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) *Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.*

(ii) *M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure.*

(iii) *Valuation of inventory, at cost or net realizable value, whichever less, is based on principle of Conservatism.*

(iv) *In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person.*

(v) *A Partnership firm cannot own any Assets.*

(vi) *Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.* ***(6 x 2 = 12 Marks)***

(b) *Distinguish between Provision and Contingent Liability.* ***(4 Marks)***

(c) *X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.*

(4 Marks)

Answer

(a) (i) False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

(ii) **False:** Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(iii) **True:** The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

(iv) **False:** The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v) **True:** A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi) **True:** As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(b) Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows:

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(c) **Machinery Account**

Dr. 2017		₹	2017		Cr. ₹
Jan. 1	To Bank A/c	4,80,000	Dec. 31	By Depreciation A/c	60,000
Jan. 1	To Bank A/c – erection charges	20,000		By Balance c/d	6,40,000
July 1	To Bank A/c	2,00,000			
		7,00,000			7,00,000
2018			2018		
Jan. 1	To Balance b/d	6,40,000	July 1	By Depreciation on sold machine	22,500
July 1	To Bank A/c	5,00,000		By Bank A/c	2,90,000
				By Profit and Loss A/c	1,37,500
			Dec. 31	By Depreciation A/c	44,000
				By Balance c/d	6,46,000
		11,40,000			11,40,000

Working Note:

Book Value of Machines

	Machine I ₹	Machine II ₹	Machine III ₹
Cost	5,00,000	2,00,000	5,00,000
Depreciation for 2017	50,000	10,000	
Written down value	4,50,000	1,90,000	
Depreciation for 2018	22,500	19,000	25,000
Written down value	4,27,500	1,71,000	4,75,000
Sale Proceeds	2,90,000		
Loss on Sale	1,37,500		

Question 2

(a) On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:

(i) A cheque for ₹ 11,14,000 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018.

(ii) A payment by cheque for ₹ 18,000 has been entered twice in the Cash book.

(iii) On 29th September, 2018, the bank credited an amount of ₹ 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2018.

(iv) Bank charges amounting to ₹ 280 had not been entered in the cash book.

(v) On 6th September 2018, the bank credited ₹ 30,000 to XYZ in error.

(vi) A bill of exchange for ₹ 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2018 but no entry had been made in the books of XYZ.

(vii) Cheques issued upto 30th September,2018 but not presented for payment upto that date totalled ₹ 13,46,000.

(viii) A bill payable of ₹ 2, 00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

You are required:

To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2018 and to prepare a Bank Reconciliation Statement as on that date. ***(10 Marks)***

(b) Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:

(1) The sales book has been totalled ₹ 2,100 short.

(2) Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.

(3) Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.

(4) Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.

(5) Discount received from Black and White ₹ 1,200 has not been entered in the books.

(6) Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted. ***(10 Marks)***

Answer

(a) **Cash Book (Bank Column)**

Date	*Particulars*		*Amount*	*Date*	*Particulars*		*Amount*
2018			₹	*2018*			
Sept. 30	To	Party A/c	18,000	Sept. 30	By	Balance b/d	8,062
	To	Customer A/c			By	Bank charges	280
		(Direct deposit)	1,15,400		By	Customer A/c	
	To	B/R collected	59,000			(B/R dishonoured)	1,60,000
	To	Balance c/d	1,75,942		By	Bills payable	2,00,000
			3,68,342				3,68,342

Bank Reconciliation Statement as on 30th September, 2018

Particulars	*Amount*
	₹
Overdraft as per Cash Book	1,75,942
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000
	12,89,942
Less: Cheques issued but not presented for payment up to 30th Sept., 2018	(13,46,000)
Credit by Bank erroneously on 6th Sept.	(30,000)
Balance as per bank statement	86,058

(b) (i) If a Suspense Account is not opened.

