018 was valued at ₹ 1,00,000. Depreciation is to be provided at 10% per annum on fixed assets purchased during the year. A scrutiny of the books of account revealed the following matters :

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

(ii) Purchase of goods worth ₹ 16,000 was not recorded in the books of account upto 31.03.2018, but the goods were included in stock.

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

(iv) Expenses include ₹ 6,000 in respect of the period after 31st March, 2018.

Give the necessary Journal Entries in respect of (i) to (iv) and prepare the Final Accounts for the year ended 31st March, 2018.

Partnership Accounts: Calculation of goodwill

13. The profits and losses for the previous years are: 2015 Profit ₹ 10,000, 2016 Loss ₹ 17,000, 2017 Profit ₹ 50,000, 2018 Profit ₹ 75,000. The average Capital employed in the business is ₹ 2,00,000. The rate of interest expected from capital invested is 10%. The remuneration from alternative employment of the proprietor ₹ 6,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchases of Super Profits based on the average of 3 years.

Admission of a new partner

14. A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2018 was as follow:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	12,900	Building		26,000

Bill Payable	4,100	Furniture		5,800
Bank Overdraft	9,000	Stock-in-Trade		21,400
Capital Account:		Debtors	35,000	
A 44,000		Less: Provision	200	34,800
B 36,000	80,000	Investment		2,500
		Cash		15,500
	1,06,000			1,06,000

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

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.

(ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.

(iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of 'C's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by ₹ 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.

(v) It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'C'.

Financial statements of Not for Profit Organizations

15. The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		450	By	Expenses *(including Payment for sports material ₹ 2,700)*	6,300
To	Annual Income from Subscription	4,590				

	Add: Outstanding of last year received this year	180		By	Loss on Sale of Furniture (cost price ₹ 450)	180
		4,770		By	Balance c/d	90,450
	Less: Prepaid of last year	90	4,680			
To	Other fees		1,800			
To	Donation for Building		90,000			
			96,930			96,930

Additional information:

Trustwell club had balances as on 1.4.2017 : -

Furniture ₹ 1,800; Investment at 5% ₹ 27,000;

Sports material ₹ 6,660;

Balance as on 31.3.2018 : Subscription Receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

Issue of Shares

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

Forfeiture of Shares

17. Kumar who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Lal at ₹ 65 per share paid-up as ₹ 75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

18. Suvidha Ltd. purchased machinery worth ₹1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 10% discount; and (iii) Debentures are issued at 10% premium

Basic accounting Ratios

19. (a) From the following information, calculate (i) Net Assets Turnover (ii) Fixed Assets Turnover and (iii) Working Capital Turnover Ratios :

(₹)	(₹)
Preference Shares Capital 4,00,000	Plant and Machinery 8,00,000
Equity Share Capital 6,00,000	Land and Building 5,00,000
General Reserve 1,00,000	Motor Car 2,00,000
Profit and Loss Account 3,00,000	Furniture 1,00,000
15% Debentures 2,00,000	Stock 1,80,000
14% Loan 2,00,000	Debtors 1,10,000
Creditors 1,40,000	Bank 80,000
Bills Payable 50,000	Cash 30,000
Outstanding Expenses 10,000	
Sales for the year 2018 were ₹ 30,00,000	

(b) Calculate current assets of a company from the following information: Stock turnover ratio = 4 times Stock at the end is ₹ 20,000 more than the stock in the beginning. Sales ₹ 3,00,000 and gross profit ratio is 20% of sales. Current liabilities = ₹ 40,000 Quick ratio = .75

Short Notes

20. Write short notes on:

(i) Noting Charges.

(ii) Fundamental Accounting Assumptions.

(iii) Retirement of bills of exchange.

(iv) Over-riding Commission.

SUGGESTED ANSWERS/HINTS

1. (i) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

   (ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

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

   (iv) **True:** Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.

   (v) **False:** The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.

   (vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   (vii) **False:** The debit notes issued are used to prepare purchases return book.

   (viii) **True:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of Account Current. This Red Ink Interest is treated as negative interest.

   (ix) **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

2. (a) Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies. The choice of specific accounting policy appropriate to the specific circumstances in which the enterprise is operating, calls for considerate judgement by the management.

   Different accounting policies are frequently encountered in the areas like valuation of inventory and investments etc.

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

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

3. (a) Journal Proper of Suman & Co.

