

MODEL TEST PAPERS

(RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS)

FOUNDATION COURSE



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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**MODEL TEST PAPERS
FOUNDATION COURSE**

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MODEL TEST PAPER 1
FOUNDATION COURSE
PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- (i) Accounting Standards for non-corporate entities in India are issued by the Central Government.
 - (ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
 - (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (iv) Discount at the time of retirement of a bill is a gain for the drawee.
 - (v) Business of partnership comes to an end on death of a partner.
 - (vi) Receipts and Payments Account highlights total income and expenditure. **(6 Statements x 2 Marks = 12 Marks)**
- (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements. **(4 Marks)**
- (c) The balance of Machinery Account of a firm on 1st April, 2023 was ₹ 28,54,000. Out of this, a plant having book value of ₹ 2,16,000 as on 1st April, 2023 was sold on 1st July, 2023 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, 2023 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, 2024. **(4 Marks)**
- (12+4+4= 20 Marks)**
2. (a) Mr. Bhatt's trial balance as on 31st March, 2024 did not agree. The difference was put to a Suspense Account.
- During the next trading period, the following errors were discovered:
- (i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

- (ii) A sale of ₹ 462 was entered in the Sales Book as ₹ 642 and posted to the credit of the customer.
- (iii) A return to creditor, ₹ 300 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- (iv) Cash received from Geet, ₹ 895 was posted to debit of Meet.
- (v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- (vi) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.
- (vii) ₹ 500 due from Mr. Manas was omitted to be taken to the trial balance.
- (viii) Sale of goods to Mr. Deep for ₹ 6,000 was omitted to be recorded.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly **(10 Marks)**

- (b) The Bank Pass Book of Account No.7749 of Ms. Tina showed an overdraft of ₹ 1,34,300 on 31st March 2024. On going through the Pass Book, the accountant found the following:
- (i) A Cheque of ₹4,320 credited in the pass book on 28th March 2024 being dishonoured is debited again in the pass book on 1st April 2024. There was no entry in the cash book about the dishonour of the cheque until 15th April 2024.
 - (ii) Bankers had credited her account with ₹ 11,200 for interest collected by them on her behalf, but the same has not been entered in her cash book.
 - (iii) Out of ₹ 82,000 paid in by Ms. Tina in cash and by cheques on 31st March 2024 cheques amounting to ₹ 30,000 were collected on 7th April, 2024.
 - (iv) Out of Cheques amounting to ₹ 31,200 drawn by her on 27th March, 2024 a cheque for ₹ 10,000 was encashed on 3rd April, 2024.
 - (v) Bankers seems to have given here wrong credit for ₹ 2,000 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 1,200 against her account No.8765.
 - (vi) A cheque for ₹ 4,000 entered in Cash Book but omitted to be banked on 31st March, 2024.
 - (vii) A Bill Receivable for ₹ 20,800 previously dishonoured (Discount ₹ 800) with the Bank had been dishonoured but advice was received on 1st April, 2024.

- (viii) A Bill for ₹ 40,000 was retired /paid by the bank under a rebate of ₹ 700 but the full amount of the bill was credited in the bank column of the Cash Book.
- (ix) A Cheque for ₹ 9,600 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2024.

Prepare Bank Reconciliation Statement as on 31st March, 2024.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are required to prepare his final accounts for the year 2023:

| | 1.1.2023 | 31.12.2023 |
|--------------|----------|------------|
| | ₹ | ₹ |
| Debtors | 1,02,500 | – |
| Creditors | – | 46,000 |
| Stock | 50,000 | 62,500 |
| Bank Balance | – | 50,000 |
| Fixed Assets | 7,500 | 9,000 |

Details of his bank transactions were as follows:

| | ₹ |
|---|----------|
| Received from debtors | 3,40,000 |
| Additional capital brought in | 5,000 |
| Sale of fixed assets (book value ₹ 2,500) | 1,750 |
| Paid to creditors | 2,80,000 |
| Expenses paid | 49,250 |
| Personal drawings | 25,000 |
| Purchase of fixed assets | 5,000 |

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000. **(10 Marks)**

- (b) Arun, Varun and Tarun are in partnership, sharing profits and losses equally.

Tarun died on 30th June 2023. The Balance Sheet of Firm as at 31st March 2023 stood as:

| Liabilities | Amount | Assets | Amount |
|-----------------|--------|-------------------|----------|
| Creditors | 20,000 | Land and Building | 1,50,000 |
| General Reserve | 12,000 | Investments | 65,000 |

| | | | |
|-------------------|-----------------|-----------------------------------|-----------------|
| Capital Accounts: | | Stock in trade | 15,000 |
| Arun | 1,00,000 | Trade receivables | 35,000 |
| Varun | 75,000 | Less: Provision for doubtful debt | (2,000) |
| | | | 33,000 |
| Tarun | 75,000 | Cash in hand | 7,000 |
| | | Cash at bank | 12,000 |
| | <u>2,82,000</u> | | <u>2,82,000</u> |

In order to arrive at the balance due to Tarun, it was mutually agreed that:

- (i) Land and Building be valued at ₹ 1,75,000
- (ii) Debtors were all good, no provision is required
- (iii) Stock is valued at ₹ 13,500
- (iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Tarun's share of goodwill be adjusted in the account of Arun and Varun.
- (v) Tarun's share of profit from 1st April 2023, to the date of death be calculated on the basis of average profit of preceding three years.
- (vi) The profit of the preceding five years ended 1st March were:

| | | | | |
|--------|--------|--------|--------|--------|
| 2023 | 2022 | 2021 | 2020 | 2019 |
| 25,000 | 20,000 | 22,500 | 35,000 | 28,750 |

You are required to prepare:

- (1) Revaluation account
- (2) Capital accounts of the partners and
- (3) Balance sheet of the Firm as at 1st July, 2023. **(10 Marks)**

(10 + 10 = 20 Marks)

- 4 (a) Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2024 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

| Liabilities | ₹ | Assets | ₹ |
|---------------------|-----------------|---------------------|-------------------|
| Creditors | 80,000 | Plant and machinery | 60,000 |
| Loan A/c – Amar | 20,000 | Premises | 80,000 |
| Capital A/cs - Amar | 1,00,000 | Stock | 60,000 |
| Akbar | 30,000 | Debtors | 1,20,000 |
| Antony | <u>90,000</u> | | <u> </u> |
| | <u>3,20,000</u> | | <u>3,20,000</u> |

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

| | |
|----------------|------------|
| April 15, 2024 | ₹ 60,000 |
| May 1, 2024 | ₹ 1,46,000 |
| May 31, 2024 | ₹ 94,000 |

Prepare a statement showing how the distribution should be made under maximum loss method.

(10 Marks)

- (b) The following information of M/s. Zara Club are related for the year ended 31st March, 2024:

(1)

| Balances | As on 01-04-2023 (₹) | As on 31-3-2024 (₹) |
|----------------------------------|----------------------------|---------------------------|
| Stock of Sports Material | 6,75,000 | 10,12,500 |
| Amount due for Sports Material | 6,07,500 | 8,77,500 |
| Subscription due | 1,01,250 | 1,48,500 |
| Subscription received in advance | 81,000 | 47,250 |

(2) Subscription received during the year ₹ 33,75,000

(3) Payments for Sports Material during the year ₹ 20,25,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2024 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2024.

(10 Marks)

(10 + 10 = 20 Marks)

5. (a) From the following information, draw up a Trial Balance in the books of Shri Hari Om as on 31st March, 2024:

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|-------------------------------------|---------------|---------------------|---------------|
| Capital | 4,20,000 | Purchases | 1,08,000 |
| Discount Allowed | 3,600 | Carriage Inward | 26,100 |
| Carriage Outwards | 6,900 | Sales | 1,80,000 |
| Return Inward | 900 | Return Outwards | 2100 |
| Rent and Taxes | 3,600 | Plant and Machinery | 2,42,100 |
| Stock on 1 st April 2023 | 46,500 | Sundry Debtors | 60,600 |
| Sundry Creditors | 36,000 | Investments | 10,800 |
| Commission Received | 5,400 | Cash in Hand | 300 |

| | | | |
|---------------------------------------|--------|-------------|----------|
| Cash at bank | 30,300 | Motor Cycle | 1,03,800 |
| Stock on 31 st March, 2024 | 61,500 | | |

(5 Marks)

(b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

(i) Following information is provided for M/s. VS Wires for the year ended 31st March, 2024:

| | ₹ |
|-------------------|-----------|
| Opening Inventory | 6,00,000 |
| Purchases | 40,32,000 |
| Carriage Inwards | 1,80,000 |
| Wages | 3,00,000 |
| Sales | 66,00,000 |
| Returns inward | 6,00,000 |
| Returns outward | 4,32,000 |
| Closing Inventory | 12,00,000 |

You are required to pass necessary closing entries in the journal proper of M/s. VS Wires.

(5 Marks)

OR

(ii) Mr. Mandeep runs a factory, which produces detergents. Following details were available in respect of his manufacturing activities for the year ended 31-03-2024.

| | |
|--|-----------|
| Opening work-in-progress (27,000 units) | 78,000 |
| Closing work-in-progress (42,000 units) | 1,44,000 |
| Opening inventory of Raw Materials | 7,80,000 |
| Closing inventory of Raw Materials | 9,60,000 |
| Purchases | 24,60,000 |
| Hire charges of Machinery @ ₹ 0.70 per unit manufactured | |
| Hire charges of factory | 7,80,000 |
| Direct wages-contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of closing W.I.P. | |
| Repairs and maintenance | 5,40,000 |
| Units produced - 15,00,000 units | |

You are required to prepare a Manufacturing Account of Mr. Mandeep for the year ended 31-03-2024.

(5 Marks)

- (c) Face Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31 March, 2023:

| Particulars | | ₹ | ₹ |
|--------------------------------|--|-----------------|-----------|
| Shareholder's fund | | | |
| (a) | Authorized Share Capital 90,000 equity shares of ₹10 each fully paid up | | 9,00,000 |
| | Issued, Subscribed & Paid up 60,000 equity shares of ₹ 10 each fully paid up | | 6,00,000 |
| (b) | Reserve and Surplus | | |
| | Profit & Loss Account | 3,24,000 | |
| | Debenture redemption reserve | <u>36,000</u> | 3,60,000 |
| Non-current liabilities | | | |
| (a) | Long term borrowings 12% Debentures | | 3,60,000 |
| Current Liabilities | | | |
| (a) | Trade Payable | | 3,45,000 |
| | Total | | 16,65,000 |
| Non-current Assets | | | |
| (a) | Property, Plant and Equipment | 3,45,000 | |
| (b) | Non-current Investments (DRR Investment) | <u>54,000</u> | 3,99,000 |
| Current Assets | | | |
| (a) | Inventories | 4,05,000 | |
| (b) | Trade Receivables | 2,25,000 | |
| (c) | Cash in Hand | 90,000 | |
| (d) | Cash at Bank | <u>5,46,000</u> | 12,66,000 |
| | Total | | 16,65,000 |

At the AGM on 01.04.2023, it was resolved:

- (a) To give existing equity shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.
- (c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) Avent Limited is a company with an authorised share capital of ₹ 1,00,00,000 in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid up on 31st March, 2023. The company

proposes to make a further issue of 1,35,000 of these ₹ 10 shares at a price of ₹ 14 each, the arrangement of payment being :

- (i) ₹ 2 per share payable on application, to be received by 31st May, 2023;
- (ii) Allotment to be made on 10th June, 2023 and a further ₹ 5 per share (including the premium to be payable);
- (iii) The final call for the balance to be made, and the money received by 31st December, 2023.

Applications were received for 5,60,000 shares and dealt with as follows:

- (1) Applicants for 10,000 shares received allotment in full;
- (2) Applicants for 50,000 shares received allotment of 1 share for every 2 applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;
- (3) Applicants for 5,00,000 shares received an allotment of 1 share for every 5 shares applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
- (4) The money due on final call was received on the due date.

You are required to record these transactions (including bank transactions) in the Journal Book of Avent Limited. **(15 Marks)**

- (b) Discuss the factors taken into consideration for calculation of depreciation. **(5 Marks)**

Or

Write short notes on Accommodation bill and Renewal of bill. **(5 Marks)**

(15 + 5 = 20 Marks)

MODEL TEST PAPER 2
FOUNDATION COURSE
PAPER 1: ACCOUNTING

Question No. 1 is compulsory.

Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- (i) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.
 - (ii) Accrual concept implies accounting on cash basis.
 - (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (iv) Discount at the time of retirement of a bill is a gain for the drawee.
 - (v) If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.
 - (vi) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

(6 Statements x 2 Marks = 12 Marks)

- (b) Differentiate between Book-keeping and Accounting. **(4 Marks)**
- (c) On 31st March 2024, the Bank Pass Book of Sita showed a balance of ₹ 3,00,000 to her credit while balance as per cash book was ₹ 2,55,500. On scrutiny of the two books, she ascertained the following causes of difference:
- (i) She has issued cheques amounting to ₹ 1,60,000 out of which only ₹ 64,000 were presented for payment.
 - (ii) She received a cheque of ₹ 10,000 which she recorded in her cash book but forgot to deposit in the bank.
 - (iii) A cheque of ₹ 44,000 deposited by her has not been cleared yet.
 - (iv) Bank has credited an interest of ₹ 3,000 while charging ₹ 500 as bank charges.

Prepare a bank reconciliation statement

(4 Marks)

(12 + 4 + 4 = 20 Marks)

2. (a) Ambiance Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:
- (i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 80,000.
 - (ii) On 31st December, stock sheet showed the following discrepancies:
 - (a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
 - (b) The total of a page had been undercast by ₹ 400.
 - (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 70,000. Out of this ₹ 6,000 related to goods received prior to 31st December, 2023. Invoices entered in April 2024 relating to goods received in March, 2024 totalled ₹ 7,000.
 - (iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2024. Of this ₹ 5,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 4,000.
 - (v) During the final quarter, credit notes at invoiced value of ₹ 1,500 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2024. **(10 Marks)**

- (b) M/s. Surya Lights purchased a second-hand machine on 1st January, 2020 for ₹ 3,20,000. Overhauling and erection charges amounted to ₹ 80,000.

Another machine was purchased for ₹ 1,60,000 on 1st July, 2020.

On 1st July, 2022, the machine installed on 1st January, 2020 was sold for ₹ 1,60,000. Another machine amounted to ₹ 60,000 was purchased and was installed on 30th September, 2022.

Under the existing practice the company provides depreciation @ 20% p.a. on original cost. However, from the year 2023 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2020 to 2023. **(10 Marks)**

(10 +10 = 20 Marks)

3. (a) The details of Assets and Liabilities of Mr. Jalaj as on 31-3-2022 and 31-3-2023 are as follows:

| Particulars | 31-3-2023 (₹) | 31-3-2024 (₹) |
|---------------------|------------------|------------------|
| <u>Assets:</u> | | |
| Furniture | 62,500 | |
| Building | 1,25,000 | |
| Stock | 1,25,000 | 3,12,500 |
| Sundry Debtors | 75,000 | 1,37,500 |
| Cash in hand | 14,000 | 16,500 |
| Cash at Bank | 75,000 | 93,750 |
| <u>Liabilities:</u> | | |
| Loans | 1,12,500 | 87,500 |
| Sundry Creditors | 62,500 | 1,00,000 |

Mr. Jalaj decided to provide depreciation on building by 2.5% and furniture by 10% for, the period ended on 31-3-2023. Mr. Jalaj purchased jewellery for ₹30,000 for his daughter in December 2022. He sold his car on 30-3-2023 and the amount of ₹50,000 is retained in the business.

You are required to :

- (i) Prepare statement of affairs as on 31-3-2023 & 31-3-2024.
(ii) Calculate the profit received by Mr. Jalaj during the year ended 31-3-2024. **(8 Marks)**
- (b) X, Y and Z are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2024 stood as:

| Liabilities | ₹ | | Assets | ₹ | |
|------------------|-----------------|------------------|------------------------------------|---------------|------------------|
| Capital Accounts | | | Building | | 10,00,000 |
| X | 8,00,000 | | Furniture | | 2,40,000 |
| Y | 4,20,000 | | Office equipments | | 2,80,000 |
| Z | <u>4,00,000</u> | 16,20,000 | Stock | | 2,50,000 |
| Sundry Creditors | | 3,70,000 | Sundry debtors | 3,00,000 | |
| General Reserves | | 3,60,000 | Less: Provision for Doubtful debts | <u>30,000</u> | 2,70,000 |
| | | | Joint life policy | | 1,60,000 |
| | | | Cash at Bank | | <u>1,50,000</u> |
| | | <u>23,50,000</u> | | | <u>23,50,000</u> |

Y retired on 1st April, 2024 subject to the following conditions:

- (i) Office Equipments revalued at ₹ 3,27,000.
- (ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,00,000 .
- (iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
- (iv) The surrender value of Joint Life Policy is ₹ 1,50,000
- (v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

| Year | ₹ |
|------|----------|
| 2020 | 90,000 |
| 2021 | 1,40,000 |
| 2022 | 1,20,000 |
| 2023 | 1,30,000 |

- (vi) Amount due to Y is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after Y's retirement. **(12 Marks)**

(8 + 12 = 20 Marks)

4. (a) P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2023 is as follows:

| Liabilities | | ₹ | Assets | | ₹ |
|------------------|----------|-----------------|---------------------|--|-----------------|
| Capital accounts | | | Plant and Machinery | | 1,08,000 |
| P | 1,20,000 | | Fixtures | | 24,000 |
| Q | 48,000 | | Stock | | 60,000 |
| R | 24,000 | 1,92,000 | Sundry debtors | | 48,000 |
| Reserve Fund | | 60,000 | Cash | | 60,000 |
| Creditors | | <u>48,000</u> | | | |
| | | <u>3,00,000</u> | | | <u>3,00,000</u> |

They decided to dissolve the business. The following are the amounts realized:

| Particulars | ₹ |
|---------------------|----------|
| Plant and Machinery | 1,02,000 |
| Fixtures | 18,000 |
| Stock | 84,000 |
| Sundry debtors | 44,400 |

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken

over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

- (i) Realization Account.
- (ii) Partners Capital Accounts.
- (iii) Cash Account.

(8 Marks)

- (b) From the following balances and particulars of Navel College, prepare Income & Expenditure Account for the year ended March, 2024 and a Balance Sheet as on the date :

| Particulars | Amount (₹) | Amount (₹) |
|--|---------------|---------------|
| Security Deposit - Students | - | 1,55,000 |
| Capital Fund | - | 13,08,000 |
| Building Fund | | 19,10,000 |
| Tuition Fee Received | | 8,10,000 |
| Government Grants | | 5,01,000 |
| Interest & Dividends on Investments | - | 1,75,000 |
| Hostel Room Rent | - | 1,65,000 |
| Mess Receipts (Net) | | 2,05,000 |
| College Stores - Sales | - | 7,60,000 |
| Outstanding expenses | - | 2,35,000 |
| Stock of Stores and Supplies (opening) | 3,10,000 | - |
| Purchases - Stores & Supplies | 8,20,000 | - |
| Salaries - Teaching | 8,75,000 | - |
| Salaries - Research | 1,25,000 | - |
| Scholarships | 85,000 | - |
| Students Welfare expenses | 37,000 | - |
| Games & Sports expenses | 52,000 | - |
| Other investments | 12,75,000 | - |
| Land | 1,50,000 | - |
| Building | 15,50,000 | - |
| Plant and Machinery | 8,50,000 | - |
| Furniture and Fittings | 5,40,000 | - |
| Motor Vehicle | 2,40,000 | - |
| Provision for Depreciation : | | - |
| Building | - | 4,90,000 |
| Plant & Equipment | - | 5,05,000 |
| Furniture & Fittings | - | 3,26,000 |

| | | |
|--------------|-----------|-----------|
| Cash at Bank | 3,16,000 | - |
| Library | 3,20,000 | |
| | 75,45,000 | 75,45,000 |

Adjustments :

(a) Materials & Supplies consumed (From college stores):

| | |
|--------------------|------------|
| Teaching | ₹ 52,000 |
| Research - | ₹ 1,45,000 |
| Students Welfare - | ₹ 78,000 |
| Games or Sports - | ₹ 24,000 |

(b) Stores selling prices are fixed to give a net profit of 15% on selling price:

(c) Depreciation is provided on straight line basis at the following rates:

| | |
|----------------------|-----|
| Building | 5% |
| Plant & Machinery | 10% |
| Furniture & Fittings | 10% |
| Motor Vehicle | 20% |

(12 Marks)

(8 + 12 = 20 Marks)

5. (a) M/s. Mangrove Arts were unable to agree the Trial Balance as on 31st March, 2024 and have raised a suspense account for the difference. Next year the following errors were discovered:

- Repairs made during the year were wrongly debited to the building A/c - ₹ 52,500.
- The addition of the 'Freight' column in the purchase journal was short by ₹ 9,000.
- Goods to the value of ₹ 6,150 returned by a customer, Leena., had been posted to the debit of Leena. and also to sales returns.
- Sundry items of furniture sold for ₹ 1,80,000 had been entered in the sales book, the total of which had been posted to sales account.
- A bill of exchange (received from Lucky & Co.) for ₹ 45,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

(5 Marks)

(b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

- Following information is provided for M/s. Vikram traders for the year ended 31st March, 2024:

| | ₹ |
|-------------------|-----------|
| Opening Inventory | 3,00,000 |
| Purchases | 20,16,000 |
| Carriage Inwards | 90,000 |
| Wages | 1,50,000 |
| Sales | 33,00,000 |
| Returns inward | 3,00,000 |
| Returns outward | 2,16,000 |
| Closing Inventory | 6,00,000 |

You are required to pass necessary closing entries in the journal proper of M/s. Vikram traders.