(a) Since sales book has been cast ₹ 2,100 short, the Sales Account has been similarly credited ₹2,100 short. The correcting entry is as follows:

Sales A/c

Dr. Date	Particulars	₹	Date	Particulars	₹ Cr.
				By Wrong Totaling of Sales Book	2,100

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Gaurav & Co. credited. The entry is:

Returns Inward Account	Dr.	₹1,800	
To Gaurav & Co.			₹1,800
(Goods returned by the firm, previously omitted from the Returns Inward Book)			

(c) Sen Brothers have been debited ₹2,250 instead of being credited. This account should now be credited by ₹4,500 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

Date	Particulars	₹	Date	Particulars	₹
				By errors in posting	4,500

(d) By this error Purchases Account has to be debited by ₹15,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account	Dr.	₹15,000	
To Purchases Account			₹15,000
(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)			

(e) The discount of ₹1,200 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made :

Black & White	Dr.	₹1,200	
To Discount Account			₹1,200
(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)			

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

Date	Particulars	₹	Date	Particulars	₹
	To Omission of entry in the Cash Book	180			

(ii) **If a Suspense Account is opened:**

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		2,100	
	To Sales Account				2,100
	(Being the correction arising from under-casting of Sales Day Book)				
(b)	Return Inward Account	Dr.		1,800	
	To Gaurav & Co	.			1,800
	(Being the recording of unrecorded returns)				
(c)	Suspense Account	Dr.		4,500	
	To Sen Brothers				4,500
	(Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹2,250).				
(d)	Furniture Account	Dr.		15,000	
	To Purchases Account				15,000
	(Being the correction of recording purchase of furniture as ordinary purchases)				
(e)	Black & White	Dr.		1,200	
	To Discount Account				1,200
	(Being the recording of discount omitted to be recorded)				
(f)	Discount Account	Dr.		180	
	To Suspense Account				180
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).				

Question 3

(a) Anand of Bangalore consigned to Raj of Pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were ₹ 12,000. The account sales received by Anand

shows that Raj has effected sales amounting to ₹ 1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 9,600 10% of consignment goods of the value of ₹ 15,000 were destroyed in fire at the Pune godown and the insurance company paid ₹ 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and ·the account of Raj in the books of Anand along with the necessary calculations. ***(10 Marks)***

(b) *A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During May 2018, the following are the details of goods sent:*

Date (May)	*2*	*8*	*12*	*18*	*20*	*27*
Customers	*P*	*B*	*Q*	*D*	*E*	*R*
Value (₹)	*17,000*	*22,000*	*25,000*	*5,500*	*2,000*	*28,000*

Within the stipulated time, P and Q returned the goods and B, D and E signified that they have accepted the goods.

Show in the books of the firm, the Sale or Return Account and Customer Q for Sale or Return Account as on 15th June 2019. ***(5 Marks)***

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

(i) *The following amounts are due to X by Y. Y wants B to pay on 10th July,2019.*

Interest rate of 9% p.a. is taken into consideration.

Due dates	*₹*
10th January	*750*
26th January (Republic Day)	*1,200*
23rd March	*3,300*
18th August (Sunday)	*4,100*

Determine average due date and the amount to be paid on 10th July, 2019. Assume 10th January as base date. ***(5 Marks)***

OR

(ii) *Ramesh has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2018. He has further deposited the following amounts:*

Date	*Amount (₹)*
14-07-2018	*1,23,000*
18-08-2018	*21,000*

He withdrew the following amounts:

Date	*Amount (₹)*
29-07-2018	*92,000*
09-09-2018	*11,500*

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method.

(5 Marks)

Answer

(a) **Books of Anand**

Consignment to Raj (Pune) Account

Dr. Particulars	₹	*Particulars*	*Cr.* ₹
To Goods sent on Consignment A/c	1,50,000	By Goods sent on Consignment A/c(loading)	30,000
To Cash A/c	12,000	By Abnormal Loss (out of which ₹ 12,000 received from insurance co.)	13,200
To Raj (Expenses)	9,600	By Raj (Sales)	1,20,000
To Raj (Commission)	13,125	By Inventories on Consignment A/c	24,300
To Inventories Reserve A/c	4,500	By General Profit & Loss A/c	1,725
	1,89,225		1,89,225

Raj's Account

Dr. *Particulars*	₹	*Particulars*	*Cr.* ₹
To Consignment A/c	1,20,000	By Consignment A/c	9,600
		By Consignment A/c	13,125
		By Bank A/c	97,275
	1,20,000		1,20,000

Working Notes:

1. Calculation of Loading of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹15,000.

   Abnormal Loss as a percentage of total consignment = 10%.