Rectification Entries

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	M/s Mintu & Co. A/c	6,500	
	To M/s Minu & Co. A/c		5,600
	To Purchases A/c		900
	(Rectification of purchase entry for ₹ 5,600 dated….as ₹ 6,500 in M/s Mintu & Co.'s Account in place of M/s Minu & Co. A/c).		
(ii)	M/s Bantu Bros. A/c	9,800	
	To Sales A/c		900
	To M/s Bindu & Co. A/c		8,900
	(Rectification of sale entry for ₹ 9,800 dated ….as ₹ 8,900 in M/s Bindu & Co.'s Account in place of M/s Bantu Bros. A/c).		
(iii)	Discount Allowed A/c	650	
	To Commission A/c		560
	To M/s Bantu Bros. A/c		90

	(Rectification of wrong posting of discount in commission account and omission of discount transaction dated….).		
(iv)	M/s Bantu Bros. A/c	9,700	
	To Bhakt & Co. A/c		9,700
	(Wrong posting for the dishonoured cheque dated…. is being rectified).		

Since all the errors are two-sided in nature, Trial Balance would have tallied even if the rectifications are not done.

(b) (i) Capital expenditure

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

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

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2018				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

(b) **JOURNAL**

	Particulars		***L.F.***	***Dr.*** ₹	***Cr.*** ₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account	Dr.		10,000	
	To Suspense Account				20,000
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		30,000	
	To Mr. Philip				30,000
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				

(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account				18,000
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account				45,000
	(The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				
(5)	Discount Account	Dr.		25,000	
	To Suspense Account				25,000
	(The total of Discount allowed during September, 2018 not posted from the Cash Book; error now rectified)				

5. Bank Reconciliation Statement as on 30th November, 2018

Particulars			₹	₹
Bank Overdraft as per Bank Statement				3,200
Add:	(i)	Debit side of the Cash Book was undercast	400	
	(ii)	Cheque issued but debited by the Bank to another customer's account by mistake	1,600	
	(vi)	Dividend directly collected by the Bank but not entered in the Cash Book	100	
	(vii)	Cheque issued but yet to be presented for payment	1,300	3,400
				6,600
Less:	(iii)	Cheque issued for ₹ 172 posted in the Cash Book as ₹ 127	45	
	(iv)	Cheque dishonoured but not recorded in the Cash Book	425	
	(v)	Wrong debit by the Bank to Hari's A/c	150	
	(viii)	Cheque deposited but yet to be credited	1,200	

(ix)	Interest debited by the Bank and yet to be entered in the Cash Book	300	2,120
Bank overdraft as per the Cash Book (Cr.)			4,480

6. **Statement of Valuation of Stock on 31st March, 2018**

		₹	₹
Value of stock as on 15th April, 2018			50,000
Add:	Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
	Sales (₹ 41,000 – ₹ 1,000)	40,000	
	Less: Gross Profit (20% of ₹ 40,000)	8,000	32,000
	Cost of goods sent on approval basis (80% of ₹ 6,000)		4,800
			86,800
Less:	Purchases during the period from 31st March, 2018 to 15th April, 2018	5,034	
	Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
			79,366

7. **Lease Account**

Dr. 2014-15		₹	2014-15		Cr. ₹
April. 1	To Bank A/c	2,00,000.00	Mar. 31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c			By Balance c/d	1,53,597.60
	(5% on ₹ 2,00,000)	10,000.00			
		2,10,000.00			2,10,000.00
2015-16			2015-16		
April. 1	To Balance b/d	1,53,597.60	Mar.31	By Depreciation A/c	56,402.40
Mar. 31	To Interest A/c			By Balance c/d	1,04,875.08
	(5% on ₹ 1,53,597.60)	7,679.88			
		1,61,277.48			1,61,277.48
2016-17			2016-17		
April 1	To Balance b/d	1,04,875.08	Mar 31	By Depreciation A/c	56,402.40

Mar. 31	To Interest A/c	5,243.75	Mar 31	By Balance c/d	53,716.43
		1,10,118.83			1,10,118.83
2017-18			2017-18		
April. 1	To Balance b/d	53,716.43	Mar. 31	By Depreciation A/c	56,402.25
Mar. 31	To Interest A/c	2,685.82			
		56,402.25			56,402.25

Profit and Loss Account

2014-15		₹	2014-15		₹
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	10,000.00
2015-16			2015-16		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	7.679.88
2016-17			2016-17		
Mar. 31	To Depreciation A/c	56,402.40	Mar. 31	By Interest A/c	5,243.75
2017-18			2017-18		
Mar. 31	To Depreciation A/c	56,402.25	Mar. 31	By Interest A/c	2,685.82