OR

- (ii) Mr. Mandeep runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2024.

| | | | ₹ |
|-----------------|-------------------------------------|--|-----------|
| W.I.P. | - Opening | | 3,90,000 |
| | - Closing | | 5,07,000 |
| Raw Materials | - Purchases | | 12,10,000 |
| | - Opening | | 3,02,000 |
| | - Closing | | 3,10,000 |
| | - Returned | | 18,000 |
| Wages | - Indirect material | | 16,000 |
| | - direct | | 2,10,000 |
| | - indirect | | 48,000 |
| Direct expenses | - Royalty on production | | 1,30,000 |
| | - Repairs and maintenance | | 2,30,000 |
| | - Depreciation on factory shed | | 40,000 |
| | - Depreciation on plant & machinery | | 60,000 |
| | - By-product at selling price | | 20,000 |

You are required to prepare Manufacturing Account of Mr. Mandeep for the year ended on 31.3.2024 **(5 Marks)**

- (c) Following notes pertain to the Balance Sheet of Verma Ltd. as at 31st March, 2023

| | ₹ |
|--|------------------|
| Share capital: | |
| Authorised capital: | |
| 30,000 12% Preference shares of ₹ 10 each | 3,00,000 |
| 3,00,000 Equity shares of ₹ 10 each | <u>30,00,000</u> |
| | 33,00,000 |
| Issued and Subscribed capital: | |
| 24,000 12% Preference shares of ₹ 10 each fully paid | 2,40,000 |
| 2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up | 21,60,000 |
| Reserves and surplus: | |
| General Reserve | 3,60,000 |
| Capital Redemption Reserve | 1,20,000 |
| Securities premium (collected in cash) | 75,000 |
| Profit and Loss Account | 6,00,000 |

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Preference dividend for the year 2022-2023 has already been paid by the entity.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) Woodland Mills Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:
- | | |
|-------------------------------|---------------|
| (i) On Application | ₹ 1 per share |
| (ii) On Allotment | ₹ 2 per share |
| (iii) On First call | ₹ 3 per share |
| (iv) On Second and final Call | ₹ 4 per share |

The issue was fully subscribed. Amar to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Kabir to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Dilip to whom 50 shares were allotted failed to pay the second and final call.

His shares were also forfeited. All the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Woodland Mills Ltd.

(15 Marks)

- (b) (i) What are the rules of posting of journal entries into the Ledger?
(ii) Explain any 2 differences between Bill of Exchange and Promissory Notes.

(5 Marks)

(15 + 5 = 20 Marks)

MODEL TEST PAPER 3
FOUNDATION COURSE
PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- i. Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.
 - ii. In the balance sheet of Angel Limited, preliminary expenses amounting to ₹ 15 lakhs and securities premium account of ₹ 105 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
 - iii. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - iv. In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.
 - v. The debit notes issued are used to prepare Sales Return Book.
 - vi. Debenture holders enjoy the voting rights in the company.

(6 Statements x 2 Marks = 12 Marks)

- (b) Change in accounting policy may have a material effect on the items of financial statements.” Explain the statement with the help of an example.

(4 Marks)

- (c) A Plant & Machinery costing ₹ 80,00,000 is depreciated on straight line basis assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 3,20,000. The remaining useful life was reassessed at 8 years. Calculate Depreciation for the fifth year.

(4 Marks)

(12 + 4 + 4 = 20 Marks)

2. (a) M/s Manas, Profit and loss account showed a net profit of ₹ 32,00,000, after considering the closing stock of ₹ 30,00,000 on 31st March, 2024. Subsequently the following information was obtained from scrutiny of the books:
- (i) Purchases for the year included ₹ 1,20,000 paid for new electric fittings for the shop.

- (ii) M/s Manas gave away goods valued at ₹ 3,20,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to ₹ 20,00,000 have been entered on 25th March, 2024, but the goods were not included in stock.
- (iv) In March, 2024 goods of ₹ 16,00,000 sold and delivered were taken in the sales for April, 2024.
- (v) Goods costing ₹ 6,00,000 were sent on sale or return in March, 2024 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2024 these were taken as sales for March, 2024.

You are required to determine the adjusted net profit for the year ended on 31.3.2024 and calculate the value of stock on 31st March, 2024.

(10 Marks)

- (b) On 30th September, 2023, the bank account of Akhil, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 16,248. On the same date the bank statement showed a credit balance of ₹ 83,032 in favour of Akhil. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 52,56,000 deposited on 29th September, 2023 was credited by the bank only on 3rd October, 2023
2. A payment by cheque for ₹ 64,000 has been entered twice in the Cash Book.
3. On 29th September, 2023, the bank credited an amount of ₹ 4,69,600 received from a customer of Akhil, but the advice was not received by Akhil until 1st October, 2023.
4. Bank charges amounting to ₹ 2,320 had not been entered in the Cash Book.
5. On 6th September, 2023, the bank credited ₹ 80,000 to Akhil in error.
6. A bill of exchange for ₹ 5,60,000 was discounted by Akhil with his bank. This bill was dishonoured on 28th September, 2023 but no entry had been made in the books of Akhil.
7. Cheques issued upto 30th September, 2023 but not presented for payment upto that date totalled ₹ 53,04,000.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of Akhil, to arrive at the correct balance on 30th September, 2023 and
- (b) to prepare a bank reconciliation statement as on that date.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Praveen related to financial year 2023-24. There are certain figures missing in these accounts.

Raw Material A/c

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|----------------------|---------------|---------------------------|---------------|
| To Opening Stock A/c | 1,27,000 | By Raw Materials Consumed | |
| To Creditors A/c | - | By Closing Stock | - |

Creditors A/c

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|----------------|---------------|----------------|---------------|
| To Bank A/c | 23,50,000 | By Balance b/d | 15,70,000 |
| To Balance c/d | 6,60,000 | | - |

Manufacturing A/c

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---------------------|---------------|----------------|---------------|
| To Raw Material A/c | - | By Trading A/c | 17,44,000 |
| To Wages | 3,65,000 | | |
| To Depreciation | 2,15,000 | | |
| to Direct Expenses | 2,49,000 | | |

Additional Information:

- (i) Purchase of machinery worth ₹ 12,00,000 on 1st April; 2023 has been omitted, Machinery is chargeable at a depreciation rate of 15%.
- (ii) Wages include the following:

| | |
|--------------------------|--------------|
| Paid to factory workers | - ₹ 3,15,000 |
| Paid to labour at office | - ₹ 50,000 |
- (iii) Direct expenses included the following :

| | |
|----------------------------------|------------|
| Electricity charges | - ₹ 80,000 |
| of which 25% pertained to office | |
| Fuel charges | - ₹ 25,000 |
| Freight inwards | - ₹ 32,000 |
| Delivery charges to customers | - ₹ 22,000 |

You are required to prepare revised Manufacturing A/c and Raw Material A/c. **(10 Marks)**

- (b) Ram Lakhan and Bharat are partners in a firm. On 1st April 2022 their fixed capital stood at ₹ 1,50,000, ₹ 75,000 and ₹ 75,000 respectively.

As per the provision of partnership deed:

- (1) Bharat was entitled for a salary of 15,000 p.a.
- (2) All the partners were entitled to interest on capital at 5% p.a.
- (3) Profits and losses were to be shared in the ratio of Capitals of the partners.

Net Profit for the year ended 31st March, 2023 of ₹ 99,000 and 31st March, 2024 of ₹ 1,35,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors. **(5 Marks)**

- (c) The profits and losses for the previous years are: 2020 Profit ₹ 10,000, 2021 Loss ₹ 17,000, 2022 Profit ₹ 50,000, 2023 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. **(5 Marks)**

(10 + 5 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Alpha and Associates consisted of two partners X and Y who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

| Liabilities | ₹ | Assets | ₹ |
|-------------------|----------|-------------------|----------|
| X's Capital | 4,10,000 | Land & Building | 3,80,000 |
| Y's Capital | 3,30,000 | Plant & Machinery | 1,70,000 |
| Profit & Loss A/c | 1,12,000 | Furniture | 1,09,480 |
| Trade Creditors | 54,800 | Stock | 1,45,260 |
| | | Sundry debtors | 60,000 |
| | | Cash at Bank. | 42,060 |
| | 9,06,800 | | 9,06,800 |

On the above date, Z was admitted as a partner on the following terms:

- (a) Z should get 1/5th of share of profits.
- (b) Z brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- (c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.

- (d) Immediately after Z's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of

old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of Z.

(10 Marks)

- (b) Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

| Assets and Liabilities | As on 1.4.2023 | As on 31.3.2024 |
|------------------------|----------------|-----------------|
| Cash in Hand | 10,000 | 10,000 |
| Sundry Creditors | 40,000 | 90,000 |
| Cash at Bank | 50,000 (Cr.) | 80,000 (Dr.) |
| Sundry Debtors | 1,00,000 | 3,50,000 |
| Stock in Trade | 2,80,000 | ? |

Analysis of his bank pass book reveals the following information:

- Payment to creditors ₹ 7,00,000
- Payment for business expenses ₹ 1,20,000
- Receipts from debtors ₹ 7,50,000
- Loan from Laxman ₹ 1,00,000 taken on 1.10.2023 at 10% per annum
- Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales.

Prepare:

- Trading and Profit and Loss Account for the year ended 31.3.2024.
- Balance Sheet as at 31st March, 2024. **(10 Marks)**

(10 + 10 = 20 Marks)

5. (a) M/s. VB wires were unable to agree the Trial Balance as on 31st March, 2024 and have raised a suspense account for the difference. Next year the following errors were discovered:
- Repairs made during the year were wrongly debited to the building A/c - ₹ 37,500.

- (ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 4,500.
- (iii) Goods to the value of ₹ 3,150 returned by a customer, Seven & Co., had been posted to the debit of Seven & Co. and also to sales returns.
- (iv) Sundry items of furniture sold for ₹ 90,000 had been entered in the sales book, the total of which had been posted to sales account.
- (v) A bill of exchange (received from Comfort & Co.) for ₹ 60,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

(5 Marks)

- (b) From the following information supplied by Fazilka Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2024.

| | 01.04.2023 ₹ | 31.03.2024 ₹ |
|--------------------------|-----------------|-----------------|
| Outstanding subscription | 70,000 | 1,00,000 |
| Advance subscription | 12,500 | 15,000 |
| Outstanding salaries | 7,500 | 9,000 |
| Cash in Hand and at Bank | 55,000 | ? |
| 10% Investment | 70,000 | 35,000 |
| Furniture | 14,000 | 7,000 |
| Machinery | 5,000 | 10,000 |
| Sports goods | 7,500 | 12,500 |

Subscription for the year amount to ₹ 1,50,000/-. Salaries paid ₹ 30,000. Face value of the Investment was ₹ 87,500, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 7,000. Furniture was sold for ₹ 4000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses: ₹ 25,000

Rent: ₹ 12,000 out of which ₹ 1,000 outstanding

Misc. Expenses: ₹ 2,500

(15 Marks)

(5+15 = 20 Marks)

6. (a) Amar Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on

first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. **(15 Marks)**

- (b) Write short notes on any two of the following:
- (i) Bill of exchange and the various parties to it.
 - (ii) Retirement of bills of exchange.

OR

Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(5 Marks)**

(15 + 5 = 20 Marks)

MODEL TEST PAPER 4
FOUNDATION COURSE
PAPER 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- i. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.
 - ii. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - iii. The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - iv. Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.
 - v. Nominal Accounts are kept under Single Entry System.
 - vi. A person holding preference shares of a company cannot hold equity shares of the same company.

(6 Statements x 2 Marks = 12 Marks)

- (b) Differentiate between provision and contingent liability. **(4 Marks)**

- (c) Give journal entries to rectify the following errors located in the books of a trader after preparing the trial balance:

- (i) An amount of ₹ 13,500 received on account of interest was credited to commission account.
- (ii) A sale of ₹ 5,920 was posted from sales book to the debit of M/s Kamal traders at ₹ 5,290.
- (iii) ₹ 44,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.
- (iv) Goods returned by customer for ₹ 20,000. The same have been taken into stock but no entry passed in the books of accounts.

(4 Marks)

2. (a) A Firm purchased an old Machinery for ₹ 37,000 on 1st January, 2020 and spent ₹ 3,000 on its overhauling. On 1st July 2021, another machine was purchased for ₹ 10,000. On 1st July 2022, the machinery which was

purchased on 1st January 2020, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2023, the machine which was purchased on 1st July, 2021 was sold for ₹ 2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2021 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2020.

(10 Marks)

- (b) Ram Setu Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:
- (i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 7,20,000.
 - (ii) On 31st December, stock sheet showed the following discrepancies:
 - (a) A page total of ₹ 45,000 had been carried to summary sheet as ₹ 54,000.
 - (b) The total of a page had been undercast by ₹ 1,800.
 - (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 6,30,000. Out of this ₹ 27,000 related to goods received prior to 31st December, 2023. Invoices entered in April, 2024 relating to goods received in March, 2024 totalled ₹ 36,000.
 - (iv) Sales invoiced to customers totalled ₹ 8,10,000 from January to March, 2024. Of this ₹ 45,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 36,000.
 - (v) During the final quarter, credit notes at invoiced value of ₹ 9,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2024.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) Dr. Gulleria started private practice on 1st April, 2023 with ₹ 2,00,000 of his own fund and ₹ 3,00,000 borrowed at an interest of 12 p.a. on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

| Receipts | ₹ | Payments | ₹ |
|-------------------|-----------|--|-----------|
| Own Capital | 2,00,000 | Medicines Purchased | 2,45,000 |
| Loan | 3,00,000 | Surgical Equipment | 2,50,000 |
| Prescription Fees | 6,60,000 | Motor Car | 3,20,000 |
| Visiting Fees | 2,50,000 | Motor Car Expenses | 1,20,000 |
| Lecture Fees | 24,000 | Wages and Salaries | 1,05,000 |
| Pension Received | 3,00,000 | Rent of Clinic | 60,000 |
| | | General Charges | 49,000 |
| | | Household Expenses | 1,80,000 |
| | | Household Furniture | 25,000 |
| | | Expenses on Daughter's college admission | 2,15,000 |
| | | Interest on Loan | 36,000 |
| | | Balance at Bank | 1,10,000 |
| | | Cash in Hand | 19,000 |
| | 17,34,000 | | 17,34,000 |

1/3rd of the motor car expenses may be treated as applicable to the private use of car and ₹ 30,000 of salaries are in respect of domestic servants. The stock of medicines in hand on 31st March, 2024 was valued at ₹ 95,000.

You are required to prepare his private practice income and expenditure account and capital account for the year ended 31st March, 2024. Ignore depreciation on fixed assets. **(8 Marks)**

- (b) P Q and R are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2024 stood as:

| Liabilities | ₹ | | Assets | ₹ | |
|------------------|-----------------|------------------|------------------------------------|---------------|------------------|
| Capital Accounts | | | Building | | 10,00,000 |
| P | 8,00,000 | | Furniture | | 2,40,000 |
| Q | 4,20,000 | | Office equipments | | 2,80,000 |
| R | <u>4,00,000</u> | 16,20,000 | Stock | | 2,50,000 |
| Sundry Creditors | | 3,70,000 | Sundry debtors | 3,00,000 | |
| General Reserves | | 3,60,000 | Less: Provision for Doubtful debts | <u>30,000</u> | 2,70,000 |
| | | | Cash at Bank | | <u>3,10,000</u> |
| | | <u>23,50,000</u> | | | <u>23,50,000</u> |

Q retired on 1st April, 2024 subject to the following conditions:

- (i) Office Equipments revalued at ₹ 3,27,000.
- (ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to Rs,2,20,000.
- (iii) Provision for doubtful debts is to be created @ 5% on debtors.
- (iv) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

| Year | ₹ |
|------|----------|
| 2020 | 90,000 |
| 2021 | 1,40,000 |
| 2022 | 1,20,000 |
| 2023 | 1,30,000 |

- (v) Amount due to Q is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after Q's retirement. **(12 Marks)**

(8 + 12= 20 Marks)

4. (a) The following is the Balance Sheet of A, B, C on 31st December, 2023 when they decided to dissolve the partnership:

| Liabilities | ₹ | Assets | ₹ |
|-------------------|--------|---------------|--------|
| Creditors | 3,000 | Sundry Assets | 72,750 |
| A's Loan | 7,500 | Cash | 750 |
| Capital Accounts: | | | |
| A | 22,500 | | |
| B | 27,000 | | |
| C | 13,500 | | |
| | 73,500 | | 73,500 |

The assets realized the following sums in installments:

| Inst. | ₹ |
|-------|--------|
| I | 1,500 |
| II | 4,500 |
| III | 5,850 |
| IV | 9,000 |
| V | 30,150 |
| | 51,000 |

The expenses of realization were expected to be ₹750 but ultimately amounted to ₹600 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1. **(8 Marks)**

- (b) The following are the balances as at 31st March, 2024 extracted from the books of Mr. Chauhan.

| Particulars | ₹ | Particulars | ₹ |
|-----------------------------------|----------|-------------------------|----------|
| Plant and Machinery | 39,100 | Bad debts recovered | 900 |
| Furniture and Fittings | 20,500 | Salaries | 45,100 |
| Bank Overdraft | 1,60,000 | Salaries payable | 4,900 |
| Capital Account | 1,30,000 | Prepaid rent | 600 |
| Drawings | 16,000 | Rent | 8,600 |
| Purchases | 3,20,000 | Carriage inward | 2,250 |
| Opening Stock | 64,500 | Carriage outward | 2,700 |
| Wages | 24,330 | Sales | 4,30,600 |
| Provision for doubtful debts | 6,400 | Advertisement Expenses | 6,700 |
| Provision for Discount on debtors | 2,750 | Printing and Stationery | 2,500 |
| Sundry Debtors | 2,40,000 | Cash in hand | 2,900 |
| Sundry Creditors | 95,000 | Cash at bank | 6,250 |
| Bad debts | 2,200 | Office Expenses | 20,320 |
| | | Interest paid on loan | 6,000 |

Additional Information:

- Purchases include sales return of ₹ 5,150 and sales include purchases return of ₹ 3,450.
- Free samples distributed for publicity costing ₹ 1,650.
- Wages paid in the month of April for installation of plant and machinery amounting to ₹ 900 were included in wages account.
- Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
- Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
- Closing stock as on 31st March, 2024 is ₹ 2,50,000.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2024, and a Balance Sheet as on that date. **(12 Marks)**

(8+12= 20 Marks)

- (a) Bharat owed ₹ 50,000 to Katen. On 1st October, 2023, Bharat accepted a bill drawn by Katen for the amount at 3 months. Katen got the bill discounted with his bank for ₹ 49,500 on 3rd October, 2023. Before the due date, Bharat approached Katen for renewal of the bill. Katen agreed on the conditions that ₹25,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the

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

Pass journal entries in the books of Katen. **(5 Marks)**

(b) Attempt any ONE out of the two sub parts i.e. either (i) or (ii).