   Hence the value of goods sent on consignment = ₹15,000 x 100/ 10 = ₹1,50,000.

   Loading of goods sent on consignment = ₹1,50,000 X 25/125 = ₹30,000.

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price	=	₹15,000
Abnormal Loss at cost = ₹15,000 x 100/125	=	₹12,000
Proportionate expenses of Anand (10 % of ₹12,000)	=	₹ 1,200
		₹13,200

3. Calculation of closing Inventories (15%):

Anand's Basic Invoice price of consignment	=	₹1,50,000
Anand's expenses on consignment	=	₹ 12,000
		₹1,62,000
Value of closing Inventories = 15% of ₹1,62,000	=	₹24,300

   Loading in closing Inventories = ₹4,500 (30,000 x 15%)

4. Calculation of commission:

   Invoice price of the goods sold = 75% of ₹1,50,000 = ₹1,12,500

   Excess of selling price over invoice price = (₹1,20,000- ₹1,12,500) = 7,500

   Total commission = 10% of ₹1,12,500 + 25% of ₹7,500

   = ₹11,250 + ₹1,875

   = ₹13,125

Note: Abnormal loss is calculated at cost and value of inventories is valued at invoice price as invoice price is given.

(b) Sale or Return Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
2018			2018		
May 31	To Sundries: Sales	29,500	May 31	By Sundries	
June 15	To Sundries: Returned	42,000		(Goods sent on sale or return basis)	99,500

June 15	To Balance c/d	28,000			
		99,500			99,500
			June 16	By Balance b/d	28,000

Q's Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
2018			2018		
May 31	To Sale or Return A/c	25,000	June 15	By Sale or Return A/c	25,000

(c) (i) Taking 10th January as the base date

Due Date (Normal)	*Due Date (Actual)*	*No. of days from 10th January. . .*	*Amount ₹*	*Product*
10th January	10th January	0	750	0
26th January	25th January	15	1,200	18,000
23rd March	23rd March	72	3,300	2,37,600
18th August	17th August	219	4,100	8,97,900
			9,350	11,53,500

Average Due Date = 10th Jan. + $\frac{11,53,500}{9,350}$

= 10th Jan + 124 days (rounded off upward) = 14th May

(b) If the payment is deferred to 10th July, interest is to be paid from 14th May to 10th July i.e., for 17 + 30 + 10 = 57 days.

Interest = 9,350 x $\frac{9}{100}$ x $\frac{57}{365}$ = 131.41

The amount to be paid on 10th July: ₹9,350+ 131.41 = ₹9481.41

(ii) Ramesh's Current Account with Partnership firm (as on 30.9.2018)

Date	*Particulars*	*Dr. (₹)*	*Cr. (₹)*	*Balance (₹)*	*Dr.or Cr.*	*Days*	*Dr. Product (₹)*	*Cr. Product (₹)*
01.07.18	To Bal b/d	85,000		85,000	Dr.	13	11,05,000	
14.07.18	By Cash A/c		1,23,000	38,000	Cr.	15		5,70,000
29.07.18	To Self	92,000		54,000	Dr.	20	10,80,000	
18.08.18	By Cash A/c		21,000	33,000	Dr.	22	7,26,000	
09.09.18	To Self	11,500		44,500	Dr.	22	9,79,000	
30.09.18	To Interest A/c	941						

30.09.18	By Bal. c/d		45,441	45,441	Dr.			
		1,89,441	1,89,441				38,90,000	5,70,000

Interest Calculation:

On₹ 38,90,000 x 10% x 1/365 = 1,066

On ₹ 5,70,000 x 8% x 1/365 = ₹ 125

Net interest to be debited = ₹ 941

Question 4

(a) Arup and Swarup were partners. The partnership deed provides inter alia:

(i) That the annual accounts be balanced on 31st December each year;

(ii) That the profits be allocated as follows:

Arup: One-half; Swarup: One-third and Carried to reserve account: One sixth;

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(1) The capital to his credit at the date of death;