8. In the books of Siriman

Journal Entries

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

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

9. (a) In the Books of Mr. Green

Consignment A/c

	₹		₹
To Goods sent on Consignment A/c (6,000 × ₹ 120)	7,20,000	By White's A/c – Sales (5000 × ₹ 125)	6,25,000
To Bank A/c – Packing, Freight charges	3,000	By Goods sent on Consignment A/c (6000 × ₹ 20)	1,20,000
To White's A/c – Selling expenses	1,000		
To White's Account – Commission		By Consignment stock account	1,20,500
5% on ₹ 6,25,000 = 31,250		(Refer working note)	
20% on ₹ 25,000 = 5,000	36,250		
To Stock reserve A/c (1000 × ₹ 20)	20,000		
To Profit and Loss account	85,250		
	8,65,500		8,65,500

In the Book of Mr. White
Mr. Green's Account

	₹		₹
To Bank – Selling expense	1,000	By Sales – debtors	6,25,000
To Commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	6,25,000		6,25,000

Working Note:

Closing Stock valuation:

	₹
Cost price of 1000 sarees	1,20,000
1000 × 120 =1,20,000	
Add: Proportionate expenses (3,000 × 1,000/6,000)	500
	1,20,500

(b) **Books of A**
Joint Venture Account

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

B's Account

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Joint Venture A/c (Sales)	64,350	By Bank (Advance)	10,000

To Joint Venture A/c (Claim Portion)	4,546	By Joint Venture A/c (Expenses)	1,000
		By Joint Venture A/c (Commission)	424
		By Joint Venture A/c (Share of Profit)	2,824
		By Bank (Balance received)	54,648
	68,896		68,896

Working Notes:

1. It has been assumed that the goods damaged in transit have no residual value.
2. **Computation of Sales**

	₹
Cost of goods sent	60,000
Less : Cost of damaged goods	5,000
	55,000
Less : Cost of goods remaining unsold	5,500
Cost of goods sold	49,500
Add : Profit @ 30%	14,850
Sales	64,350

3. Claim for loss of fire admitted by B

Cost of goods	5,500
Add : Proportionate expenses	
$(2,000 \times 5,500)/60,000$	183
	5,683
Less : 20%	1,137
	4,546

10. (a) **Journal Entries**

Date 2018	***Particulars***		***Dr.*** ₹	***Cr.*** ₹
31st Dec.	Sales A/c	Dr.	3,000	
	To Ritu's A/c			3,000
	(Being cancellation of entry for sale of goods, not yet approved)			
	Inventories with customers A/c (Refer W.N.)	Dr.	2,250	
	To Trading A/c			2,250
	(Being Inventories with customers recorded at market price)			

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval	₹3,000
Less: Profit (3,000 x 20/120)	₹ 500
Cost of goods	₹2,500

Market price = 2,500 - (2,500 x 10%) = ₹ 2,250.

(b) (i) **Minimum Rent** is the amount of rent which the lessee is required to pay to the lessor whether he has derived any benefit or not out of the right vested to him by the lessor. It is also called Dead Rent or Rock Rent or Fixed Rent.

(ii) **Short-Workings** represents excess of Minimum Rent over the Actual Royalty. Right of Recoupment implies that lessor allows the lessee the **right to carry forward and set off** the short-workings against the excess or surplus of royalties over the Minimum Rent in the subsequent years as per the agreement.

11. (a). **Calculation of average due date (Base date: 8th April)**

Due Date	*Amount*	*No. of days from base date*	*Product*
	₹		₹
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
10th July	400	93	37,200
	1,175		63,350

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

= 8th April + 63,350/1,175

= 8th April + 54 days = 1st June

(b)

In the books of G

H in Account Current with G

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

Date	*Due date*	*Particulars*	*No. of days till 31.3.18*	*Amt.*	*Product*	*Date*	*Due date*	*Particulars*	*No. of days till 31.3.18*	*Amt.*	*Product*
2017	*2017*			₹	₹	*2017*	*2017*			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2018	2018					2018	2018				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

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

12. Journal Entries

	Particulars		Dr. (₹)	Cr. (₹)
(i)	Expenses A/c	Dr.	12,000	
	To Drawings			12,000
	(Entry for the amount wrongly debited to the latter A/c, now corrected)			
(ii)	Purchase A/c	Dr.	16,000	
	To Creditors			16,000
	(Entry for purchases not recorded)			
(iii)	Suspense A/c	Dr.	2,000	
	To Purchase Returns			1,000
	To Sales Returns			1,000
	(Rectification entry for amount wrongly entered in Sales Journal)			
(iv)	Prepaid Expenses A/c	Dr.	6,000	
	To Expenses			6,000
	(Prepaid expenses adjusted)			