(i) Ms. Manisha is engaged in business of selling magazines. Several of her customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2024 has been given below:

On 1.4.2023 he had a balance of ₹ 6,00,000 advance from customers of which ₹ 4,50,000 is related to year 2023-24 while remaining pertains to year 2024-25. During the year 2023-24 she made cash sales of ₹ 15,00,000. You are required to compute:

- (i) Total income for the year 2023-24.
- (ii) Total money received during the year if the closing balance in Advance from customers Account is ₹ 5,10,000. **(5 Marks)**

OR

(ii) Samuel & Co. employs a team of 9 workers who were paid ₹ 1,20,000 per month each in the year ending 31st December, 2022. At the start of 2023, the company raised salaries by 10% to ₹ 1,32,000 per month each.

On 1 July, 2023 the company hired 2 trainees at salary of ₹ 63,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

- (i) Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2023.
- (ii) Amount actually paid as salaries during 2023.
- (iii) Outstanding salaries as on 31st December, 2023. **(5 Marks)**

(c) Following is the extract of the Balance Sheet of Puri Ltd. as at 31st March, 2024

| Authorised capital: | ₹ |
|--|------------------|
| 15,000 12% Preference shares of ₹ 10 each | 1,50,000 |
| 1,50,000 Equity shares of ₹ 10 each | <u>15,00,000</u> |
| | <u>16,50,000</u> |
| Issued and Subscribed capital: | |
| 12,000 12% Preference shares of ₹ 10 each fully paid | 1,20,000 |
| 1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up | 10,80,000 |

| | |
|--|----------|
| Reserves and surplus: | |
| General Reserve | 1,80,000 |
| Capital Reserve (profit realized on sale of plant) | 60,000 |
| Securities premium | 37,500 |
| Profit and Loss Account | 3,00,000 |

On 1st April, 2024, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2024. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2024 after bonus issue.

(10 Marks)

(5 + 5 + 10 = 20 Marks)

6. (a) Devis Ltd. invited applications for issuing 3,00,000 equity shares of ₹ 20 each.

The amounts were payable as follows:

| | |
|-------------------------|------------------|
| On application | - ₹ 6 per share |
| On allotment | - ₹ 10 per share |
| On first and final call | - ₹ 4 per share |

Applications were received for 4,50,000 shares and pro-rata allotment was made to all the applicants. Money overpaid on application was adjusted towards allotment money. X, who was allotted 9,000 shares, failed to pay the first and final call money. His shares were forfeited. Out of the forfeited shares, 7,500 shares were reissued as fully paid-up @ ₹ 16 per share.

Pass necessary Journal entries to record the above transactions in the books of Devis Ltd. **(10 Marks)**

- (b) On 1st April, 2023 Universe Ltd. issued 12% debentures of the face value of ₹ 40,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th September and 31st March every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the financial year 2023-24.

(5 Marks)

- (c) Prepare Bank Reconciliation Statement and Adjusted Cash Book from the following particulars as on 31st December, 2023:

| Particulars | ₹ |
|--|----------|
| Bank Balance as per Cash Book (Debit) | 1,98,000 |
| Bank Charges debited by the bank not recorded in Cash Book | 34,000 |
| Received from debtors vide RTGS on 31st December, 2023 not recorded in Cash Book | 1,00,000 |
| Cheque issued but not presented for payment | 45,000 |
| Cheque deposited but not cleared | 25,000 |
| Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book | 5,000 |
| Instruction for payment given to the bank on 31st December, 2023 but the same effected by the Bank on 01 st January, 2024 | 4,000 |

(5 Marks)

(10 +5+ 5= 20 Marks)

MODEL TEST PAPER 5
FOUNDATION COURSE
PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons, whether the following statements are true or false:
- 1 The balance in petty cash book represents an asset.
 - 2 Finished goods are normally valued at cost or market price whichever is higher.
 - 3 Subscriptions received for the current year shall be shown in the balance sheet as a current asset.
 - 4 When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with Calls in arrear of shares forfeited.
 - 5 Discount at the time of retirement of a bill is a gain for the drawee.
 - 6 Bills receivable and bills payable books are type of subsidiary books.
- (6 statements x 2 Marks = 12 Marks)**
- (b) What services can a Chartered Accountant provide to the society?
(4 Marks)
- (c) One of your clients Mr. X asked you to finalize his account for the year ended 31st March,2024. As a basis for audit, Mr. X furnished you with the following statement:

| | Dr. | Cr. |
|--------------------|-------|-------|
| X's Capital | | 4,668 |
| X's Drawings | 1,692 | |
| Leasehold Premises | 2,250 | |
| Sales | | 8,250 |
| Due from customers | | 1,590 |
| Purchases | 3,777 | |
| Purchase Return | 792 | |
| Loan from Bank | | 768 |
| Trade Expense | 2,100 | |
| Trade Payable | 1,584 | |
| Bills Payable | 300 | |

| | | |
|--------------------|--------|--------|
| Salaries and Wages | 1,800 | |
| Cash at Bank | 678 | |
| Opening Inventory | | 792 |
| Rent and Rates | 1,389 | |
| Sales Return | | 294 |
| | 16,362 | 16,362 |

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

(12 + 4 + 4 = 20 Marks)

2. (a) Mr. Manas 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. Manas charges 10% depreciation on scooter.
- (ii) Purchase account was over cast by ₹ 1,00,000.
- (iii) A credit purchase of goods from Mr. Sam 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. Paras 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) M/s Dheeraj, Profit and loss account showed a net profit of ₹ 8,00,000, after considering the closing stock of ₹ 7,50,000 on 31st March, 2024. Subsequently the following information was obtained from scrutiny of the books:

- (i) Purchases for the year included ₹ 30,000 paid for new electric fittings for the shop.
- (ii) M/s Dheeraj gave away goods valued at ₹ 80,000 as free samples for which no entry was made in the books of accounts.
- (iii) Invoices for goods amounting to ₹ 5,00,000 have been entered on 27th March, 2024, but the goods were not included in stock.

- (iv) In March, 2024 goods of ₹ 4,00,000 sold and delivered were taken in the sales for April, 2024.
- (v) Goods costing ₹ 1,50,000 were sent on sale or return in March, 2024 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2024 these were taken as sales for March, 2024.

You are required to determine the adjusted net profit for the year ended on 31.3.2024 and calculate the value of stock on 31st March, 2024.

(10 Marks)

(10 +10 = 20 Marks)

3. (a) The trial balance of Saurav as at 31st March, 2024 is as follows:

| Particulars | Dr. | Cr. |
|-----------------------------------|-----------|-----------|
| | ₹ | ₹ |
| Saurav's capital account | - | 1,91,725 |
| Stock 1 st April, 2023 | 1,17,000 | - |
| Sales | - | 9,74,000 |
| Returns inward | 21,500 | - |
| Purchases | 8,04,250 | - |
| Returns outward | - | 14,500 |
| Carriage inwards | 49,000 | - |
| Rent & taxes | 11,750 | - |
| Salaries & wages | 23,250 | - |
| Sundry debtors | 60,000 | - |
| Sundry creditors | - | 37,000 |
| Bank loan @ 14% p.a. | - | 50,000 |
| Bank interest | 2,750 | - |
| Printing and stationary expenses | 36,000 | - |
| Bank balance | 20,000 | - |
| Discount earned | - | 11,100 |
| Furniture & fittings | 12,500 | - |
| Discount allowed | 4,500 | - |
| General expenses | 28,625 | - |
| Insurance | 3,250 | - |
| Postage & telegram expenses | 5,825 | - |
| Cash balance | 950 | - |
| Travelling expenses | 2,175 | - |
| Drawings | 75,000 | - |
| | 12,78,325 | 12,78,325 |

The following adjustments are to be made:

- (1) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.
- (2) Personal purchases of Saurav amounting to ₹ 1,500 had been recorded in the purchases day book.
- (3) Depreciation on furniture & fittings @ 10% shall be written off.
- (4) Included amongst the debtors is ₹ 7,500 due from Sunder and included among the creditors ₹ 2,500 due to him.
- (5) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.
- (6) Credit purchase invoice amounting to ₹ 1,000 had been omitted from the books.
- (7) Stock on 31.03.2024 was ₹ 1,96,500.
- (8) Interest on bank loan shall be provided for the whole year.

You are required to prepare Trading & Profit and Loss Account for the year ended 31.03.2024. **(12 Marks)**

- (b) The following is the Balance Sheet of M/s. Vivek Bros as at 31st March, 2024, they share profit and losses equally:

Balance Sheet as at 31st March, 2024

| Liabilities | ₹ | Assets | ₹ |
|-----------------|--------|---------------------|--------|
| Capital | | Machinery | |
| Amit | 24,600 | Furniture | 30,000 |
| Puneet | 24,600 | Fixture | 16,800 |
| Sumit | 27,000 | Cash | 12,600 |
| General Reserve | 9,000 | Inventories | 9,000 |
| Trade payables | 14,100 | Trade receivables | 5,700 |
| | | 27,000 | |
| | | Less: Provision for | |
| | | Doubtful debts | 1,800 |
| | | | 25,200 |
| | 99,300 | | 99,300 |

Sumit died on 1st April, 2024 and the following agreement was to be put into effect.

- (a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.
- (b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.

- (c) ₹ 6,000 is to be paid to the executors of the dead partner on 5th April, 2023.
- (d) After death of Sumit, Amit and Puneet share profit equally.

You are required to prepare:

- (i) Journal Entry for Goodwill adjustment.
- (ii) Revaluation Account and Capital Accounts of the partners.

(8 Marks)

(12 + 8 = 20 Marks)

4. (a) 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 31.3.2024 was as follow:

| Liabilities | Amount ₹ | Assets | | Amount ₹ |
|-------------------|-----------------|-----------------|------------|-----------------|
| Sundry Creditors | 25,800 | Building | | 52,000 |
| Bill Payable | 8,200 | Furniture | | 11,600 |
| Bank Overdraft | 18,000 | Stock-in-Trade | | 42,800 |
| Capital Accounts: | | Debtors | 70,000 | |
| A 88,000 | | Less: Provision | <u>400</u> | 69,600 |
| B <u>72,000</u> | 1,60,000 | Investment | | 5,000 |
| | | Cash | | <u>31,000</u> |
| | <u>2,12,000</u> | | | <u>2,12,000</u> |

'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 ₹ 50,000.
- (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, they 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 ₹ 1,740 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 ₹ 3,120. The value of Buildings having appreciated be brought upto ₹ 58,400. The value of investment is increased by ₹ 900.
- (v) It is found that the creditors included a sum of ₹ 2,800, 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'.

(12 Marks)

- (b) The following information of M/s. Football Club are related for the year ended 31st March, 2024:

(1)

| Balances | As on 01-04-2023 (₹) | As on 31-3-2024 (₹) |
|----------------------------------|----------------------------|---------------------------|
| Stock of Sports Material | 4,50,000 | 6,75,000 |
| Amount due for Sports Material | 4,05,000 | 5,85,000 |
| Subscription due | 67,500 | 99,000 |
| Subscription received in advance | 54,000 | 31,500 |

(2) Subscription received during the year ₹ 22,50,000

(3) Payments for Sports Material during the year ₹ 13,50,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2024 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2024.

(8 Marks)

(12+8=20 Marks)

5. (a) On 31st March 2024, the Bank Pass Book of Swati showed a balance of ₹ 1,50,000 to her credit while balance as per cash book was ₹ 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

- She has issued cheques amounting to ₹ 80,000 out of which only ₹ 32,000 were presented for payment.
- She received a cheque of ₹ 5,000 which she recorded in her cash book but forgot to deposit in the bank.
- A cheque of ₹ 22,000 deposited by her has not been cleared yet.
- Mr. Gupta deposited an amount of ₹ 15,700 in her bank which has not been recorded by her in Cash Book yet.
- Bank has credited an interest of ₹ 1,500 while charging ₹ 250 as bank charges.

Prepare a bank reconciliation statement.

(5 Marks)

- (b) The Income Tax Officer, on assessing the income of Xavier for the financial years 2021-2022 and 2022-2023 feels that Xavier has not disclosed the full income. He gives you the following particulars of assets and liabilities of Xavier's on 1st April, 2021 and 1st April, 2023.

| | | | ₹ |
|----------|--------|----------------|--------|
| 1-4-2021 | Assets | : Cash in hand | 25,500 |
| | | Inventory | 56,000 |

| | | | |
|----------|---------------|---------------------------|----------|
| | | Sundry debtors | 41,500 |
| | | Land and Building | 1,90,000 |
| | | Wife's Jewellery | 75,000 |
| | Liabilities : | Owing to Xavier's Brother | 40,000 |
| | | Sundry creditors | 35,000 |
| 1-4-2023 | Assets : | Cash in hand | 16,000 |
| | | Inventory | 91,500 |
| | | Sundry debtors | 52,500 |
| | | Land and Building | 1,90,000 |
| | | Motor Car | 1,25,000 |
| | | Wife's Jewellery | 1,25,000 |
| | | Loan to Xavier's Brother | 20,000 |
| | Liabilities : | Sundry creditors | 55,000 |

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared incomes of the financial years were ₹ 1,05,000 for 2021-2022 and ₹ 1,33,000 for 2022-2023 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings. **(5 Marks)**

- (c) Safari Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2024:

| Particulars | ₹ |
|---|----------|
| Shareholder's Funds | |
| (a) Share Capital | |
| Authorized share capital: | |
| 45,000 equity shares of ₹ 10 each fully paid | 4,50,000 |
| Issued and subscribed share capital: | |
| 30,000 equity shares of ₹ 10 each fully paid | 3,00,000 |
| (b) Reserves and Surplus | |
| Profit & Loss Account | 1,62,000 |
| Debenture Redemption Reserve | 18,000 |
| Non-current liabilities | |
| (a) Long term borrowings | |
| 12% Debentures | 1,80,000 |
| Current Liabilities | |
| (a) Trade payables | 1,72,500 |
| Non-current assets | |
| (a) Property, Plant and Equipment (Freehold property) | 1,72,500 |
| (b) Non-current Investment: DRR Investment | 27,000 |

| Current assets | | |
|-----------------------|-------------------------|----------|
| (a) | Inventories | 2,02,500 |
| (b) | Trade receivables | 1,12,500 |
| (c) | Cash and bank balances: | |
| | Cash at bank | 2,73,000 |
| | Cash in hand | 45,000 |

At the Annual General Meeting on 1.4.2024, it was resolved:

- (a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.
- (c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions. **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

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)**

- (c) State the causes of difference between the balance shown by the pass book and the cash book.

OR

Which subsidiary books are normally used in a business? **(5 Marks)**

(15 + 5 = 20 Marks)

MODEL TEST PAPER 6
FOUNDATION COURSE
PAPER – 1: 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.

Time Allowed: 3 Hours

Maximum Marks: 100

1. (a) State with reasons, whether the following statements are true or false:
- (i) Wages paid for erection of machinery are debited to Profit and Loss Account.
 - (ii) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.
 - (iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - (iv) Promissory note is different from bill of exchange because the amount is paid by the maker in case of former and by the acceptor in the later.
 - (v) The business of partnership must be carried on by all the partners.
 - (vi) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

(6 Statements x 2 Marks = 12 Marks)

- (b) Explain Cash and Mercantile system of accounting? **(4 Marks)**
- (c) Calculate the missing amount for the following.

| | Assets | Liabilities | Capital | |
|-----|-------------|-------------|-----------|------------------|
| (a) | 45,00,000 | 7,50,000 | ? | |
| (b) | ? | 4,50,000 | 2,25,000 | |
| (c) | 43,50,000 | ? | 41,25,000 | |
| (d) | 1,71,00,000 | (8,40,000) | ? | (4 Marks) |

2. (a) Savin & Co. purchased a machine for ₹ 1,00,000 on 1.4.2021 Another machine costing ₹1,50,000 was purchased on 1.10.2022. On 31.3.2024 the machine purchased on 1.4.2021 was sold for ₹ 50,000. The company provides depreciation at 15% on Written Down Value Method. Prepare – (i) Machinery Account, (ii) Machinery Disposal Account and (iii) Provision for Depreciation Account. **(10 Marks)**
- (b) On 30th June. 2024, Cash Book of Ms. Suman (Bank Column of Account No. 1) shows a Bank Overdraft of ₹ 1,97,400. On going through the Bank Pass book for reconciling the Balance, she found the following:
- (a) Out of cheques drawn on 26th June, those for ₹ 14,800 were cashed by the bankers on 2nd July.
- (b) A crossed cheque for ₹ 3000 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st July.
- (c) Cash and cheques amounting to ₹ 13,600 were deposited in the Bank on 29th June, but cheques worth ₹ 5,200 were cleared by the Bank on 1st July., and one cheque for ₹ 1,000 was returned by them as dishonoured on the latter date.
- (d) According to Suman's standing instructions, the bankers have on 30th June, paid ₹ 1,280 as interest to her creditors, paid quarterly premium on her policy amounting to ₹ 640 and have paid a second call of ₹ 2,400 on shares held by her and lodged with the bankers for safe custody. They have also received ₹ 600 as dividend on her shares and recovered an Insurance Claim of ₹ 3,200, as their charges and commission charged on the above being ₹ 400. On receipt of information of the above transaction, she has passed necessary entries in her Cash Book on 1st July.
- (e) Bankers seem to have given a wrong credit for ₹ 2,000 paid in by her in No. 2 account and wrong debit in respect of a cheque for ₹ 1,200 drawn against her No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th June, 2024.

(10 Marks)

(10 + 10 = 20 Marks)

3. (a) The Receipts and Payments account of Gold Smith Club prepared on 31st March, 2024 is as follows:

Receipts and Payments Account

| Receipts | ₹ | Amount | Payments | Amount |
|---------------------------------------|----------|---------------|--|---------------|
| | | ₹ | | ₹ |
| To Balance b/d | | 9,000 | By Expenses (including Payment for sports material ₹ 54,000) | 1,26,000 |
| To Annual Income from Subscription | 91,800 | | | |

| | | | | |
|--|--------|-----------|---|-----------|
| Add: Outstanding of last year received this year | 3,600 | | By Loss on Sale of Furniture (cost price ₹ 9,000) | 3,600 |
| | 95,400 | | By Balance c/d | 18,09,000 |
| Less: Prepaid of last year | 1,800 | 93,600 | | |
| To Other fees | | 36,000 | | |
| To Donation for Building | | 18,00,000 | | |
| | | 19,38,600 | | 19,38,600 |

Additional information:

Gold Smith Club had balances as on 1.4.2023:

Furniture ₹ 36,000; Investment at 5% ₹ 5,40,000;

Sports material ₹ 1,33,200;

Balance as on 31.3.2024: Subscription Receivable ₹ 5,400;

Subscription received in advance ₹ 1,800;

Stock of sports material ₹ 36,000.

(15 Marks)

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, 2024 and Balance Sheet on that date.

- (b) P and Q were partners in a firm, sharing profit and losses in the ratio of 3: 2. They admit R for 1/6th share in profits and guaranteed that his share of profits will not be less than 50,00,000. Total profits of the firm for the year ended 31st March, 2024 were 1,80,00,000.

Calculate share of profit for each partner when:

- (i) Guarantee is given by firm
(ii) Guarantee is given by P and Q equally.