(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	*Debit (₹)*	*Credit (₹)*
Arup's Capital		*90,000*
Swarup's Capital		*60,000*
Reserve		*45,000*
Bills receivable	*50,000*	
Investment	*55,000*	
Cash	*1,10,000*	
Trade payables		*20,000*
Total	*2,15,000*	*2,15,000*

The profits for the three year were 2016: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account. ***(10 Marks)***

(b) *From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:*

Income & Expenditure Account for the year 2018-19

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	2,387
	25,960		25,960

Balance sheet as at 31st March 2019

Liabilities		₹	Assets	₹
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	1,100		Cash in Hand	2,530
	28,600		Subscription (outstanding)	770
Less: Prizes given	2,200	26,400	(2018-2019)	
General Fund:				
Opening balance	62,062			
Less: Deficit	2,387			
	59,675			
Add: Entrance Fee	715	60,390		
		86,900		86,900

The following adjustments have been made in the above accounts:

(i) *Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018-19.*

(ii) *One fourth of entrance fee has been capitalized by transfer to General Fund.*

(iii) *Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.*

(iv) Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110.

(v) Furniture was purchased during the year. **(10 Marks)**

Answer

(a)

(i)	**Ascertainment of Swarup's Share of Profit**		(ii)	**Ascertainment of Value of Goodwill**	
	2016	51,000		2016	51,000
	2017	39,000		2017	39,000
	2018	45,000		2018	45,000
	Total Profit	1,35,000		Total Profit for 3 years	1,35,000
	Average Profit	45,000		Average Profit	45,000
	4 months' Profit	15,000		Goodwill - 3 years	
	Swarup's Share in Profit (2/5th of ₹15,000)	6,000		Purchase of Average Profit	1,35,000
				Swarup's Share of goodwill (2/5 of ₹1,35,000)	54,000

Working Note:

Profit sharing ratio between Arup and Swarup = ½; 1/3; = 3: 2, Therefore Swarup's share of Profit = 2/5

Swarup's Executors Account

Date 2019	Particulars	₹	Date 2019	Particulars	₹
May 1	To Swarup's Loan A/c	1,38,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of ₹45,000)	18,000
			May 1	By Arup's Capital A/c (Share of goodwill)	54,000

			May 1	By P&L Suspense A/c (Share of Profit)	6,000
		1,38,000			1,38,000

(b) **Receipts and Payments Account**

for the year ending 31st March, 2019

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	16,126	By Upkeep of Ground (11,000+660)	11,660
To Subscription	19,052	By Printing (1,100+264)	1,364
To Interest on Prize Fund Investments	1,100	By Salaries	11,100
		By Furniture (9,900 +1,100)	11,000
To Lecture (fee)	1,650	By Rent	1,660
To Entrance Fee	2,860	By Prizes	2,200
To Sale of Newspapers (old)	286	By Balance c/d	2,530
To Misc. Income	440		
	41,514		41,514

Note:

₹660 paid for upkeep of ground for 2017-18 and ₹264 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads.

Subscription Account

		₹			₹
2018 April	To Subscription Outstanding (2017-18)	880	2018 April 1	By Subscription in Advance (2017-18)	220
	To Subscription In Advance (2018-19)	110		By Subscription Outstanding (2018-19)	770
				By Cash (Balancing figure)	19,052

2019 March	To Income & Expenditure A/c	19,052			
		20,042			20,042

Question 5

(a) *An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.*

Particulars	*Debit (₹)*	*Credit (₹)*
Provision for Doubtful Debts	*250*	*-*
Cash Credit Account	*1,654*	*-*
Capital	*-*	*4,591*
Trade payables	*-*	*1,637*
Due from customers	*2,983*	*-*
Discount Received	*252*	*-*
Discount Allowed	*-*	*733*
Drawings	*1,200*	*-*
Office Furniture	*2,155*	*-*
Carriage Inward	*-*	*829*
Purchases	*10,923*	*-*
Returns Inward	*-*	*330*
Rent & Rates	*314*	*-*
Salaries	*2,520*	*-*
Sales	*-*	*16,882*
Inventory	*2,418*	*-*
Provision for Depreciation on Furniture	*364*	*-*
Total	*25,033*	*25,002*

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a suspense account. ***(5 Marks)***

(b) *Mr. Shyamal runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2019.* ·

Opening work-in-progress (9000 units)	*26,000*
Closing work-in-progress (14,000 units)	*48,000*

Opening inventory of Raw Materials	*2,60,000*
Closing inventory of Raw Materials	*3,20,000*
Purchases	*8,20,000*
Hire charges of Machinery @ ₹ 0.70 per unit manufactured	
Hire charges of factory	*2,60,000*
Direct wages-contracted@ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P.	
Repairs and maintenance	*1,80,000*
Units produced - 5,00,000 units	

You are required to prepare a Manufacturing Account of Mr. Shyamal for the year ended 31-03-2019.