Trading, Profit and Loss Account of T
for the year ending 31st March, 2018

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

$\left(2{,}00{,}000 \times \frac{10}{100} \times \frac{6}{12}\right)$			$\left(2{,}50{,}000 \times \frac{12}{100} \times \frac{8}{12}\right)$		
To Net Profit		5,44,000			
		6,36,000			6,36,000

Balance Sheet as on 31st March, 2018

Liabilities		₹	***Assets***		₹
Capital	6,00,000		Fixed Assets	1,40,000	
Add: Profit	5,44,000		Additions	2,00,000	
Less: Drawings				3,40,000	
(70,000 – 12,000)	58,000	10,86,000	*Less*: Depreciation	10,000	3,30,000
Creditors	2,20,000		Stock		1,00,000
Add: Purchases not recorded	16,000	2,36,000	Debtors		2,50,000
			Investments		2,50,000
Overdraft		8,000	Interest accrued		20,000
			Bank fixed deposit		2,00,000
			Prepaid Expenses (6000+5000)		11,000
			Bank		1,69,000
		13,30,000			13,30,000

13. Total Profit for 3 years = (₹ 17,000)+₹ 50,000+₹ 75,000= ₹ 1,08,000.

Average profits = $\frac{\text{TotalProit}}{\text{No. of years}} \times \frac{₹1{,}08{,}000}{3} = ₹36{,}000$

Average Profits for Goodwill = ₹ 36,000 – Proprietor Remuneration

= ₹ 36,000 – ₹ 6,000 = ₹ 30,000

Normal Profit=Interest on Capital employed

= ₹ 20,000 (i.e. ₹ 2,00,000 x10/100) = ₹ 20,000

Super Profit = Average Profit-Normal Profit = ₹ 30,000 – ₹ 20,000 = ₹ 10,000

Goodwill = Super Profit x No of years purchases = ₹ 10,000 x 2 =₹ 20,000

14. (i) **Revaluation Account**

		₹			₹
To	Furniture	870	By	Building	3,200

To	Stock	1,070	By	Sundry creditors	1,400
To	Provision of doubtful debts (₹ 1,750 – ₹ 200)	1,550	By	Investment	450
To	Outstanding wages	1,560			
		5,050			5,050

(ii) Partners' Capital Accounts

		A	B	C			A	B	C
		₹	₹	₹			₹	₹	₹
To	Balance c/d	71,000	54,000	25,000	By	Balance b/d	44,000	36,000	–
					By	Cash A/c	–	–	25,000
					By	Goodwill A/c (Working Note)	27,000	18,000	
		71,000	54,000	25,000			71,000	54,000	25,000

(iii) Balance Sheet of New Partnership Firm

(after admission of C) as on 1.1.18

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	45,000
A 71,000		Building (26,000 + 3,200)	29,200
B 54,000		Furniture (5,800 – 870)	4,930
C 25,000	1,50,000	Stock-in-trade (21,400 – 1,070)	20,330
Bills Payable	4,100	Debtors 35,000	
Bank Overdraft	9,000	Less: Provision for bad debts (1,750)	33,250
Sundry creditors (12,900-1,400)	11,500	Investment (2,500 + 450)	2,950
Outstanding wages	1,560	Cash (15,500 + 25,000)	40,500
	1,76,160		1,76,160

Working Note:

Calculation of goodwill

C's contribution of ₹ 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.

But combined capital of A, B and C amounts ₹ 44,000 + 36,000 + 25,000 = ₹ 1,05,000.

Thus Hidden goodwill is ₹ 45,000 (₹ 1,50,000 – ₹ 1,05,000).

15. Corrected Receipts and Payments Account of Trustwell Club

for the year ended 31st March, 2018

	Receipts	₹	*Amount* ₹		*Payments*	*Amount* ₹
To	Balance b/d		450	By	Expenses (₹ 6,300 – ₹ 2,700)	3,600
To	Subscription			By	Sports Material	2,700
	Annual Income	4,590		By	Balance c/d (Cash in Hand and at Bank)	90,720
	Less: Receivable as on 31.3.2018	270				
	Add: Advance received for the year 2018–2019	90				
	Add: Receivable as on 31.3.2017	180				
	Less: Advance received as on 31.3.2017	90	4,500			
To	Other Fees		1,800			
To	Donation for Building		90,000			
To	Sale of Furniture		270			
			97,020			97,020