(5 Marks)

(15 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Thomas & Associates consisted of two partners Albert and Andrew who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

| Liabilities | ₹ | Assets | ₹ |
|-------------------|----------|-------------------|----------|
| Albert's Capital | 8,20,000 | Land & Building | 7,60,000 |
| Andrew's Capital | 6,60,000 | Plant & Machinery | 3,40,000 |
| Profit & Loss A/c | 2,24,000 | Furniture | 2,18,960 |
| Trade Creditors | 1,09,600 | Stock | 2,90,520 |

| | | | |
|--|-----------|----------------|-----------|
| | | Sundry debtors | 1,20,000 |
| | | Cash at Bank | 84,120 |
| | 18,13,600 | | 18,13,600 |

On the above date, David was admitted as a partner on the following terms:

- David should get $\frac{1}{5}$ th of share of profits.
- David brought ₹ 4,80,000 as his capital and ₹ 64,000 for his share of Goodwill.
- Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
- A provision for doubtful debts to be created at 5% on sundry debtors.
- An unrecorded liability of ₹ 12,000 for repairs to Buildings would be recorded in the books of accounts.
- Immediately after David's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, new profit sharing ratio and Balance Sheet of the Firm after the admission of David.

(15 Marks)

- Hari Om & Co. employs a team of 8 workers who were paid ₹ 1,20,000 per month each in the year ending 31st December, 2023. At the start of 2024, the company raised salaries by 10% to ₹ 1,32,000 per month each. On 1 July, 2024 the company hired 2 trainees at salary of ₹ 63,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate:

- Amount of salaries which would be charged to the profit and loss account for the year ended 31st December, 2024.
- Amount actually paid as salaries during 2024.
- Outstanding salaries as on 31st December, 2024 **(5 Marks)**

(15+5 =20 Marks)

5. (a) Mr. Prakash furnishes following information for his readymade garments business:

(i) Receipts and Payments during 2023-24:

| Receipts | Amount ₹ | Payments | Amount ₹ |
|---|-------------|-------------------------------|-------------|
| Bank Balance as on 1-4-2023 | 16,250 | Payment to Sundry creditors | 3,43,000 |
| Received from Sundry debtors | 4,81,000 | Salaries | 75,000 |
| Cash sales | 1,70,800 | General expenses | 22,500 |
| Capital brought in the business during the year | 50,000 | Rent and taxes | 11,800 |
| Interest on Investment received | 9,750 | Drawings | 96,000 |
| | | Cash purchases | 1,22,750 |
| | | Balance at bank on 31-03-2024 | 36,600 |
| | | Cash in hand on 31-03-2024 | 20,150 |
| | 7,27,800 | | 7,27,800 |

(ii) Particulars of other Assets and Liabilities are as follows:

| | 1 st April, 2023 | 31 st March, 2024 |
|----------------------|-----------------------------|------------------------------|
| | (₹) | (₹) |
| Machinery | 85,000 | 85,000 |
| Furniture | 24,500 | 24,500 |
| Trade Debtors | 1,55,000 | ? |
| Trade Creditors | 60,200 | ? |
| Inventory | 38,600 | 55,700 |
| 12% Investment | 85,000 | 85,000 |
| Outstanding Salaries | 12,000 | 14,000 |

(iii) Additional information:

- (1) 20% of total sales and 20% of total purchases are in cash.
- (2) Of the debtors, a sum of ₹ 7,200 should be written off as Bad debt and further a provision for doubtful debts is to be provided @2%.
- (3) Provide depreciation @10% p.a. on machinery and furniture

You are required to prepare Trading and Profit & Loss Account for the year ended 31st March, 2024, and Balance Sheet as on that date.

(10 Marks)

- (b) The following notes pertain to Snowberry Ltd.'s Balance Sheet as on 31st March, 2024:

| Notes | ₹ in Lakhs |
|---|---------------|
| (1) Share Capital | |
| Authorised : | |
| 20 crore shares of ₹ 10 each | <u>20,000</u> |
| Issued and Subscribed: | |
| 10 crore Equity Shares of ₹ 10 each | 10,000 |
| 2 crore 11% Cumulative Preference Shares of ₹ 10 each | 2,000 |
| Total | 12,000 |
| Called and paid up: | |
| 10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up | 8,000 |
| 2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up | 2,000 |
| Total | 10,000 |
| (2) Reserves and Surplus : | |
| Capital Reserve (profit on fixed assets realized in cash) | 485 |
| Capital Redemption Reserve | 1,000 |
| Securities Premium | 2,000 |
| General Reserve | 1,040 |
| Surplus i.e. credit balance of Profit & Loss Account | 273 |
| Total | 4,798 |

On 2nd April 2024, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2024.

On 1st June 2024, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided to utilize the capital reserves to the maximum possible extent.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares. **(10 Marks)**

(10+10 = 20 Marks)

6. (a) Give necessary journal entries for the forfeiture and re-issue of shares:
- (i) Gama Pvt. Ltd. forfeited 9,000 shares of ₹ 10 each fully called up, held by Varun for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Katen for ₹ 8 per share.

- (ii) Mr. Y, who was the holder of 10,000 preference shares of ₹ 100 each, on which ₹ 70 per share has been called up, could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 8,000 of such shares to Mr. Z at ₹ 60 per share paid-up as ₹ 70 per share.

(10 Marks)

- (b) Given below are the extracts of Balance Sheet of Shell Chemicals Limited as on 31st March, 2024:

| Particulars | Amount in ₹ |
|---|-------------|
| 9% Redeemable Preference Share Capital | 10,00,000 |
| Calls in arrears (Redeemable Preference Shares) | 20,000 |
| General Reserve | 7,00,000 |
| Securities Premium | 80,000 |

It is provided that:

- Preference Shares are of 100 each fully-called, due for immediate redemption.
- Calls-in-arrears are on account of final call on 1000 Preference shares held by four members whose whereabouts are not known.
- Balance of General Reserve and Securities Premium to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.
- The redemption of preference shares was duly carried out.

You are required to pass the necessary journal entries to give effect to the above redemption. **(5 Marks)**

- (c) Write short notes on:

- (i) Adjusted Selling Price method of determining cost of stock.
- (ii) Principal methods of ascertainment of cost of inventory.

Or

Classify the following expenditures as capital or revenue expenditure:

- (i) Amount spent on making a few more exits in a Cinema Hall to comply with Government orders.
- (ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.
- (iii) Amount spent to reduce working expenses.
- (iv) Amount paid for removal of stock to a new site.
- (v) Cost of repairs on second-hand car purchased to bring it into working condition.

(5 Marks)

(10 + 5 + 5 = 20 Marks)

MODEL TEST PAPER 7
FOUNDATION COURSE
PAPER 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- (i) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability.
 - (ii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - (iii) Stock at the end, if appears in the trial balance, is taken only to the Balance Sheet.
 - (iv) Re-issue of forfeited shares is allotment of shares but not a sale.
 - (v) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account.
 - (vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. **(6 Statements x 2 Marks = 12 Marks)**
- (b) Distinguish between Money Measurement concept and Matching concept. **(4 Marks)**
- (c) The following are the details of the spare parts of a Chemical Mill:
- | | | |
|-----------|------------------------|----------------------------|
| 1-1-2024 | Opening Inventory | Nil |
| 1-1-2024 | Purchases | 100 units @ ₹ 300 per unit |
| 15-1-2024 | Issued for consumption | 50 units |
| 1-2-2024 | Purchases | 200 units @ ₹ 400 per unit |
| 15-2-2024 | Issued for consumption | 100 units |
| 20-2-2024 | Issued for consumption | 100 units |
- Find out the value of Inventory as on 31.3.2024, if the company follows Weighted Average Method. **(4 Marks)**
- (12+4+4 =20 Marks)**

2. (a) Before preparation of the trial balance, the following errors were found in the books of Saraswat & Sons. Give the necessary entries to correct them.
- (i) Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.
 - (ii) An amount of ₹ 3,000 due from Satyam, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Satyam.
 - (iii) Minor Repairs made to the building amounting to ₹ 18,500 were debited to the Building Account
 - (iv) Goods purchased from Ram Singh amounting to ₹ 18,000 have remained unrecorded so far.
 - (v) College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.
 - (vi) Receipt of ₹ 4,500 from Kanika credited to the Anita.
 - (vii) Goods amounting to ₹ 8,900 had been returned by a customer and were taken into inventory, but no entry was made in the books.
 - (viii) ₹ 7,500 paid for wages to workmen for making office furniture had been charged to wages account.
 - (ix) Salary paid to a clerk ₹ 18,000 has been debited to his personal account.
 - (x) A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book. **(10 Marks)**
- (b) S Chand & Associates purchased a machine for ₹ 3,00,000 on 1.1.2021. Another machine costing ₹4,50,000 was purchased on 1.7.2022. On 31.12.2023 the machine purchased on 1.1.2021 was sold for ₹1,50,000. The company provides depreciation at 15% on Written Down Value Method. The company closes its accounts on 31st December every year. Prepare (i) Machinery Account, (ii) Machinery Disposal Account and (iii) Provision for Depreciation Account. **(10 Marks)**

(10 +10 = 20 Marks)

3. (a) P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2024:

| Liabilities | | Amount (₹) | Assets | Amount (₹) |
|------------------|-----------------|------------|----------------------|------------|
| Capital Accounts | | | Land & building | 2,46,000 |
| P | 2,16,000 | 3,60,000 | Furniture & fixtures | 65,000 |
| Q | <u>1,44,000</u> | | Stock | 1,00,000 |
| | | | Debtors | 72,500 |

| | | | |
|------------------|----------|--------------------|----------|
| | | Cash in hand | 15,500 |
| Sundry creditors | 36,000 | Capital overdrawn: | |
| Mortgage loan | 1,10,000 | R 1,000 | |
| | | S <u>6,000</u> | 7,000 |
| | 5,06,000 | | 5,06,000 |

- (i) The assets were realized as under: ₹
- | | |
|----------------------|----------|
| Land & building | 2,30,000 |
| Furniture & fixtures | 42,000 |
| Stock | 72,000 |
| Debtors | 65,000 |
- (ii) Expenses of dissolution amounted to ₹ 7,800.
- (iii) Further creditors of ₹ 18,000 had to be met.
- (iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners Capital Accounts and Cash Account.

(12 Marks)

- (b) Mr. Dilip furnishes the following trial balance and some other information:

Trial Balance as on 31st March, 2024

| Particulars | ₹ | ₹ |
|--------------------------------------|-----------|-----------|
| Capital | | 19,50,000 |
| Purchases and Sales | 12,90,000 | 29,10,000 |
| Opening Inventory | 3,30,000 | |
| Freights Inward | 1,20,000 | |
| Salaries | 6,30,000 | |
| Administration Expenses | 4,50,000 | |
| Furniture | 10,50,000 | |
| Trade receivables and Trade payables | 6,30,000 | 5,70,000 |
| Returns | 60,000 | 36,000 |
| Discount allowed and Received | 57,000 | 27,000 |
| Bad Debts | 15,000 | |
| Investments in Government Securities | 3,00,000 | |
| Cash in Hand and Cash at Bank | 5,67,000 | |
| Input CGST | 30,000 | |
| Input SGST | 30,000 | |
| Output CGST | | 24,000 |
| Output SGST | | 24,000 |

| | | |
|-------------|-----------|-----------|
| Output IGST | | 18,000 |
| | 55,59,000 | 55,59,000 |

Additional information

(i) Inventory as on 31st march,2024 was ₹ 5,40,000.

(ii) Furniture is depreciated at 15% per annum.

Prepare Trading Account, Profit and Loss Account and Balance Sheet as on 31st March, 2024 of Mr. Dilip. **(8 Marks)**

(12+8 = 20 Marks)

4 (a) New State Society showed the following position on 31st March, 2023:

Balance Sheet as on 31st March, 2023

| Liabilities | ₹ | Assets | ₹ |
|------------------|------------------|--------------------------|------------------|
| Capital fund | 15,86,000 | Electrical fittings | 3,00,000 |
| Expenses payable | 14,000 | Furniture | 1,00,000 |
| | | Books | 8,00,000 |
| | | Investment in securities | 3,00,000 |
| | | Cash at bank | 50,000 |
| | | Cash in hand | <u>50,000</u> |
| | <u>16,00,000</u> | | <u>16,00,000</u> |

The receipts and payment account for the year ended on 31st March, 2024 is given below:

| | ₹ | | ₹ |
|--------------------------------|-----------------|------------------------------|-----------------|
| To Balance b/d | | By Electric charges | 14,400 |
| Cash at bank 50,000 | | By Postage and stationary | 10,000 |
| Cash in hand <u>50,000</u> | 1,00,000 | By Telephone charges | 10,000 |
| To Entrance fee | 60,000 | By Books purchased | 1,20,000 |
| To Membership subscription | 4,00,000 | By Outstanding expenses paid | 14,000 |
| To Sale proceeds of old papers | 3,000 | By Rent | 1,76,000 |
| To Hire of lecture hall | 40,000 | By Investment in securities | 80,000 |
| To Interest on securities | 16,000 | By Salaries | 1,32,000 |
| | | By Balance c/d | |
| | | Cash at bank | 40,000 |
| | | Cash in hand | <u>22,600</u> |
| | <u>6,19,000</u> | | <u>6,19,000</u> |

You are required to prepare Income and Expenditure account for the year ended 31st March, 2024 after making the following adjustments:

Membership subscription included ₹ 20,000 received in advance.

Provide for outstanding rent ₹ 8,000 and salaries ₹ 6,000.

Books to be depreciated @ 10% per annum including additions. The additions to the books were made on 01.04.2023. Electrical fittings and furniture are also to be depreciated @ 10% per annum.

60% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 15% p.a. including purchases made on 1.10.2023 for ₹ 80,000. **(8 Marks)**

- (b) The following is the Balance Sheet of M/s. Krishna Bros as at 31st March, 2024, they share profit and losses equally:

Balance Sheet as at 31st March, 2024

| Liabilities | | ₹ | Assets | | ₹ |
|-----------------|-------|--------|------------------------------------|--------------|--------|
| Capital | Amit | 24,600 | Machinery | | 30,000 |
| | Lalit | 24,600 | Furniture | | 16,800 |
| | Sumit | 27,000 | Fixture | | 12,600 |
| General Reserve | | 9,000 | Cash | | 9,000 |
| Trade payables | | 14,100 | Inventories | | 5,700 |
| | | | Trade receivables | 27,000 | |
| | | | Less: Provision for Doubtful debts | <u>1,800</u> | 25,200 |
| | | 99,300 | | | 99,300 |

Sumit died on 1st April, 2024 and the following agreement was to be put into effect.

- Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.
- Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.
- ₹ 6,000 is to be paid to the executors of the dead partner on 5th April, 2024.
- After death of Sumit, Amit and Lalit shares the profit equally.

You are required to prepare:

- Journal Entry for Goodwill adjustment.
- Revaluation Account, Capital Accounts of the partners and Balance Sheet after the death of Sumit. **(12 Marks)**

(8 +12 = 20 Marks)

5. (a) Ali draws a bill for ₹45,000 on Akbar on 15th April, 2024 for 3 months, which is returned by Akbar to Ali after accepting the same. Ali gets it discounted with the bank for ₹ 44,100 on 18th April, 2024 and remits one-third amount to Akbar. On the due date Ali fails to remit the amount due to Akbar, but he accepts bill of ₹ 52,500 for 3 months, which Akbar discounts for ₹51,300 and remits ₹ 8,475 to Ali.

Pass necessary Journal entries for the above transactions in the books of Ali. **(5 Marks)**

- (b) Varun does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare trading and profit and loss account for the year 2024:

| | 1.1.2024 | 31.12.2024 |
|--------------|----------|------------|
| | ₹ | ₹ |
| Stock | 50,000 | 62,500 |
| Fixed Assets | 7,500 | 9,000 |

Details of his bank transactions were as follows:

| | ₹ |
|---|--------|
| Sale of fixed assets (book value ₹ 2,500) | 1,750 |
| Expenses paid | 49,250 |
| Purchase of fixed assets | 5,000 |

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000. **(5 Marks)**

- (c) Following is the extract of the Balance Sheet of Substance Ltd. as at 31st March, 2024

| Authorised capital: | ₹ |
|--|------------------|
| 45,000 12% Preference shares of ₹ 10 each | 4,50,000 |
| 4,50,000 Equity shares of ₹ 10 each | <u>45,00,000</u> |
| | <u>49,50,000</u> |
| Issued and Subscribed capital: | |
| 36,000 12% Preference shares of ₹ 10 each fully paid | 3,60,000 |
| 4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up | 32,40,000 |
| Reserves and surplus: | |
| General Reserve | 5,40,000 |
| Capital Reserve (profit realized on sale of plant) | 1,80,000 |
| Securities premium | 1,12,500 |
| Profit and Loss Account | 9,00,000 |

On 1st April, 2024, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2024. Thereafter, the company decided to capitalize its reserves by way of

bonus at the rate of one share for every four shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet as on 30th April, 2024 after bonus issue.

(10 Marks)

(5+5+10=20 Marks)

6. (a) X Limited issued 2,00,000 Equity shares of, 10 each at a premium of 10%, payable ₹ 2 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. P who held 20,000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 2,000 shares and one another shareholder having 1,000 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. P. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. **(15 Marks)**
- (b) From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2024

| Particulars | Amount (₹) |
|---|------------|
| Bank balance as per Pass Book | 75,00,000 |
| Bills discounted dishonored not recorded in Cash Book | 37,50,000 |
| Cheque received entered twice in Cash Book | 75,000 |
| Bank charges entered twice in Cash Book | 15,000 |
| Insurance premium paid directly by Bank understanding instruction | 4,50,000 |
| Cheque issued but not presented to Bank for payment | 37,50,000 |
| Cheque received, but not sent to Bank | 84,00,000 |
| Cheque deposited in Bank, but no entry passed in the Cash Book | 37,50,000 |
| Credit side of the Bank column cast short | 15,000 |

OR

- (c) Explain in brief objective and advantages of setting Accounting Standards. **(5 Marks)**

(15 + 5 = 20 Marks)

MODEL TEST PAPER 8
FOUNDATION COURSE
PAPER 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- i. Depreciation cannot be provided in case of loss, in a financial year.
 - ii. At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
 - iii. Any amount spent for replacement of worn out part of a machine is capital expenditure.
 - iv. In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.
 - v. The debit notes issued are used to prepare Sales Return Book.
 - vi. Debentures Suspense Account appears on the liability side of the Balance Sheet of a Company.

(6 Statements x 2 Marks = 12 Marks)

- (b) Explain the objective of Accounting Standards in brief. **(4 Marks)**
- (c) One of your clients Mr. Govind asked you to finalize his account for the year ended 31st March,2024. As a basis for audit, Mr. Govind furnished you with the following statement:

| | Dr. | Cr. |
|--------------------|--------|--------|
| Govind 's Capital | | 14,004 |
| Govind 's Drawings | 5,076 | |
| Leasehold Premises | 6,750 | |
| Sales | | 24,750 |
| Due from customers | | 4,770 |
| Purchases | 11,331 | |
| Purchase Return | 2,376 | |
| Loan from Bank | | 2,304 |
| Trade Expense | 6,300 | |
| Trade Payable | 4,752 | |
| Bills Payable | 900 | |

| | | |
|--------------------|--------|--------|
| Salaries and Wages | 5,400 | |
| Cash at Bank | 2,034 | |
| Opening Inventory | | 2,376 |
| Rent and Rates | 4,167 | |
| Sales Return | | 882 |
| | 49,086 | 49,086 |

The closing inventory was ₹ 5,166. Mr. Govind claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any. **(4 Marks)**

(12 + 4 + 4 = 20 Marks)

2. (a) Sunshine Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2024 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2024 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2024 with the stock figure as on 31st December, 2023 and some other information is available to you:
- (i) The cost of stock on 31st December, 2023 as shown by the inventory sheet was ₹ 80,000.
 - (ii) On 31st December, stock sheet showed the following discrepancies:
 - (a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.
 - (b) The total of a page had been undercast by ₹ 200.
 - (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2024 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2023. Invoices entered in April 2024 relating to goods received in March, 2024 totalled ₹ 4,000.
 - (iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2024. Of this ₹ 5,000 related to goods dispatched before 31st December, 2023. Goods dispatched to customers before 31st March, 2024 but invoiced in April, 2024 totalled ₹ 4,000.
 - (v) During the final quarter, credit notes at invoiced value of ₹ 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2024. **(10 Marks)**

- (b) Prepare a Bank Reconciliation statement for Ramesh Traders as on 31st March, 2024.