(5 Marks)

(c) The balance sheet of Mittal on 1st January, 2018 was as follows:

Liabilities	*Amount ₹*	*Assets*	*Amount ₹*
Trade payables	*16,00,000*	*Plant & Machinery*	*31,00,000*
Expenses payable	*2,50,000*	*Furniture & Fixture*	*4,00,000*
Capital	*51,00,000*	*Trade receivables*	*14,50,000*
		Cash at bank	*7,00,000*
		Inventories	*13,00,000*
	69,50,000		*69,50,000*

During 2018, his profit and loss account revealed a net profit of ₹ 15,10,000. This was after allowing for the following:

(i) Interest on capital @ 6% p.a.

(ii) Depreciation on plant and machinery @ 10% p.a. and on Furniture and Fixtures @ 5% p.a..

(iii) A provision for Doubtful debts @ 5% of the trade receivables as at 31st December 2018.

But while preparing the profit and loss account he had forgotten to provide for (1) outstanding expenses totalling ₹ 1,85,000 and (2) prepaid insurance to the extent of ₹ 25,000.

His current assets and liabilities on 31st December, 2018 were: Trade receivables ₹ 21,00,000; Cash at bank ₹ 5,20,000 and Trade payables ₹ 13,84,000. During the year *he withdrew ₹ 6,20,000 for domestic use. Closing inventories is equal to net trade receivables at the year-end.*

You are required to draw up revised Profit and Loss account and Balance Sheet at the end of the year. ***(10 Marks)***

Answer

(a) Trial Balance as on 31st March, 2019

Heads of Accounts	Dr. ₹	Cr. ₹
Provision for Doubtful Debts	–	250
Cash credit account (Bank overdraft)	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Dues from customers	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
Carriage inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory*	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,225	
Total	25,630	25,630

** considered as opening inventory.*

(b) In the Books of Mr. Shyamal

Manufacturing Account for the Year ended 31.03.2019

Particulars		Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-Process		9,000	26,000	By Closing Work-in-Process	14,000	48,000

To Raw Materials Consumed:				By Trading A/c – Cost of finished goods transferred	5,00,000	19,33,600
Opening Inventory	2,60,000					
Add: Purchases	8,20,000					
	10,80,000					
Inventory	(3,20,000)		7,60,000			
To Direct Wages – W.N. (1)			4,05,600			
To Direct expenses: Hire charges on Machinery – W.N. (2)			3,50,000			
To Indirect expenses:						
Hire charges of Factory			2,60,000			
Repairs & Maintenance			1,80,000			
			19,81,600			19,81,600

Working Notes:

(1) Direct Wages – 5,00,000 units @ ₹0.80 = ₹4,00,000

14,000 units @ ₹0.40 = ₹ 5,600

₹ 4,05,600

(2) Hire charges on Machinery – 5,00,000 units @ ₹0.70 = ₹3,50,000

(c) Profit and Loss Account (Revised)

Particulars	₹	Particulars	₹
To Outstanding expenses	1,85,000	By Balance b/d	15,10,000
To Net profit	13,50,000	By Prepaid insurance	25,000
	15,35,000		15,35,000

Balance Sheet of Mittal as on 31st December, 2018

Liabilities		₹	Assets	₹	₹
Capital	51,00,000		Cash at Bank		5,20,000

Add: Net Profit	13,50,000		Trade receivables	21,00,000	
	64,50,000		*Less:* Provision for		
			doubtful debts	(1,05,000)	19,95,000
Less: Drawings	(6,20,000)		Plant and Machinery	31,00,000	
	58,30,000		*Less:* Depreciation	(3,10,000)	27,90,000
Add: Interest on capital	3,06,000	61,36,000	Furniture & Fixtures	4,00,000	
Outstanding expenses		1,85,000	*Less:* Depreciation	(20,000)	3,80,000
Trade payables		13,84,000	Inventories		19,95,000
			Prepaid insurance		25,000
		77,05,000			77,05,000