Income and Expenditure Account of Trustwell club

for the year ended 31st March, 2018

	Expenditure		Amount ₹		Income	Amount ₹
To	Sundry Expenses		3,600	By	Subscription	4,590
To	Sports Material			By	Other fees	1,800
	Balance as on 1.4.2017	6,660		By	Interest on investment (5% on ₹ 27,000)	1,350
	Add: Purchases	2,700				
	Less: Balance as on 31.3.2018	1,800	7,560	By	Deficit: Excess of Expenditure over Income	3,600
To	Loss on sale of Furniture		180			
			11,340			11,340

Balance Sheet of Trustwell club

as on 31st March, 2018

Liabilities		*Amount (₹)*	*Assets*		*Amount (₹)*
Capital Fund	36,000		Furniture	1,800	
Less: Excess of Expenditure over Income	3,600	32,400	*Less*: Sold	450	1,350
			5% Investment		27,000
Building Fund		90,000	Interest Accrued on Investment		1,350
Subscription Received in Advance		90	Sports Material		1,800
			Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			1,22,490

Working Note:

Balance Sheet of Trustwell Club

as on 1st April, 2017

Liabilities	*Amount*	**Assets**	*Amount*
	₹		₹
Subscription Received in Advance	90	Furniture	1,800
		Investment	27,000
Capital Fund (Balancing Figure)	36,000	Sports Material	6,660
		Subscription Receivable	180
		Cash in Hand and at Bank	450
	36,090		36,090

16.

Bank A/c	Dr.	25,000	
To Equity Share Application A/c			25,000
(Money received on application for 1,000 shares @ ₹ 25 per share)			
Equity Share Application A/c	Dr.	25,000	
To Equity Share Capital A/c			25,000

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

17.

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

Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	45,000	 45,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

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

18. **Books of Suvidha Ltd.**

Journal

Machinery A/c	Dr.	1,98,000	
To Hemant Ltd.			1,98,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,98,000
(12% Debentures issued to Hemant Ltd.)			
Case(ii) When debentures are issued at 10% discount:			
Hemant Ltd.	Dr.	1,98,000	
Discount on Issue of Debentures A/c	Dr.	22,000	
To 12% Debentures A/c			2,20,000
(12% Debentures issued to Hemant Ltd. at 10% discount)			
Case(iii) When debentures are issued at 10% premium:			
Hemant Ltd.	Dr.	1,98,000	
To 12% Debentures A/c			1,80,000
To Premium on Issue of Debentures A/c			18,000
(12% Debentures issued to Hemant Ltd. at 10% premium)			

Workings:

(a) Number of debentures issued in case of 10% discount:

	(₹)
Face value	100
Less: Discount 10%	10
Value at which issued	90

₹ 1,98,000/90 = 2,200 Debentures

(b) Number of debentures issued in case of 10% premium:

	(₹)
Face value	100
Add: Premium 10%	10
Value at which issued	110
₹1,98,000/ 110	= 1,800 Debentures

19. (a) Sales = ₹ 30,00,000

Capital Employed or Net Assets = Share Capital + Reserves and Surplus + Long-term Debt = (₹4,00,000 + ₹6,00,000) + (₹1,00,000 + ₹3,00,000) + (₹2,00,000 + ₹ 2,00,000)

= ₹ 18,00,000

Fixed Assets = ₹8,00,000 + ₹5,00,000 + ₹2,00,000 + ₹1,00,000

= ₹ 16,00,000

Working Capital = Current Assets – Current Liabilities

= ₹4,00,000 – ₹2,00,000 = ₹ 2,00,000

Net Assets Turnover Ratio = ₹30,00,000/₹18,00,000 = 1.67 times

Fixed Assets Turnover Ratio = ₹30,00,000/₹16,00,000 = 1.88 times

Working Capital Turnover = ₹30,00,000/₹2,00,000 = 15 times.

(b) Cost of Goods Sold

= Sales – gross profit

= ₹ 3,00,000 – (₹ 3,00,000 × 20%)

= ₹ 3,00,000 – ₹ 60,000

= ₹ 2,40,000

Stock Turnover Ratio = Cost of Goods Sold / Average stock

4 = Cost of Goods Sold/Average stock

Average stock = Cost of Goods Sold /4

Average stock = ₹ 2,40,000/4

= ₹ 60,000= Average Stock

(Opening stock + Closing stock)/2= ₹ 60,000

= [Opening stock + (Opening stock+₹20,000)]/2= ₹ 60,000

= Opening stock = ₹ 70,000

Liquid Ratio = Liquid assets/Current liabilities

75 = Liquid assets/₹ 40,000

Liquid assets = ₹ 40,000 × .75 = ₹ 30,000

Current Assets = Liquid assets + Closing stock

= ₹ 30,000 + ₹ 70,000

= ₹ 1,00,000.

20. (i) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

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

(i) *Going Concern*: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

(iii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.