The cash book of Ramesh Traders shows a debit balance of ₹ 8,24,400 at bank as on 31st March, 2024, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2024 the payment side of the Cash Book was under cast by ₹ 24,000/-
2. A cheque of ₹ 1,70,000 issued on 20th March, 2024 was not taken in the bank column.
3. On 22nd March, 2024 the debit balance of ₹ 37,000 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹ 84,000 issued in, the last week of March, 2024, cheques aggregating ₹ 57,000 were encashed in March, 2024.
5. Dividends of ₹ 70,000 collected by the Bank and Fire insurance premium of ₹ 40,000 paid by it were not recorded in the cash book.
6. One cheque issued to a creditor of ₹ 2,58,000 was recorded twice in the Cash book.
7. A debtor Mr. Sahid has deposited the Cheque for ₹ 64,000 into the bank directly in the month of March, 2024 without intimating to Ramesh Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹ 10,000 was deposited in bank on 28th March, 2024 but was dishonored and advice received from bank on 3rd April, 2024.
9. Bank paid credit card bill of ₹ 5,000 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 50,000 of other customer in our account.
11. Bank credited cheque of ₹ 4,000 in savings account of proprietor of Ramesh Traders instead of crediting cheque in current account of Ramesh Traders.
12. ₹ 1,000 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 400 on 25th March for which no intimation received till 31st March

(10 Marks)

(10 +10 = 20 Marks)

3. (a) Summary of Receipts and Payments of Natures Beauty Society for the year ended 31st March, 2024 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 | 01.04.2023 | 31.03.2024 |
|----------------------------------|------------|------------|
| 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, 2024.
- (ii) Balance Sheet as on 31st March, 2024. **(10 Marks)**
- (b) A, B and C shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2020 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:

| | |
|------|---------|
| 2020 | Nil |
| 2021 | ₹ 900 |
| 2022 | ₹ 2,000 |
| 2023 | ₹ 3,600 |

A retired on 15th April, 2024 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2020 to 2024 (assuming the Policy Account is maintained at surrendered value basis).

(5 Marks)

- (c) Mr. Nikhil gives the following particulars in respect of business carried on by him:

| Particulars | Amount (₹) |
|--|------------|
| Capital Invested in business | 9,00,000 |
| Market rate of interest on investment | 8% |
| Rate of risk return on capital invested in business | 3% |
| Remuneration per annum from alternative employment of proprietor if he was not engaged in business | 36,000 |

The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2020, 2021 and 2023 respectively but made a loss of ₹ 36,000 in the year 2022.

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

(5 Marks)

(10 + 5 + 5 = 20 Marks)

4. (a) The Balance Sheet of a Partnership Firm M/s Dutch and Associates consisted of two partners P and Q who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31st March, 2024 was as follows:

| Liabilities | ₹ | Assets | ₹ |
|-------------------|----------|-------------------|----------|
| P's Capital | 4,10,000 | Land & Building | 3,80,000 |
| Q's Capital | 3,30,000 | Plant & Machinery | 1,70,000 |
| Profit & Loss A/c | 1,12,000 | Furniture | 1,09,480 |
| Trade Creditors | 54,800 | Stock | 1,45,260 |
| | | Sundry debtors | 60,000 |
| | | Cash at Bank | 42,060 |
| | 9,06,800 | | 9,06,800 |

On the above date, R was admitted as a partner on the following terms:

- R should get 1/5th of share of profits.
- R brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
- A provision for doubtful debts to be created at 5% on sundry debtors.
- An unrecorded liability of ₹ 2,000 for repairs to Buildings would be recorded in the books of accounts and trade creditors are to be increased by ₹ 4,000.

- (f) Immediately after R's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare revaluation A/c, capital Accounts of the partners, new profit sharing ratio and Balance Sheet of the firm after the admission of R.

(10 Marks)

- (b) Sameer Distributors are carrying on the retail business of electrical goods. They keep their books of account under single entry system. The Balance Sheet as on 31st March, 2023 was as follows:

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|-----------------|------------|------------------------|------------|
| Capital A/c | 18,15,000 | Motor Vehicle | 3,30,000 |
| Trade Creditors | 2,25,600 | Furniture | 2,20,500 |
| Salary payable | 27,000 | Stock in trade | 5,12,400 |
| | | Trade Debtors | 4,36,200 |
| | | 6% Investments | 1,80,000 |
| | | Cash in hand & at Bank | 3,88,500 |
| | 20,67,600 | | 20,67,600 |

The summary of Cash and Bank Book for the year ended 31st March, 2024 was given as below:

| Receipts | Amount (₹) | Payments | Amount (₹) |
|---|-------------|--|-------------|
| Cash in hand & at Bank on 1 st April, 2023 | 3,88,500 | Cash Purchases | 28,45,200 |
| Cash Sales | 30,67,200 | Payment to Trade Creditors | 2,26,35,000 |
| Receipts from Trade Debtors | 2,56,56,000 | Salaries | 12,38,400 |
| Interest on investments | 10,800 | Rent & taxes | 7,54,800 |
| | | Sundry Expenses | 4,15,200 |
| | | Drawings | 7,20,000 |
| | | Cash in hand & at Bank on 31 st March, 2024 | 5,13,900 |
| | 2,91,22,500 | | 2,91,22,500 |

Additional Information:

- Gross Profit ratio of 12.5% on Sales is maintained throughout the year.
- During the year, discount allowed to Trade debtors was for ₹ 1,87,500 and discount received from Trade Creditors amounted to ₹ 1,05,000.
- As on 31st March, 2024. The closing balances to Trade Debtors and Trade Creditors were ₹ 6,61,500 and ₹ 3,16,800 respectively.

- (iv) On 31st March,2024 an amount of ₹ 44,400 was outstanding towards Salary.
- (v) Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March,2024 and Balance Sheet on at that date.

(10 Marks)

(10 + 10 = 20 Marks)

5. (a) M/s. Satya Paul steels were unable to agree the Trial Balance as on 31st March, 2024 and have raised a suspense account for the difference. Next year the following errors were discovered:
- (i) Repairs made during the year were wrongly debited to the building A/c - ₹ 37,500.
 - (ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 4,500.
 - (iii) Goods to the value of ₹ 3,250 returned by a customer Parth., had been posted to the debit of Parth and also to sales returns.
 - (iv) Sundry items of furniture sold for ₹ 50,000 had been entered in the sales book, the total of which had been posted to sales account.
 - (v) A bill of exchange (received from Comfort & Co.) for ₹ 60,000 had been returned by the bank as. dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes.

(5 Marks)

- (b) Mr. Sanjay runs a factory which produces tyres. The following details were obtained about his manufacturing expenses for the year ended 31st March 2024:

| | Amount (₹) |
|-----------------------------------|------------|
| Opening Work-in Progress | 18,75,000 |
| Closing Work in Progress | 21,45,000 |
| Opening Inventory of Raw material | 17,55,000 |
| Closing Inventory of Raw material | 14,10,000 |
| Purchases | 56,22,000 |
| Purchase Returns | 2,85,000 |
| Carriage Inward | 8,10,000 |
| Direct Wages | 11,91,000 |
| Power & Electricity | 5,28,000 |
| Repairs and Maintenance | 7,95,000 |
| Depreciation on Factory Shed | 4,32,000 |

| | |
|-----------------------------------|----------|
| Depreciation on Plant & Machinery | 4,86,000 |
| Sale of scrap | 1,08,000 |

You are required to prepare Manufacturing Account for the year ended 31st March, 2024. **(5 Marks)**

- (c) The books of Rishab Ltd. showed the following balance on 31st December, 2024:

60,000 Equity Shares of ₹ 10 each fully paid; 36,000 12% Redeemable Preference Shares of ₹ 10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2024).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 1,60,000; General Reserve ₹ 2,40,000; Securities Premium Account ₹ 30,000 and Capital Reserve ₹ 42,000.

For redemption, 6,000 equity shares of ₹10 each are issued at 10% premium. At the same time, 12% Preference shares are redeemed on 1st January, 2024 at a premium of ₹2 per share. The whereabouts of the holders of 200 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column) **(10 Marks)**

(5 + 5 + 10 = 20 Marks)

6. (a) Samuel Limited issued a prospectus inviting applications for 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

| | | |
|-------------------------|---|-----------------------------------|
| On Application | - | ₹ 3 per share |
| On Allotment | - | ₹ 5 per share (including premium) |
| On First and Final Call | - | ₹ 4 per share |

Applications were received for 3,60,000 equity shares. Applications for 80,000 shares were rejected and the money refunded. Shares allotted to remaining applications as follows:

| Category | No. of shares Applied | No. of shares Allotted |
|----------|-----------------------|------------------------|
| I | 1,60,000 | 80,000 |
| II | 1,20,000 | 40,000 |

Excess money received with applications was adjusted towards sums due on allotment and the balance amount returned to the applicants. All calls were made duly received except the final call by a shareholder belonging to Category I who has applied for 680 shares. His shares were

forfeited. The forfeited shares were reissued at ₹ 13 per share fully paid-up.

Pass necessary journal entries for the above transactions in the books of Samuel Ltd. Open call in arrears account whenever required.

(15 Marks)

(b) Write short notes on any two of the following:

- (i) Bill of exchange and the various parties to it.
- (ii) Retirement of bills of exchange.

OR

What are the salient features of Goods and Services Tax (GST)?

(5 Marks)

(15 + 5 = 20 Marks)

MODEL TEST PAPER 9
FOUNDATION COURSE
PAPER 1: 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons, whether the following statements are True or False:
- (i) If Closing Stock appears in the Trial Balance then it does not enter in Trading Account. It is shown only in the Balance Sheet.
 - (ii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle.
 - (iii) Accounting Standards can override the statute.
 - (iv) Promissory Note is different from Bill of Exchange because the amount is paid by maker in case of former and by the acceptor in the later.
 - (v) All errors are rectified by means of journal entries.
 - (vi) Revaluation Account is also known as Profit and Loss Adjustment Account. **(6 x 2 = 12 Marks)**
- (b) (i) Define accounting policy. What are the conditions under which a company can change its accounting policy?
- (ii) Explain the following:
- (1) Cash Basis of Accounting
 - (2) Going Concern concept **(2 x 2 = 4 Marks)**
- (c) Pass journal entries for the following transactions in the books of Mr. Kapil:
- (i) Purchased goods from Sonu for ₹ 1,50,000 at a trade discount of 10% plus CGST and SGST@ 6% each.
 - (ii) Sold goods to Mohit for ₹ 50,000 and charged CGST and SGST @ 5% each. Out of the amount due 40% is received by cheque immediately.
 - (iii) Goods costing ₹ 25,000 withdrawn for personal use. Such Goods were purchased by paying CGST and SGST @ 6% each.
 - (iv) Machinery purchased from M/s Bright Industries for ₹ 2,00,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months. **(4 x 1 = 4 Marks)**

2. (a) The Trial Balance of Mr. Sarvesh Kumar as on 31st March, 2024 did not tally and the difference was posted to Suspense Account. On a scrutiny of the books the following errors were detected:
- (i) The total of Sales Returns Book for January 2024 has been casted short by ₹ 1,000.
 - (ii) Freight paid for installation of a Machine ₹ 6,500 was posted to the Freight Account as ₹ 5,600.
 - (iii) Goods of the value of ₹ 2,500 returned by a customer were entered in the Sales day Book and posted therefrom to the credit of his account.
 - (iv) ₹ 18,000 paid for purchase of old Motorcycle for personal use of Mr. Sarvesh Kumar was debited to conveyance account.
 - (v) A purchase of ₹ 6,700 had been posted to creditor s account as ₹ 6,000.
 - (vi) Receipt of cash ₹ 5,000 from Mr. Avinash was posted to the debit of his account.
 - (vii) A cheque for ₹ 2,500 received form Mr. Alok had been dishonoured and was posted to the debit of Mr. Ashok.
 - (viii) Sale of ₹ 8,500 to Mr. Deepak was recorded in the sales book correctly but while posting in ledger credited to his account.
 - (ix) The total of Discount Allowed column in the cash for the month of December 2023 amounting to ₹ 3,800 was not posted.
 - (x) Sale of old office table for ₹ 2,200 treated as sale of goods.

You are required to pass necessary journal entries with narrations to rectify the above errors. **(12 Marks)**

- (b) On 1st April, 2022, LMP Co. which depreciates its machinery @10% p.a. on diminishing balance method, had ₹ 9,72,000 to the debit of Machinery Account. On 1st October, 2022, part of machinery purchased on 1st April, 2020 for ₹ 80,000 was sold for ₹ 45,000.

Also, a new machinery at a cost of ₹ 1,50,000 was purchased on 1st October, 2022 and installed on the same date and installation charges being ₹ 8,000.

The company changed the method of depreciation from diminishing balance method to straight line method on 1st April, 2022. The rate of depreciation remains the same.

Show the Machinery Account and ascertain the amount chargeable to Profit and Loss Account as depreciation in the year 2022-23.

(8 Marks)

3. (a) The Receipts and Payments Account of Vandana Sports Club for the year ended 31st March, 2024 are as follows:

Receipts and Payments Account

| Receipts | Amount (₹) | Payment | Amount (₹) |
|----------------------------|-----------------|----------------------------|---------------|
| To Balance b/d | | By Salaries | 1,55,000 |
| Cash in hand 5,200 | | By Rent & Electricity | 69,750 |
| Cash at Bank <u>35,500</u> | 40,700 | By Library Books | 10,500 |
| To Subscriptions | 2,95,000 | By Newspaper & Magazines | 16,600 |
| To Entrance fees | 50,000 | By Sports Equipment | 28,500 |
| To Miscellaneous | 19,850 | By Sundry Expenses | 71,050 |
| Income | | By Balance c/d | |
| To Interest on Investments | 8,000 | Cash in hand 8,750 | |
| | | Cash at Bank <u>53,400</u> | <u>62,150</u> |
| | <u>4,13,550</u> | | 4,13,550 |

Details of other assets and liabilities are furnished as follows:

| Particulars | 31 st March 2023 (₹) | 31 st March 2024 (₹) |
|----------------------------------|---------------------------------|---------------------------------|
| Salaries Outstanding | 10,200 | 12,400 |
| Outstanding Rent & Electricity | 6,500 | 7,600 |
| Investment (8% Govt. Bonds) | 1,00,000 | 1,00,000 |
| Interest Accrued on Bonds | 2,000 | 2,000 |
| Subscription receivable | 18,700 | 20,600 |
| Subscription received in advance | 7,000 | 8,400 |
| Furniture | 65,500 | |
| Sports Equipment | 41,500 | |
| Library Books | 22,000 | |

The closing values of furniture and sports equipment are to be determined after charging depreciation at 10% and 15% respectively inclusive of additions, if any during the year. The Club's library books are revalued at the end of every year and the value at the end of 31st March, 2024 was ₹ 30,000. 60% of the Entrance fee is to be capitalized.

You are required to prepare:

- (i) Income and Expenditure Account for the year ended 31st March, 2024
- (ii) Balance Sheet as on 31st March, 2024 **(12 Marks)**
- (b) P, Q and R were partners sharing profit & losses in the ratio of 3:2:1. They decided to dissolve the business as on 31st March, 2024 when their Balance Sheet was as follows:

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|--------------|------------|-----------------|------------|
| Capital A/c: | | Land & Building | 4,85,000 |

| | | | | |
|---------------------------|-----------------|-----------|---------------|-----------|
| P | 3,55,000 | | Machinery | 1,88,000 |
| Q | 2,20,000 | | Furniture | 1,05,000 |
| R | <u>1,25,000</u> | 7,00,000 | Stock | 55,800 |
| General Reserve | | 1,50,000 | Trade Debtors | 1,56,000 |
| Employees Provident Found | | 60,000 | Cash & Bank | 44,200 |
| Trade Creditors | | 1,24,000 | | |
| | | 10,34,000 | | 10,34,000 |

The following information is given to you:

- (i) There was an unrecorded investment which was sold for ₹ 30,000.
- (ii) One of the creditors agreed to take over some items of furniture of Book value ₹ 25,000 at ₹ 24,000. The rest of the creditors were paid at a discount of 5%.
- (iii) Out of the trade debtors ₹ 9,000 proved bad, remaining were fully realized.
- (iv) The other assets were realised as under:

| | |
|-----------------|---------------------------------------|
| Land & Building | ₹ 5,25,000 |
| Machinery | ₹ 1,70,000 |
| Furniture | Remaining taken over by P at ₹ 75,000 |
| Stock | ₹ 60,000 |

- (v) Expenses of dissolution amounted to ₹ 18,700.
- (vi) There was an outstanding bill for repairs which had to be paid for ₹ 3,500.

You are required to prepare:

- (1) Realisation A/c
- (2) Cash & Bank A/c
- (3) Partner s Capital A/c in the books of partnership firm. **(8 Marks)**

4. (a) Anu and Manu are carrying on business in partnership and sharing profits & losses in the ratio of 5:3. The firm s Balance Sheet as on 31st March, 2024 was as follows:

Balance Sheet as on 31st March,2024

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|-------------------------|------------|-------------------|------------|
| Capital Accounts: | | Building | 3,80,000 |
| Anu | 2,80,000 | Machinery | 1,43,000 |
| Manu | 2,50,000 | Furniture | 85,000 |
| Long Term Loan | 2,00,000 | Trade Receivables | 1,64,000 |
| Trade Payables | 1,19,500 | Inventories | 48,400 |
| Outstanding liabilities | 16,200 | Investments | 15,200 |
| | | Cash & Bank | 30,100 |
| | 8,65,700 | | 8,65,700 |

They decided to admit Ranu as a partner with effect from 1st April, 2024 on the following terms:

- (i) Ranu will be paid 1/5 share in the future profits and new profit sharing ratio would be 5:3:2.
- (ii) Ranu will bring ₹ 1,00,000 as his capital.
- (iii) Goodwill of firms is to be valued at 2 years purchase of average profit of past 3 years and Ranu will bring his share of goodwill in cash. The profits of past 3 years ending on 31st March were as under:

| | |
|-----------------------------|------------|
| 31 st March,2022 | ₹ 87,000 |
| 31 st March,2023 | ₹ 1,06,000 |
| 31 st March,2024 | ₹ 1,22,000 |

- (iv) It was also agreed that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.
- (v) It was also decided to value the assets:

Building is to be appreciated by ₹ 50,000 and Machinery is to be depreciated by 10%. Furniture is revalued at ₹ 80,000. Investments at ₹ 16,000 and Inventories at ₹ 47,500.

Provision for doubtful debts is to be created on debtors @ 5%.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of the reconstituted firm as on 1stApril, 2024. **(12 Marks)**

- (b) Harshit Traders are carrying on the retail business of electrical goods. They keep their books of account under single entry system. The Balance Sheet as on 31stMarch, 2023 was as follows:

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|-----------------|------------|------------------------|------------|
| Capital A/c | 6,05,000 | Motor Vehicle | 1,10,000 |
| Trade Creditors | 75,200 | Furniture | 73,500 |
| Salary payable | 9,000 | Stock in trade | 1,70,800 |
| | | Trade Debtors | 1,45,400 |
| | | 6% Investments | 60,000 |
| | | Cash in hand & at Bank | 1,29,500 |
| | 6,89,200 | | 6,89,200 |

The summary of Cash and Bank Book for the year ended 31st March, 2024 was given as below:

| Receipts | Amount (₹) | Payments | Amount (₹) |
|--|------------|---|------------|
| Cash in hand & at Bank on 1 st April,2023 | 1,29,500 | Cash Purchases | 9,48,400 |
| Cash Sales | 10,22,400 | Payment to Trade | |
| Receipts form Trade Debtors | 85,52,000 | Creditors | 75,45,000 |
| Interest on investments | 3,600 | Salaries | 4,12,800 |
| | | Rent & taxes | 2,51,600 |
| | | Sundry Expenses | 1,38,400 |
| | | Drawings | 2,40,000 |
| | | Cash in hand & at Bank on 31 st March,2024 | 1,71,300 |
| | 97,07,500 | | 97,07,500 |

Additional Information:

- (i) Gross Profit ratio of 12.5% on Sales is maintained throughout the year.
- (ii) During the year, discount allowed to Trade debtors was for ₹ 62,500 and discount received from Trade Creditors amounted to ₹ 35,000.
- (iii) As on 31st Mrch,2024. The closing balances to Trade Debtors and Trade Creditors were ₹2,20,500 and ₹ 1,05,600 respectively.
- (iv) On 31st March,2024 an amount of ₹ 14,800 was outstanding towards Salary.
- (v) Depreciation @ 10% p.a. to be charged on Motor Vehicle and Furniture.