Question 6

(a) *B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.*

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

(b) *Distinguish between Periodic Inventory System and Perpetual Inventory System.*

(5 Marks)

Answer

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

Journal Entries

Date	*Particulars*		Dr. ₹	Cr. ₹
	Bank A/c To Equity Share Application A/c (Application money on 50,000 shares @ ₹ 3 per	Dr.	1,50,000	 1,50,000

	share received.)			
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money to Equity Share Capital on 50,000 shares @ ₹ 3 per share as per Directors resolution no… dated…)	Dr.	1,50,000	 1,50,000
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due from members in respect of allotment on 50,000 shares @ ₹ 5 per share including premium ₹ 2 per share as per Directors resolution no… dated…)	Dr.	2,50,000	 1,50,000 1,00,000
	Bank A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share.) **'OR'** Bank A/c Calls in Arrear A/c To Equity Share Allotment A/c (Amount received against allotment on 49,000 shares @ ₹ 5 per share including premium ₹ 2 per share. X, holding 1,000 shares failed to pay allotment money.)	Dr. Dr. Dr.	2,45,000 2,45,000 5,000	 2,45,000 2,50,000
	Equity Share Call A/c To Equity Share Capital A/c (Amount due from members in respect of call on 50,000 shares @ ₹ 4 per share as per Directors resolution no… dated…)	Dr.	2,00,000	 2,00,000
	Bank A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share.) **'OR'** Bank A/c	Dr. Dr.	1,88,000 1,88,000	 1,88,000

	Calls in Arrear A/c To Equity Share Call A/c (Amount received against the call on 47,000 shares @ ₹ 4 per share. X, holding 1,000 shares and Y, holding 2,000 shares failed to pay call money.)	Dr.	12,000	 2,00,000
	Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Equity Share Allotment A/c (1,000 X ₹ 5) To Equity Share Call A/c (3,000 X ₹ 4) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No.....dated ....) **'OR'** Equity Share Capital A/c (3,000 x ₹ 10) Securities Premium A/c (1,000 x ₹ 2) To Calls in Arrear A/c (₹ 5,000 + ₹ 12,000) To Forfeited Shares A/c (Being forfeiture of 3,000 equity shares for non-payment of allotment and call money on 1,000 shares and for non-payment of call money on 2,000 shares as per Board's Resolution No... dated...)	Dr. Dr. Dr. Dr.	30,000 2,000 30,000 2,000	 5,000 12,000 15,000 17,000 15,000
	Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 2,500 shares @ ₹8 each as per Board's Resolution No.....dated....)	Dr. Dr.	20,000 5,000	 25,000
	Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	7,000	 7,000

Balance Sheet of B Limited as at……

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	4,98,000
Reserves and Surplus	2	1,05,000
Total		6,03,000
ASSETS		
Current assets		
Cash and cash equivalents (bank)		6,03,000*
Total		6,03,000

*(5,83,000 +20,000)

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of ₹ 10 each	5,00,000	
	Subscribed, called up and paid up share capital		
	49,500 Equity shares of ₹ 10 each	4,95,000	
	Add: Forfeited shares	3,000	4,98,000
2.	Reserves and Surplus		
	Securities Premium	98,000	
	Capital Reserve	7,000	1,05,000

Working Notes:

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

Amount forfeited per share of X	₹ 3	Amount forfeited per share of Y	₹ 6
Less: Loss on re-issue per share	(₹ 2)	Less: Loss on re-issue per share	(₹ 2)
Surplus	₹ 1	Surplus	₹ 4

Transferred to Capital Reserve: X share (1,000 x ₹ 1)	₹ 1,000
Y's Share (1,500 x ₹ 4)	₹ 6,000
Total	₹ 7,000

(2) Balance of Security Premium:

Total Premium amount receivable on allotment	=	1,00,000
less: Amount reversed on forfeiture	=	(2,000)
Balance remaining	=	98,000

(b)

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.