You are required to prepare Trading and Profit & Loss account for the year ended 31st March,2024 and Balance Sheet as n that date.

(8 Marks)

5. (a) Manish closed his books of account on 31stMarch, each year. Inventory taking for the year ended 31st March, 2024 was completed by 10th April, 2024 on which date value of the stock available in godown was of ₹ 4,50,000 at cost.

Following are the details of transactions that took place between 31st March, 2024 and 10th April, 2024:

- (i) Goods sold to customers ₹ 1,10,000.
- (ii) Sales return ₹ 10,000.
- (iii) Purchases ₹ 85,000 (Including Cash Purchases ₹ 10,000).
- (iv) Purchases return amounted to ₹ 2,500.
- (v) Goods costing 15,000 received in March, for sale on consignment basis, out of which 60% of goods had been sold by 10th April. These sales are not included in above sales.

- (vi) After the stock was taken, it was found that there was certain very old slow- moving items costing ₹ 14,850, which should be taken at ₹ 9,500 to ensure disposal to an interested customer.

Goods are sold at a profit margin of 25% on cost. Ascertain the value of inventory for inclusion in the final accounts for the year ended 31st March, 2024. **(5 Marks)**

- (b) Attempt any ONE of the two sub-parts i.e. either (i) or (ii)

- (i) Mr. Prakash runs a factory which produces Pressure Cookers. The following details were obtained about his manufacturing expenses for the year ended 31st March 2024:

| | Amount (₹) |
|-----------------------------------|-------------------|
| Opening Work-in Progress | 6,25,000 |
| Closing Work in Progress | 7,15,000 |
| Opening Inventory of Raw material | 5,85,000 |
| Closing Inventory of Raw material | 4,70,000 |
| Purchases | 18,74,000 |
| Purchase Returns | 95,000 |
| Indirect Material | 1,88,000 |
| Direct Wages | 3,97,000 |
| Indirect Wages | 82,000 |
| Power & Electricity | 1,76,000 |
| Repairs and Maintenance | 2,65,000 |
| Depreciation on Factory Shed | 1,44,000 |
| Depreciation on Plant & Machinery | 1,62,000 |
| Sale of scrap | 36,000 |

You are required to prepare Manufacturing Account for the year ended 31st March, 2024. **(5 Marks)**

OR

- (ii) From the following particulars, prepare the Bank Reconciliation Statement of businessman as on 31st March, 2024:

| Sl. No. | Particulars | ₹ |
|----------------|--|----------|
| 1 | Bank Overdraft as per cash book | 24,000 |
| 2 | Cheque deposited as per bank statement but not recorded in cash book | 4,000 |
| 3 | Cash received from Exe was entered in bank column of cash book. | 3,150 |
| 4 | Debit side of the bank column casted short | 1,000 |

| | | |
|----|--|-------|
| 5 | A cheque for ₹ 9,000 deposited but collection as per bank statement | 8,950 |
| 6 | Bills sent to the bank for collection, collected by the bank but not recorded in cash book | 4,200 |
| 7 | Bank charges recorded twice in cash book | 40 |
| 8 | Noting charges debited in Pass-Book for discounted bill dishonoured | 60 |
| 9 | Cheques deposited on 25 th March, 2024 but collected by bank on 5 th April, 2024 | 4,800 |
| 10 | Cheques issued on 26 th March, 2024 but presented for encashment on 6 th April, 2024 | 3,000 |

(5 Marks)

- (c) The following is the abstract of Balance Sheet Happy Ltd. as on 31st March, 2024:

| | ₹ |
|--|----------|
| Issued and paid up capital | |
| 90,000 Equity shares of ₹ 10 each fully paid-up | 9,00,000 |
| Less: Calls in arrear (10,000 Equity shares of ₹ 2 each) <u>20,000</u> | 8,80,000 |
| 40,000 Equity shares of ₹ 10 each, ₹ 4 cash paid up | 1,60,000 |
| <u>Reserves and Surplus:</u> | |
| Capital Reserve (realized in cash) | 60,000 |
| Capital Redemption Reserve | 1,60,000 |
| Securities Premium | 1,00,000 |
| General Reserve | 1,20,000 |
| Profit and Loss Account | 7,00,000 |

On 1st April, 2024. The company makes final call @ 6 each on 40000 equity shares. The call money is duly received by 30th April, 2024.

On 1st May, 2024 the Board of Directors of the company decided:

- (i) To forfeit the share on which final call of ₹ 2 each is due:
- (ii) To re- issue the forfeited share @ ₹ 11 each as fully paid up:
- (iii) To issue fully paid bonus shares in the ratio of one fully paid bonus share for every two fully paid shares held; and
- (iv) To use minimum balance of Profit and Loss Account.

Pass necessary journal entries in the books of the company on the basis of the above decisions.

(10 Marks)

6. (a) The following balances appeared in the Books of Mac Ltd. as on 31stDecember, 2023:

| | Amount (₹) |
|---|-------------|
| 80,000, 10% Preference shares of ₹ 100 each, ₹ 75 paid up | 60,00,000 |
| 2,00,000 Equity share of ₹ 100 each fully paid up | 2,00,00,000 |
| Securities Premium | 6,50,000 |
| Capital Redemption Reserve | 42,00,000 |
| General Reserve | 85,00,000 |

Under the terms of their issue, the preference shares are redeemable on 31st March, 2024 at a premium of 5%. In order to finance the redemption, the company makes a right issue of 60,000 equity shares of ₹ 100 each at a premium of 10%, ₹ 25 being payable on application, ₹ 45 (including premium) on allotment and the balance on 1st August, 2024. The issue was fully subscribed and the allotment made on 1st March, 2024. The amount due on allotment was duly received by 25th March, 2024.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the Companies Act, 2023.

You are required to pass the necessary Journal Entries (including narrations) to give effect to the above arrangement. Also prepare the Notes to accounts on Share Capital Reserves and Surplus relevant to the Balance Sheet immediately after the redemption of preference shares as on 31st March, 2024. Ignore date column in Journal.

(15 Marks)

- (b) What are the advantages of Subsidiary Books?

(5 Marks)

MODEL TEST PAPER 10
FOUNDATION COURSE
PAPER 1: 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons, whether the following statements are True or False:
- (i) The rule of nominal accounts states that all expenses and losses are recorded on credit side.
 - (ii) Overhaul Expenses of a second-hand machinery purchased are Revenue Expenditure.
 - (iii) Valuation of inventory at cost or net realizable value is based on Principle of Conservatism.
 - (iv) A Promissory Note can be made payable to the Bearer.
 - (v) The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.
 - (vi) Legal heirs of a deceased partner are entitled to his capital account balance only. **(6 x 2=12 Marks)**
- (b) Differentiate between Book-keeping and Accounting. **(4 Marks)**
- (c) Pass the necessary journal entries to rectify the following errors, using a Suspense Account:
- (i) Goods of the value of ₹ 500 returned by Mr. A were entered in the Sales Day Book and posted there from to the credit of his account;
 - (ii) ₹ 250 entered in the Sales Returns Book, has been posted to the debit of Mr. R, who returned the goods;
 - (iii) A sale of ₹ 700 made to Mr. Q was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. S as ₹ 70;
 - (iv) The total of "Discount allowed" Column in the Cash Book for September amounting to ₹ 350 was not posted. **(4 Marks)**
2. (a) The cash book of Hari showed a debit balance of ₹ 1,36,800 as on 31.12.2023 which was in disagreement with balance as per pass book. Following discrepancies were noticed:
- (i) Dividend of ₹ 18,000 was deposited in the bank of which Hari had no information
 - (ii) Cheque was issued to Suresh of ₹ 14,780 on 18.12.2023 which was recorded in cash book as ₹ 14,870.

- (iii) Cheques totaling of ₹ 55,000 were deposited into bank on 30.12.2023 which were not cleared until 31.12.2023.
- (iv) Mediclaim premium of ₹ 14,160 was paid as per the standing instruction of Hari which was not recorded in cash book.
- (v) Goods amounting ₹ 1,60,000 were sold to Ajay in November 2023. He deposited cheque on 15.12.2023 after deducting 4% cash discount. This entry was missed while preparing cash book.
- (vi) Bank charges for issue of cheque book ₹ 150 was skipped while preparing cash book.
- (vii) Hari received a UPI of ₹ 1,000 on 29.12.2023 for sale of scrap which was not entered in cash book.
- (viii) Cheques amounting to ₹ 1,80,000 were issued during the month but cheques of ₹ 1,44,000 were only presented during the month for payment.

Prepare Bank Reconciliation Statement on 31.12.2023 and ascertain balance as per pass-book. **(10 Marks)**

- (b) Harry draws a bill on Sejal for ₹ 60,000 on 01.01.2023 for 3 months. Sejal accepts the bill and sends it back to Harry to get it discounted for ₹ 56,000. Harry remits 1/4th amount to Sejal. On the due date, Harry was unable to remit his share to Sejal, rather accepts a bill of ₹ 80,000 for a period of 3 months. This bill was discounted by Sejal for ₹ 74,600. Sejal after making the payment of first bill sent 3/4th of the amount remaining to Harry. On maturity of the bill, Harry became bankrupt and his estate paying 40 paise in the rupee.

Give journal entries in the books of Sejal. Also prepare ledger account of Harry. All workings should form part of the answer. **(10 Marks)**

3. (a) The following trial balance is the trial balance of a Proprietor as on March 31 2024. Prepare Trading and Profit & Loss Account for the year ending March 31st 2024 and a Balance Sheet as at that date.

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---------------------|---------------|---------------------------------|---------------|
| Plant and Machinery | 5,00,000 | Capital | 4,00,000 |
| Office Furniture | 26,000 | Sundry Creditors | 5,20,000 |
| Opening Stock | 4,80,000 | Sales | 48,00,000 |
| Motor Van | 1,20,000 | Bills Payable | 56,000 |
| Sundry Debtors | 4,57,000 | Provision for Doubtful Debts | 25,000 |
| Cash in hand | 4,000 | Return Outwards | 55,000 |
| Cash at Bank | 65,000 | Discount Received | 37,000 |
| Wages | 15,00,000 | | |
| Salaries | 1,40,000 | | |
| Purchases | 21,35,000 | | |

| | | |
|------------------|-----------|-----------|
| Bills Receivable | 72,000 | |
| Return Inwards | 93,000 | |
| Drawings | 70,000 | |
| Advertisements | 60,000 | |
| Factory Rent | 8,000 | |
| Insurance | 63,000 | |
| General Expenses | 10,000 | |
| Bad debts | 25,000 | |
| Discount allowed | 65,000 | |
| | 58,93,000 | 58,93,000 |

Additional Information to be considered:

- (i) Closing Stock on March 31st 2024 is ₹ 5,20,000.
 - (ii) During the year, plant and machinery was purchased for ₹ 3,00,000 but it was debited to purchase account.
 - (iii) 3 months factory rent is due but not paid ₹ 3,000.
 - (iv) Provide depreciation at 5% per annum on furniture and 10% on plant and machinery and motor van.
 - (v) Further bad debts ₹ 7,000.
 - (vi) Provision for doubtful debts to be increased to ₹ 30,000 at year-end.
 - (vii) Provision for discount on Debtors to be made at 2%. **(10 Marks)**
- (b) The following is the Balance Sheet of Krish and Bala, sharing profit and loss in the ratio 3: 2

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|--------------------------------------|---------------|-----------------------------|---------------|
| Capital Accounts: | | Land & Buildings | 28,000 |
| Krish 25,000 | | | |
| Bala <u>15,000</u> | 40,000 | Plant & Machinery | 15,000 |
| General Reserve | 26,000 | Stock | 10,000 |
| Workmen s Compensation Reserve | 10,000 | | |
| Creditors | 10,000 | Debtors 25,000 | |
| Employee s | | Less: Provision for | |
| Provident Fund | 8,000 | Doubtful debts <u>4,000</u> | 21,000 |
| | | Bank | 20,000 |
| | 94,000 | | 94,000 |

On admission of Sobha for 1/6th share in the profits, it was decided that:

- (1) Value of land and buildings to be increased by ₹ 5,000.
- (2) Value of stock to be increased by ₹ 3,500.
- (3) Provision of doubtful debts to be increased by ₹ 1,500.
- (4) Liabilities of workmen's compensation reserve was determined to be ₹ 8,000.
- (5) Sobha was to bring in cash of ₹ 25,000 as her capital.
- (6) Sobha brought in her share of goodwill ₹ 12,000 in cash.

Prepare the Revaluation Account, the Capital Account and the Balance Sheet of the new firm. **(10 Marks)**

4. (a) X, Y and Z were in a firm sharing profit and loss as 3: 2: 1. Their Balance Sheet on 31st March, 2024 was as follows:

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|---------------------------|-----------------|---|-----------------|
| X's Capital | 78,000 | Goodwill | 12,000 |
| X's Capital | 42,000 | Patents | 30,000 |
| Z's Capital | 31,000 | Machinery | 60,000 |
| Investment | | Investment (Market value ₹ 27,600) | 25,000 |
| Fluctuation Fund | 6,000 | Stock | 30,650 |
| Workmen's Compensation | 12,000 | Debtors 50,000 | |
| Trade Creditors | 31,000 | Less: Provision for doubtful debts <u>4,000</u> | 46,000 |
| Employee's Provident Fund | 12,000 | Cash at Bank | 8,350 |
| | 2,12,000 | | 2,12,000 |

Z retired on the above date on the following terms:

- (1) Goodwill of the firm was valued at ₹ 60,000.
- (2) Value of patents was to be reduced by 20% and that of machinery to 90%.
- (3) Provision for doubtful debts was to be raised to 10%.
- (4) Liability on account of Provident fund was only ₹ 6,000.
- (5) Liability for workmen compensation to the extent of ₹ 6,000 is to be created.
- (6) Z took over the investment at market value.

- (7) Amount due to Z is to be settled on the following basis- 50% on retirement, 50% of the balance within one year and the balance by a bill of exchange (without interest) at 3 months.

You are required the following:

- (i) Show entries for the treatment of goodwill,
- (ii) Prepare Revaluation Account,
- (iii) Partner Capital Account, &
- (iv) Balance Sheet.

(10 Marks)

- (b) From the following Receipts and Payments Account of Delhi Club, prepare Income & Expenditure Account for the year ended 31.12.2023 and its Balance Sheet as on that date.

| Receipts | Amount (₹) | Payments | Amount (₹) |
|-----------------------------|---------------|-------------------------|---------------|
| Cash in hand (Opening) | 8,100 | Salary | 3,000 |
| Cash in Bank (Opening) | 15,000 | Repair Expenses | 500 |
| Donations | 7,000 | Purchase of furniture | 7,000 |
| Subscriptions | 10,000 | Miscellaneous Expenses | 500 |
| Entrance fees | 1,500 | Purchase of Investments | 6,000 |
| Interest on Investments | 100 | Insurance Premium | 300 |
| Interest received from Bank | 400 | Billiards Table | 10,000 |
| Sale of Old Newspaper | 250 | Paper, Ink, etc. | 250 |
| Sale of Drama Tickets | 1,250 | Drama Expenses | 500 |
| | | Cash in hand (Closing) | 4,500 |
| | | Cash in Bank (Closing) | 11,050 |
| | 43,600 | | 43,600 |

Information:

- (1) Subscriptions in Arrear for 2023 ₹ 1,200, subscription in advance for 2024 ₹ 550.
- (2) Insurance Premium outstanding ₹ 80, Miscellaneous Expenses prepaid ₹ 90.
- (3) 50% of Donation is to be capitalized.
- (4) Entrance fee are to be treated as Revenue Income.
- (5) 8% Interest has accrued on Investments for 5 months.
- (6) Billiards Table costing ₹ 30,000 were purchased during the last year and ₹ 20,000 were paid for it.

(10 Marks)

5. (a) Physical verification of stock in a business was done on 23rd June, 2023. The value of the stock was ₹ 4,80,000. The following transactions took place between 23rd June, 2023 and 30th June, 2023:

- (i) Out of the goods sent on consignment, goods at cost worth ₹ 24,000 were unsold.
- (ii) Purchase of ₹ 40,000 were made out of which goods worth ₹ 16,000 were delivered on 5th July, 2023
- (iii) Sales were ₹ 1,36,000 which include goods worth ₹ 32,000 sent on approval. Half of these goods were returned before 30th June 2023, but no information is available regarding the remaining goods.
- (iv) Goods are sold at cost plus 25%. However, Goods costing ₹ 24,000 had been sold for ₹ 12,000.

Determine the value of stock on 30th June, 2023. **(5 Marks)**

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

- (i) PQR associates bought a computer set on 01.04.2020 for ₹ 2,00,000 and charged depreciation @ 20% p.a. on diminishing balance method. They made further additions as follows:

| Date | Amount |
|------------|------------|
| 01.04.2021 | ₹ 1,50,000 |
| 01.04.2023 | ₹ 1,00,000 |

On 01.04.2023 it was decided to change the method to straight line basis and charge depreciation assuming the expected life of all the computers to be 8 years from 01.04.2023. Prepare Computers A/c for year ending 31.03.2024.

OR

- (ii) Following information relates to Mr. Prem who maintains his books under single entry system. He is not able to ascertain the amount of bad debts incurred by him and seeks your help.

Debtors as on 01.04.2023 ₹ 6,50,000

Debtors as on 31.03.2024 ₹ 8,50,000

Sale for Financial Year 2023-2024 is 16,00,000 out of which 80% is on credit.

Payment received during the year is ₹ 7,50,000 out of which cheques of ₹ 18,000 were dishonored. Bills of exchange accepted by customers ₹ 2,90,000

Discount allowed is 1% of the credit sale. **(5 Marks)**

- (c) XYZ Ltd. an unlisted company issued 6000, 12% debentures of ₹ 100 each at a discount of 5% on 01.04.2021. Interest is payable annually on 31st March every year. The debentures are redeemable at premium of 10% in 3 equal annual installments beginning from 31.03.2022. The company invested in specified securities for the redemption of debentures. Entire loss on issue to be booked in the 1st year. You are required to pass journal entries for all the 3 years. **(10 Marks)**

6. (a) P Limited issued 6,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable as ₹ 3 on application, ₹ 5 on allotment (including premium) and the balance in two calls of equal amount. Applications were received for 8,00,000 shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted towards allotment. Harish to whom 1600 shares were allotted failed to pay both calls and his shares were subsequently forfeited after second call. You are required to pass journal entries in the books of P Limited and prepare bank account. **(15 Marks)**
- (b) Differentiate between Periodic Inventory System and Perpetual Inventory System. **(5 Marks)**

ANSWERS

ANSWERS OF MODEL TEST PAPER 1

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a) (i) **False:** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).
- (ii) **True:** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
- (iii) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
- (iv) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (v) **False:** Surviving partners may continue to carry on the business in case of partnership.
- (vi) **False:** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.
- (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.

(c) Calculation of depreciation for the year ended 31.3.24

| | Machine I (28,54,000 - 2,16,000) ₹ | Machine II Purchased on 1 st July ₹ | Machine III Purchased on 1 st Nov ₹ | Depreciation on sold machine IV ₹ |
|--|--|--|--|---|
| Book value as on 1 st April, 2023 | 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

2. (a)

| | Particulars | | L.F. | Dr. ₹ | Cr. ₹ |
|-------|--|------------|-------------|-----------------|-----------------|
| (i) | Suspense Account To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year) | Dr. | | 936 | 936 |
| (ii) | Profit & Loss Adjustment A/c Customer's Account To Suspense Account (Correction of the entry by which (a) Sales A/c was over credited by ₹ 180 (b) customer was credited by ₹642 instead of being debited by ₹ 462) | Dr. Dr. | | 180 1,104 | 1,284 |
| (iii) | Suspense Account To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹ 300 instead of Returns Outwards Account being credited by ₹ 300) | Dr. | | 600 | 600 |
| (iv) | Suspense Account To Geet Account To Meet Account | Dr. | | 1,790 | 895 895 |

| | | | | |
|--------|---|-----|-------|-------|
| | (Removal or wrong debit to Meet and giving credit to Geet from whom cash was received) | | | |
| (v) | Customer's Account To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered) | Dr. | 1,400 | 1,400 |
| (vi) | Profit & Loss Adjustment A/c To Customer's Account (The Customer's A/c credited with goods not yet purchased by him) | Dr. | 1600 | 1,600 |
| (vii) | Inventory A/c To Profit & Loss Adjustment A/c (Cost of goods debited to inventory and credited to Profit & Loss Adjustment A/c) | Dr. | 1280 | 1280 |
| (viii) | Trade receivable/ Manas's Account To Suspense Account (₹500 due by Manas not taken into trial balance, now rectified) | Dr. | 500 | 500 |
| (ix) | Deep's account/Trade receivable To Profit & Loss Adjustment A/c (Sales to Deep omitted, now rectified) | Dr. | 6,000 | 6,000 |
| (x) | Profit & Loss Adjustment A/c To Bhatt's Capital Account (Transfer of the Profit & Loss Adjustment A/c balance to the Capital Account) | Dr. | 8,436 | 8,436 |

(b) Bank Reconciliation Statement as on 31st March, 2024

| Particulars | ₹ |
|--|----------|
| Bank balance (Debit i.e. overdraft) as per Bank Pass book | 1,34,300 |
| (i) No adjustment required as there would be no difference on 31.3.24 | |
| (ii) <i>Add:</i> No entry in Cash book for interest collection by Bank | 11,200 |
| (iii) <i>Less:</i> Amount debited in cash book for pending cheques in collection but not credited in Pass Book | (30,000) |

| | |
|---|-----------------|
| (iv) <i>Add:</i> Cheque credited in cash book but not debited in pass book | 10,000 |
| (v) <i>Add:</i> Reversal of wrong Credit | 2,000 |
| <i>Less:</i> Reversal of wrong debit | (1,200) |
| (vi) <i>Less:</i> Cheque of ₹ 1,000 entered in cash book but omitted to be banked | (4,000) |
| (vii) <i>Less:</i> Discounted dishonored but no entry in Cash book | (20,800) |
| (viii) <i>Add:</i> Rebate on bill retired not entered in cash book | 700 |
| (viii) <i>Add:</i> Cheques deposited in bank not yet recorded in cash book | <u>9,600</u> |
| Balance (Cr. i.e. overdraft) as per Cash book | <u>1,11,800</u> |

Note: A cheque of ₹ 4,320 credited in Pass Book on 28th March, 2024 and later debited in Pass Book on 1st April, 2024 has no effect on Bank Reconciliation statement as at 31st March, 2024.

**3. (a) Trading and Profit and Loss Account
for the year ended 31st December, 2023**

| | <i>Amount</i> | | <i>Amount</i> |
|--|-----------------|-------------------------------------|-----------------|
| | ₹ | | ₹ |
| To Opening stock | 50,000 | By Sales (₹ 2,60,000 × 125/ 100) | 3,25,000 |
| To Purchases (balancing figure) | 2,72,500 | By Closing stock | 62,500 |
| To Gross profit c/d (₹ 2,60,000 × 25/ 100) | <u>65,000</u> | | |
| | <u>3,87,500</u> | | <u>3,87,500</u> |
| To Expenses | 49,250 | By Gross profit b/d | 65,000 |
| To Loss on sale of fixed assets | 750 | | |
| To Depreciation on fixed assets (W.N.1) | 1,000 | | |
| To Net profit | <u>14,000</u> | | |
| | <u>65,000</u> | | <u>65,000</u> |

Balance Sheet as on 31st December, 2023

| | <i>Amount</i> | | <i>Amount</i> |
|--------------------------------|---------------|------------------|---------------|
| <i>Liabilities</i> | ₹ | <i>Assets</i> | ₹ |
| Capital (W.N. 5) | 1,69,000 | Fixed assets | 9,000 |
| <i>Add:</i> Additional capital | 5,000 | Debtors (W.N. 3) | 87,500 |

| | | | | |
|----------------|-----------------|-----------------|--------------|-----------------|
| Net profit | <u>14,000</u> | | Stock | 62,500 |
| | 1,88,000 | | Bank balance | 50,000 |
| Less: Drawings | <u>(25,000)</u> | 1,63,000 | | |
| Creditors | | <u>46,000</u> | | |
| | | <u>2,09,000</u> | | <u>2,09,000</u> |

Working Notes:

1. Fixed assets account

| | ₹ | | ₹ |
|----------------|---------------|--|---------------|
| To Balance b/d | 7,500 | By Bank (sale) | 1,750 |
| To Bank | 5,000 | By Loss on sale of fixed asset (2,500-1,750) | 750 |
| | | By Depreciation (balancing figure) | 1,000 |
| | | By Balance c/d | <u>9,000</u> |
| | <u>12,500</u> | | <u>12,500</u> |

2. Bank account

| | ₹ | | ₹ |
|-----------------------------------|-----------------|-----------------|-----------------|
| To Balance b/d (balancing figure) | 62,500 | By Creditors | 2,80,000 |
| To Debtors | 3,40,000 | By Expenses | 49,250 |
| To Capital | 5,000 | By Drawings | 25,000 |
| To Sale of fixed assets | 1,750 | By Fixed assets | 5,000 |
| | | By Balance c/d | <u>50,000</u> |
| | <u>4,09,250</u> | | <u>4,09,250</u> |

3. Debtors account

| | ₹ | | ₹ |
|-----------------------------------|-----------------|-----------------------------------|-----------------|
| To Balance b/d | 1,02,500 | By Bank | 3,40,000 |
| To Sales | 3,25,000 | By Balance c/d (balancing figure) | 87,500 |
| (₹ 2,60,000 × $\frac{125}{100}$) | | | |
| | <u>4,27,500</u> | | <u>4,27,500</u> |

4. Creditors account

| | ₹ | | ₹ |
|----------------|-----------------|-------------------------------------|-----------------|
| To Bank | 2,80,000 | By Balance b/d (balancing figure) | 53,500 |
| To Balance c/d | 46,000 | By Purchases (from trading account) | 2,72,500 |
| | <u>3,26,000</u> | | <u>3,26,000</u> |

5. Balance Sheet as on 1st January, 2023

| <i>Liabilities</i> | ₹ | <i>Assets</i> | ₹ |
|----------------------------|-----------------|-----------------------|-----------------|
| Creditors (W.N. 4) | 53,500 | Fixed assets | 7,500 |
| Capital (balancing figure) | 1,69,000 | Debtors | 1,02,500 |
| | | Stock | 50,000 |
| | | Bank balance (W.N. 2) | <u>62,500</u> |
| | <u>2,22,500</u> | | <u>2,22,500</u> |

(b) Revaluation Account

| Particulars | ₹ | Particulars | ₹ |
|-----------------------|---------------|--------------------------------|---------------|
| To Stock | 1,500 | By Land & Building | 25,000 |
| To revaluation profit | | By Provision for doubtful debt | 2,000 |
| Arun | 8,500 | | |
| Varun | 8,500 | | |
| Tarun | 8,500 | | |
| | <u>27,000</u> | | <u>27,000</u> |

Partners' Capital Accounts

| Particulars | Arun | Varun | Tarun | Particulars | Arun | Varun | Tarun |
|---------------------|-----------------|---------------|---------------|---|-----------------|---------------|---------------|
| To Tarun | 4,375 | 4,375 | - | By Bal b/d | 1,00,000 | 75,000 | 75,000 |
| To Tarun's Executor | - | - | 98,125 | By General reserve | 4,000 | 4,000 | 4,000 |
| To Bal. c/d | 1,08,125 | 83,125 | | By Arun & Varun | - | - | 8,750 |
| | | | | By Profit and Loss Adjustment* (suspense) A/c | - | - | 1,875 |
| | | | | By Revaluation | 8,500 | 8,500 | 8,500 |
| | <u>1,12,500</u> | <u>87,500</u> | <u>98,125</u> | | <u>1,12,500</u> | <u>87,500</u> | <u>98,125</u> |

*Profit and Loss Adjustment = $[(25,000 + 20,000 + 22,500)/3] \times 3/12 \times 1/3 = 1,875$

Balance Sheet of Firm as on 1st July, 2024

| Particulars | ₹ | Particulars | ₹ |
|----------------|----------|--------------------------|----------|
| Arun | 1,08,125 | Land & Building | 1,75,000 |
| Varun | 83,125 | Investment | 65,000 |
| Tarun Executor | 98,125 | Stock | 13,500 |
| Creditors | 20,000 | Trade receivable | 35,000 |
| | | Profit & Loss Adjustment | 1,875 |

| | | | |
|--|----------|--------------|----------|
| | | Cash in hand | 7,000 |
| | | Cash at bank | 12,000 |
| | 3,09,375 | | 3,09,375 |

Calculation of goodwill and Tarun's share

Average of last five year's profits and losses for the year ended on 31st March

| | |
|----------------|-----------------|
| 31.3.2019 | 28,750 |
| 31.3.2020 | 35,000 |
| 31.3.2021 | 22,500 |
| 31.3.2022 | 20,000 |
| 31.3.2023 | <u>25,000</u> |
| Total | <u>1,31,250</u> |
| Average profit | 26,250 |

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Tarun's Share of Goodwill = ₹ 26,250 X 1/3
= ₹ 8,750

Which is contributed by Arun and Varun in their gaining Ratio

Arun = ₹ 8,750 X 1/2 = ₹ 4375

Varun = ₹ 8,750 X 1/2 = ₹ 4375

4. (a) Statement of Distribution of Cash by 'Maximum Loss Method'

| | Creditors ₹ | Amar's Loan ₹ | Amar ₹ | Akbar ₹ | Antony ₹ |
|---|-----------------|---------------------|-----------------|-----------------|-----------------|
| Balance due | 80,000 | 20,000 | 1,00,000 | 30,000 | 90,000 |
| 15 th April 2024 realised ₹ 60,000 | | | | | |
| Paid to creditors | <u>(60,000)</u> | - | - | - | - |
| Balance due | 20,000 | 20,000 | 1,00,000 | 30,000 | 90,000 |
| 1 st May, 2024 realised ₹ 1,46,000 | | | | | |
| Paid to creditors (₹ 20,000) | 20,000 | - | - | - | - |
| Paid to Amar's loan (₹ 20,000) | - | <u>20,000</u> | - | - | - |
| Balance due (1) | Nil | Nil | 1,00,000 | 30,000 | 90,000 |
| Balance ₹ <u>1,06,000</u> | | | | | |
| Maximum Loss (1,00,000 + 30,000 + 90,000 - 1,06,000) = ₹ 1,14,000 shared in Profit & Loss ratio 5:3:2 | | | <u>(57,000)</u> | <u>(34,200)</u> | <u>(22,800)</u> |
| | | | 43,000 | (4,200) | 67,200 |
| Akbar's deficiency shared by Amar & Antony in capital ratio 100:90 | | | <u>(2,210)</u> | <u>4,200</u> | <u>(1,990)</u> |
| Cash paid [2] | | | <u>40,790</u> | - | <u>65,210</u> |
| Balance due (3) [1-2] | | | 59,210 | 30,000 | 24,790 |
| 31 st May 2024 realised ₹ 94,000 | | | | | |

| | | | | |
|---|--|-----------------|----------------|----------------|
| Maximum Loss [59,210 + 30,000 + 24,790 - 94,000] = ₹ 20,000 shared in 5:3:2 | | | | |
| | | <u>(10,000)</u> | <u>(6,000)</u> | <u>(4,000)</u> |
| Cash paid (4) | | <u>49,210</u> | <u>24,000</u> | <u>20,790</u> |
| Balance/Loss* on realisation (3-4) | | <u>10,000</u> | <u>6,000</u> | <u>4,000</u> |

(b) Subscription for the year ended 31.3.2024

| | | ₹ |
|--|---------------|-------------------|
| Subscription received during the year | | 33,75,000 |
| Less: Subscription receivable on 1.4.2023 | 1,01,250 | |
| Less: Subscription received in advance on 31.3.2024 | <u>47,250</u> | <u>(1,48,500)</u> |
| | | 32,26,500 |
| Add: Subscription receivable on 31.3.2024 | 1,48,500 | |
| Add: Subscription received in advance on 1.4.2023 | <u>81,000</u> | <u>2,29,500</u> |
| Amount of Subscription appearing in Income & Expenditure Account | | <u>34,56,000</u> |

Sports material consumed during the year end 31.3.2024

| | ₹ |
|---|--------------------|
| Payment for Sports material | 20,25,000 |
| Less: Amounts due for sports material on 1.4.2023 | <u>(6,07,500)</u> |
| | 14,17,500 |
| Add: Amounts due for sports material on 31.3.2024 | <u>8,77,500</u> |
| Purchase of sports material | <u>22,95,000</u> |
| Sports material consumed: | |
| Stock of sports material on 1.4.2023 | 6,75,000 |
| Add: Purchase of sports material during the year | <u>22,95,000</u> |
| | 29,70,000 |
| Less: Stock of sports material on 31.3.2024 | <u>(10,12,500)</u> |
| Amount of Sports Material appearing in Income & Expenditure Account | <u>19,57,500</u> |

Balance Sheet of M/s Zara Club For the year ended 31st March, 2024 (An extract)

| Liabilities | ₹ | Assets | ₹ |
|--------------------------------|----------|--------------------------|-----------|
| Unearned Subscription | 47,250 | Subscription receivable | 1,48,500 |
| Amount due for sports material | 8,77,500 | Stock of sports material | 10,12,500 |

5. (a) **Trial Balance of Shri. Hari Om as on 31st March, 2024**

| Particulars | Dr. Amount ₹ | Cr. Amount ₹ |
|-------------------------------------|-----------------|-----------------|
| Capital | | 4,20,000 |
| Purchases | 1,08,000 | |
| Discount Allowed | 3,600 | |
| Carriage Inward | 26,100 | |
| Carriage Outwards | 6,900 | |
| Sales | | 1,80,000 |
| Return Inward | 900 | |
| Return Outwards | | 2,100 |
| Rent and taxes | 3,600 | |
| Plant and Machinery | 2,42,100 | |
| Stock on 1 st April,2023 | 46,500 | |
| Sundry Debtors | 60,600 | |
| Sundry Creditors | | 36,000 |
| Investments | 10,800 | |
| Commission Received | | 5,400 |
| Cash in Hand | 300 | |
| Cash at Bank | 30,300 | |
| Motor Cycle | 1,03,800 | |
| | 6,43,500 | 6,43,500 |

Note: Stock as on 31st March,2024 will not appear in trail balance.

(b) (i) (1) **Journal Proper in the Books of M/s. VS Wires**

| Date 2024 | Particulars | | Amount ₹ | Amount ₹ |
|--------------|--|-----|-------------|-------------|
| Mar. 31 | Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account) | Dr. | 4,32,000 | 4,32,000 |
| | Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account) | Dr. | 6,00,000 | 6,00,000 |
| | Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account) | Dr. | 60,00,000 | 60,00,000 |

| | | | |
|---|-----|-----------|---|
| Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts) | Dr. | 46,80,000 | 6,00,000 36,00,000 3,00,000 1,80,000 |
| Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory) | Dr. | 12,00,000 | 12,00,000 |
| Trading A/c To Gross Profit (Being the amount of gross profit calculated) | Dr. | 25,20,000 | 25,20,000 |
| Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account) | Dr. | 25,20,000 | 25,20,000 |

OR

**(ii) In the Books of Mr. Mandeep
Manufacturing Account for the Year ended 31.03.2024**

| Particulars | | Units | Amount ₹ | Particulars | Units | Amount ₹ |
|-------------------------------------|------------|--------|-------------|---|-----------|-------------|
| To Opening Work-in-Process | | 27,000 | 78,000 | By Closing Work-in-Process | 42,000 | 1,44,000 |
| To Raw Materials Consumed: | | | | By Trading A/c – Cost of finished goods transferred | 15,00,000 | 58,00,800 |
| Opening Inventory | 7,80,000 | | | | | |
| Add: Purchases | 24,60,000 | | | | | |
| | 32,40,000 | | | | | |
| Less: Closing Inventory | (9,60,000) | | 22,80,000 | | | |
| To Direct Wages – W.N. (1) | | | 12,16,800 | | | |
| To Direct expenses: Hire charges | | | | | | |

| | | | | | | |
|----------------------------|--|--|-----------------|--|--|------------------|
| on Machinery – W.N. (2) | | | 10,50,000 | | | |
| To Indirect expenses: | | | | | | |
| Hire charges of Factory | | | 7,80,000 | | | |
| Repairs & Maintenance | | | <u>5,40,000</u> | | | |
| | | | 59,44,800 | | | <u>59,44,800</u> |

Working Notes:

(1) Direct Wages – 15,00,000 units @ ₹0.80 = ₹ 12,00,000
42,000 units @ ₹0.40 = ₹ 16,800
₹ 12,16,800

(2) Hire charges on Machinery – 15,00,000 units @ ₹ 0.70 = ₹ 10,50,000

(c)

| Sr. No. | Particulars | | Dr (₹) | Cr (₹) |
|---------|---|----------|--------------------|--------------------|
| (i) | Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being 15,000 Equity Shares Issued at a premium of ₹ 5) | Dr. | 2,25,000 | 1,50,000 75,000 |
| (ii) | Securities Premium A/c Profit & Loss A/c To Bonus to Equity Shareholders A/c (Being amount transferred for issue of Bonus Shares to ESH in the ratio of 1:5) | Dr Dr | 75,000 75,000 | 1,50,000 |
| (iii) | Bonus to Equity Shareholders A/c To Equity Share Capital A/c (Being bonus shares issued) | Dr. | 1,50,000 | 1,50,000 |
| (iv) | 12% Debentures A/c Premium on Redemption A/c To Debenture Holders A/c (Being amount payable to debenture holders) | Dr Dr | 3,60,000 10,800 | 3,70,800 |
| (v) | Profit & Loss A/c To Premium on Redemption A/c | Dr | 10,800 | 10,800 |

| | | | | |
|--------|--|----|----------|----------|
| | (Being premium on redemption transferred to P&L) | | | |
| (vi) | Debenture Redemption Reserve A/c To General Reserve (Being DRR transferred to General Reserve) | Dr | 36,000 | 36,000 |
| (vii) | Bank A/c To DRR Investment A/c (Being DRR Investment sold) | Dr | 54,000 | 54,000 |
| (viii) | Debenture Holders A/c To Bank A/c (Being Debenture Holders paid) | | 3,70,800 | 3,70,800 |

6. (a) **Journal of Avent Limited**

| Date 2023 | Particulars | | Dr. ₹ | Cr. ₹ |
|--------------|---|-----|-----------|----------------------------------|
| May 31 | Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 5,60,000 shares @ ₹ 2 per share) | Dr. | 11,20,000 | 11,20,000 |
| June 10 | Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 - Column 5) To Bank A/c (Note 1– Column 6) (Being application money on 1,35,000 shares transferred to Equity Share Capital Account; on 2,75,000 shares adjusted with allotment and on 1,50,000 shares refunded as per Board's Resolution No.....dated...) | Dr. | 11,20,000 | 2,70,000 5,50,000 3,00,000 |
| | Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium | Dr. | 6,75,000 | 1,35,000 5,40,000 |

| | | | | |
|---------|--|-----|----------|----------|
| Dec. 31 | A/c | | | |
| | (Being allotment money due on 1,35,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No.....dated....) | | | |
| | Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received) | Dr. | 1,25,000 | 1,25,000 |
| | Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,35,000 shares @ ₹ 7 per share as per Board's Resolution No.....dated....) | Dr. | 9,45,000 | 9,45,000 |
| | Bank A/c To Equity Share Final Call A/c (Being final call money on 1,35,000 shares @ ₹ 7 each received) | Dr. | 9,45,000 | 9,45,000 |

Working Note:

Calculation for Adjustment and Refund

| Category | No. of Shares Applied for | No. of Shares Allotted | Amount Received on Application | Amount Required on Application | Amount adjusted on Allotment | Refund [3 – (4 + 5)] | Amount due on Allotment | Amount received on Allotment |
|--------------|---------------------------|------------------------|--------------------------------|--------------------------------|------------------------------|----------------------|-------------------------|------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| (i) | 10,000 | 10,000 | 20,000 | 20,000 | Nil | Nil | 50,000 | 50,000 |
| (ii) | 50,000 | 25,000 | 1,00,000 | 50,000 | 50,000 | Nil | 1,25,000 | 75,000 |
| (iii) | 5,00,000 | 1,00,000 | 10,00,000 | 2,00,000 | 5,00,000 | 3,00,000 | 5,00,000 | Nil |
| TOTAL | 5,60,000 | 1,35,000 | 11,20,000 | 2,70,000 | 5,50,000 | 3,00,000 | 6,75,000 | 1,25,000 |

Also,

- (i) Amount Received on Application (3) = No. of shares applied for (1) X ₹2
- (ii) Amount Required on Application (4) = No. of shares allotted (2) X ₹ 2

(b) Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.
2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.
3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Or

- (b)** Bills of Exchange are usually drawn to facilitate trade transmission, that is, bills are meant to finance actual purchase and sale of goods. But the mechanism of bill can be utilised to raise finance also. When bills are used for such a purpose, they are known as accommodation bills.

When the acceptor of a bill finds himself in financial straits to honour the bill on the due date, then he may request the drawer to cancel the original bill and draw on him a fresh bill for another period. And if the drawer agrees, a new bill in place of the original bill may be accepted by the drawee for another period. This is called the renewal of bill.

ANSWERS OF MODEL TEST PAPER 2

FOUNDATION COURSE

PAPER 1: ACCOUNTING

ANSWERS

1. (a) (i) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
- (ii) **False:** Accrual concept implies accounting on due or accrual basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
- (iii) **True:** In the early periods of useful life of a fixed assets, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later periods, as the asset become old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is high in the initial period and reduces continuously in the later periods. Thus, depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
- (iv) **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- (v) **False:** If individual life policies are taken in the name of the partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.
- (vi) **False:** Net income is determined by preparing income and expenditure in case of persons practicing vacation.

(b)

| Book-keeping | Accounting |
|--|---|
| It is a process concerned with recording of transactions. | It is a process concerned with summarising of the recorded transactions. |
| It constitutes as a base for accounting. | It is considered as a language of the business. |
| Financial statements do not form part of this process. | Financial statements are prepared in this process on the basis of book-keeping records. |
| Managerial decisions cannot be taken with the help of these records. | Management takes decisions on the basis of these records. |

| | |
|--|---|
| There is no sub-field of book-keeping. | It has several sub-fields like financial accounting, management accounting etc. |
| Financial position of the business cannot be ascertained through book-keeping records. | Financial position of the business is ascertained on the basis of the accounting reports. |

(c) **Bank Reconciliation Statement as on 31st March, 2024**

| Particulars | Details (₹) | Amount (₹) |
|---|-------------|------------|
| Balance as per Pass Book (Cr.) | | 3,00,000 |
| Add: Cheque deposited but not yet cleared | 44,000 | |
| Add: Cheque recorded in Cash Book but not yet deposited | 10,000 | |
| Add: Bank Charges debited by bank | 500 | 54,500 |
| Less: Cheque issued but not yet presented | (96,000) | |
| Less: Interest allowed by bank | (3,000) | (99,000) |
| Balance as per Cash Book | | 2,55,500 |

2. (a) **Valuation of Physical Stock as at March 31, 2024**

| | | ₹ |
|---|---------------|---------------|
| Stock at cost on 31.12.2023 | | 80,000 |
| Add: (1) Undercasting of a page total | 400 | |
| (2) Goods purchased and delivered during January March, 2024 | | |
| ₹ (70,000 6,000 + 7,000) | 71,000 | |
| (3) Cost of sales return ₹ (1,500 300) | <u>1,200</u> | <u>72,600</u> |
| | | 1,52,600 |
| Less: (1) Overcasting of a page total | 1,000 | |
| ₹ (6,000 5,000) | | |
| (2) Goods sold and dispatched during January March, 2024 | | |
| ₹ (90,000 5,000 + 4,000) 89,000 | | |
| Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$ <u>17,800</u> | <u>71,200</u> | <u>72,200</u> |
| Value of stock as on 31st March, 2024 | | <u>80,400</u> |

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of

ownership takes place on the date of invoice, then ₹ 4,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2023-2024 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2023-2024.

(b) **In the books of M/s. Surya Lights**
Machinery Account

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|----------|--------------------|-----------------|------------|---------------------------------|-----------------|
| 1.1.2020 | To Bank A/c | 3,20,000 | 31.12.2020 | By Depreciation A/c | 96,000 |
| | To Bank A/c | 80,000 | | (₹80,000+ ₹ 16,000) | |
| | (Erection charges) | | 31.12.2020 | By Balance c/d | 4,64,000 |
| 1.7.2020 | To Bank A/c | 1,60,000 | | (₹3,20,000+ ₹1,44,000) | |
| | | <u>5,60,000</u> | | | <u>5,60,000</u> |
| 01.01.21 | To Balance b/d | 4,64,000 | 31.12.2021 | By Depreciation A/c | 1,12,000 |
| | | | | (₹80,000+ ₹ 32,000) | |
| | | | 31.12.2021 | By Balance c/d | 3,52,000 |
| | | <u>4,64,000</u> | | (₹ 2,40,000 + ₹ 1,12,000) | |
| 01.01.22 | To Balance b/d | 3,52,000 | | | <u>4,64,000</u> |
| 30.9.22 | To Bank A/c | 60,000 | 01.07.2022 | By Bank A/c | 1,60,000 |
| | | | | By Profit and Loss A/c | 40,000 |
| | | | | (Loss on Sale W.N.) | |
| | | | 31.12.2022 | By Depreciation A/c | 75,000 |
| | | | | (₹ 40,000 + ₹ 32,000 + ₹ 3,000) | |
| | | <u>4,12,000</u> | | By Balance c/d | 1,37,000 |
| 01.01.23 | To Balance b/d | 1,37,000 | | (₹ 80,000 + ₹ 57,000) | |
| | | | | | <u>4,12,000</u> |
| | | <u>1,37,000</u> | 31.12.2023 | By Depreciation A/c | 20,550 |
| | | | | (₹ 12,000 + ₹ 8,550) | |
| | | | | By Balance c/d | 1,16,450 |
| | | | | (₹ 68,000 + ₹ 48,450) | |
| | | | | | <u>1,37,000</u> |

Working Notes:

Book Value of machines (Straight line method)

| | Machine I | Machine II | Machine III |
|-------------------------------------|---------------|---------------|-------------|
| | ₹ | ₹ | ₹ |
| Cost | 4,00,000 | 1,60,000 | 60,000 |
| Depreciation for 2020 | <u>80,000</u> | <u>16,000</u> | |
| Written down value as on 31.12.2020 | 3,20,000 | 1,44,000 | |
| Depreciation for 2021 | <u>80,000</u> | <u>32,000</u> | |

| | | | |
|-------------------------------------|-----------------|---------------|---------------|
| Written down value as on 31.12.2021 | 2,40,000 | 1,12,000 | |
| Depreciation for 2022 | <u>40,000</u> | <u>32,000</u> | <u>3,000</u> |
| Written down value as on 31.12.2022 | 2,00,000 | <u>80,000</u> | <u>57,000</u> |
| Sale proceeds | <u>1,60,000</u> | | |
| Loss on sale | <u>40,000</u> | | |

3. (a) **In the books of Mr. Jalaj**
Statement of Affairs

| Liabilities | 31.3.23 | 31.3.24 | Assets | 31.3.23 | 31.3.24 |
|-------------------|-----------------|-----------------|--------------|-----------------|-----------------|
| Capital (bal fig) | 3,01,500 | 5,50,875 | Furniture | 62,500 | 56,250 |
| Loans | 1,12,500 | 87,500 | Building | 1,25,000 | 1,21,875 |
| Creditors | 62,500 | 1,00,000 | Stock | 1,25,000 | 3,12,500 |
| | | | Debtors | 75,000 | 1,37,500 |
| | | | Cash in hand | 14,000 | 16,500 |
| | | | Cash at bank | 75,000 | 93,750 |
| | <u>4,76,500</u> | <u>7,38,375</u> | | <u>4,76,500</u> | <u>7,38,375</u> |

Capital A/c

| Particulars | ₹ | Particulars | ₹ |
|--------------------|-----------------|---------------------|-----------------|
| To Cash (drawings) | 30,000 | By Bal b/d | 3,01,500 |
| To Bal c/d | 5,50,875 | By Cash | 50,000 |
| | | By Profit (bal fig) | 2,29,375 |
| | <u>5,80,875</u> | | <u>5,80,875</u> |

(b) **Revaluation Account**

| | ₹ | | ₹ |
|---------------------------|-----------------|---------------------------------|-----------------|
| To Furniture A/c | 40,000 | By Office equipment A/c | 47,000 |
| To Stock A/c | 50,000 | By Building A/c | 5,00,000 |
| To Joint life policy | 10,000 | By Provision for doubtful debts | 15,000 |
| To Partners capital A/cs: | | | |
| X 2,31,000 | | | |
| Y 1,54,000 | | | |
| Z <u>77,000</u> | <u>4,62,000</u> | | |
| | <u>5,62,000</u> | | <u>5,62,000</u> |

Partners Capital Accounts

| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
|--------------------|-----------|----------|----------|--------------------|-----------|----------|----------|
| To Y's capital A/c | 90,000 | | 30,000 | By Balance b/d | 8,00,000 | 4,20,000 | 4,00,000 |
| To Y's loan A/c | | 8,14,000 | | By General Reserve | 1,80,000 | 1,20,000 | 60,000 |
| To Balance c/d | 11,21,000 | | 5,07,000 | By revaluation A/c | 2,31,000 | 1,54,000 | 77,000 |
| | | | | By X's capital A/c | | 90,000 | |
| | | | | By Z's capital A/c | | 30,000 | |
| | 12,11,000 | 8,14,000 | 5,37,000 | | 12,11,000 | 8,14,000 | 5,37,000 |

Balance Sheet as on 1.4.2024 (After Y's retirement)

| <i>Liabilities</i> | ₹ | ₹ | <i>Assets</i> | ₹ | ₹ |
|--------------------|-----------------|------------------|------------------------------------|-----------------|------------------|
| Capital accounts: | | | Building | | 15,00,000 |
| X | 11,21,000 | | Furniture | | 2,00,000 |
| Z | <u>5,07,000</u> | 16,28,000 | Office equipment | | 3,27,000 |
| Y's loan account | | 8,14,000 | Stock | | 2,00,000 |
| Sundry creditors | | 3,70,000 | Sundry debtors | 3,00,000 | |
| | | | Less: Provision for doubtful debts | <u>(15,000)</u> | 2,85,000 |
| | | | Cash at bank | | 3,00,000 |
| | | <u>28,12,000</u> | | | <u>28,12,000</u> |

Working Notes:

Calculation of goodwill:

1. Average of last 4 year's profit

$$= (90,000 + 1,40,000 + 1,20,000 + 1,30,000)/4$$

$$= ₹ 1,20,000$$
2. Goodwill at three years purchase

$$₹ 1,20,000 \times 3 = ₹ 3,60,000$$

Goodwill adjustment

| | <i>Share of goodwill (Old ratio)</i> | <i>Share of goodwill (New ratio)</i> | <i>Adjustment</i> |
|---|--|--|-------------------|
| X | 1,80,000 | 2,70,000 | 90,000 (Dr.) |
| Y | 1,20,000 | - | 1,20,000 (Cr.) |
| Z | 60,000 | 90,000 | 30,000 (Dr.) |

Note: Alternatively Joint Life Policy can also be routed through Partners Capital Account.

4. (a) Realization Account

| <i>Particulars</i> | ₹ | <i>Particulars</i> | ₹ |
|------------------------------------|-----------------|--------------------------------|-----------------|
| To Debtors | 48,000 | By Creditors | 48,000 |
| To Stock | 60,000 | By Cash A/c (Assets realized): | |
| To Fixtures | 24,000 | Plant and Machinery | 1,02,000 |
| To Plant and machinery | 1,08,000 | Fixtures | 18,000 |
| To Cash A/c (Creditors) | 45,600 | Stock | 84,000 |
| To Cash A/c (GST) | 4,200 | Sundry Debtors | <u>44,400</u> |
| To Cash A/c (Realization expenses) | 1,500 | By Q (Unrecorded asset)* | 4,800 |
| To Profit on Realization | | | |
| P | 3,960 | | |
| Q | 3,960 | | |
| R | <u>1,980</u> | | |
| | 9,900 | | |
| | <u>3,01,200</u> | | <u>3,01,200</u> |

Partners Capital Accounts

| <i>Particulars</i> | P | Q | R | <i>Particulars</i> | P | Q | R |
|---------------------------------------|-----------------|---------------|---------------|-----------------------------|-----------------|---------------|---------------|
| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
| To Realization A/c (unrecorded asset) | | 4,800 | | By Balance b/d | 1,20,000 | 48,000 | 24,000 |
| To Cash (Bal. Fig.) | 1,47,960 | 71,160 | 37,980 | By Reserve fund | 24,000 | 24,000 | 12,000 |
| | | | | By Realization A/c (Profit) | 3,960 | 3,960 | 1,980 |
| | <u>1,47,960</u> | <u>75,960</u> | <u>37,980</u> | | <u>1,47,960</u> | <u>75,960</u> | <u>37,980</u> |

Cash Account

| <i>Particulars</i> | ₹ | <i>Particulars</i> | ₹ |
|----------------------------|-----------------|--------------------------------|-----------------|
| To Balance b/d | 60,000 | By Realization A/c (Creditors) | 45,600 |
| To Realization A/c(Assets) | 2,48,400 | By Realization A/c (Expenses) | 1,500 |
| | | By Realization A/c (GST) | 4,200 |
| | | By P s Capital A/c | 1,47,960 |
| | | By Q s Capital A/c | 71,160 |
| | | By R s Capital A/c | 37,980 |
| | <u>3,08,400</u> | | <u>3,08,400</u> |

* An unrecorded asset is in the nature of gain hence realization account is credited. Since this asset has been taken over by Q, therefore, his account has been debited.

(b)

Navel College
Income and Expenditure Account
for the year ending 31st March, 2024

| Expenditure | ₹ | ₹ | Income | ₹ | ₹ |
|--|---------------|------------------|-------------------------------|---|------------------|
| To Salaries: Teaching | | 8,75,000 | By Tutions & other fee | | 8,10,000 |
| Research | | 1,25,000 | By Govt. Grants | | 5,01,000 |
| To Material & Supplies Consumed | | | By Income from Investments | | 1,75,000 |
| Teaching | | 52,000 | By Hostel room Rent | | 1,65,000 |
| Research | | 1,45,000 | By Mess Receipts | | 2,05,000 |
| | | | By Profit-stores sales | | 1,14,000 |
| To Sports & Games Expenses | | | | | |
| Cash | 52,000 | | | | |
| Materials | <u>24,000</u> | 76,000 | | | |
| To Students Welfare Expenses | | | | | |
| Cash | 37,000 | | | | |
| Materials | <u>78,000</u> | 1,15,000 | | | |
| To Scholarships | | 85,000 | | | |
| To Depreciation: | | | | | |
| Building | | 77,500 | | | |
| Plant & Machinery | | 85,000 | | | |
| Furniture & Fittings | | 54,000 | | | |
| Motor Vehicle | | 48,000 | | | |
| To Excess of Income over Expenditure | | 2,32,500 | | | |
| | | <u>19,70,000</u> | | | <u>19,70,000</u> |

Navel College
Balance Sheet as on 31st March, 2024

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|-----------------|-----------|---------------------------|-------------------|----------|
| Capital Fund | | | Fixed Assets: | | |
| Opening balance | 13,08,000 | | Land | | 1,50,000 |
| Add: Excess of Income over Expenditure | <u>2,32,500</u> | 15,40,500 | Building Cost | 15,50,000 | |
| Building Fund | | 19,10,000 | Less: Dep. | <u>(5,67,500)</u> | 9,82,500 |
| | | | Plant & Machinery Cost | 8,50,000 | |

| | | | | | |
|----------------------|----------|------------------|-----------------|------------|------------------|
| Current Liabilities: | | | Less: Dep. | (5,90,000) | 2,60,000 |
| Outstanding Expenses | 2,35,000 | | Furniture & | | |
| Security Deposit | 1,55,000 | | Fittings: | | |
| | | | Cost | 5,40,000 | |
| | | | Less: Dep. | (3,80,000) | 1,60,000 |
| | | | Motor Vehicles | | |
| | | | Cost: | 2,40,000 | |
| | | | Less: Dep. | (48,000) | 1,92,000 |
| | | | Library | | 3,20,000 |
| | | | Investments | | 12,75,000 |
| | | | Stock (stores)- | | |
| | | | Material & | | 1,85,000 |
| | | | Supplies | | |
| | | | Cash in hand & | | |
| | | | at Bank | | 3,16,000 |
| | | <u>38,40,500</u> | | | <u>38,40,500</u> |

Working Notes:

| | | | | | |
|-----|-----------------------------------|-----------------|-------------------|---------------------|-------------------|
| (1) | Material & Supplies-Closing Stock | | | ₹ | ₹ |
| | Opening Stock | | | | 3,10,000 |
| | Purchases | | | | <u>8,20,000</u> |
| | | | | | 11,30,000 |
| | Less: Cost of Goods Sold | | 6,46,000 | | |
| | Material Consumed | | <u>2,99,000</u> | | <u>(9,45,000)</u> |
| | Balance | | | | <u>1,85,000</u> |
| (2) | Provisions for Depreciation | | | | |
| | | Building | Plant & Equipment | Furniture & Fitting | |
| | | ₹ | ₹ | ₹ | |
| | Opening Balance | 4,90,000 | 5,05,000 | 3,26,000 | |
| | Addition | <u>77,500</u> | <u>85,000</u> | <u>54,000</u> | |
| | Closing Balance | <u>5,67,500</u> | <u>5,90,000</u> | <u>3,80,000</u> | |

5. (a) Rectification entries in the books of M/s Mangrove Arts

| | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|----|--|------|----------|----------|
| 1. | Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 52,500 wrongly debited to building account, now rectified) | | 52,500 | 52,500 |

| | | | | |
|----|--|-----|----------|----------|
| 2. | Profit and Loss Adjustment Account To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made) | Dr. | 9,000 | 9,000 |
| 3. | Suspense Account To Leena Account (Goods returned by Leena had been posted wrongly to the debit of her account, now rectified) | Dr. | 12,300 | 12,300 |
| 4. | Profit and Loss Adjustment Account To Furniture Account (Being sale of furniture wrongly entered in sales book, now rectified) | Dr. | 1,80,000 | 1,80,000 |
| 5. | Lucky & Co. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified) | Dr. | 45,000 | 45,000 |

(b) (i) (1) Journal Proper in the Books of M/s. Vikram Traders

| Date 2024 | Particulars | | Amount ₹ | Amount ₹ |
|--------------|---|-----|-------------|---|
| Mar. 31 | Returns outward A/c To Purchases A/c (Being the transfer of returns to purchases account) | Dr. | 2,16,000 | 2,16,000 |
| | Sales A/c To Returns Inward A/c (Being the transfer of returns to sales account) | Dr. | 3,00,000 | 3,00,000 |
| | Sales A/c To Trading A/c (Being the transfer of balance of sales account to trading account) | Dr. | 30,00,000 | 30,00,000 |
| | Trading A/c To Opening Inventory A/c To Purchases A/c To Wages A/c To Carriage Inwards A/c (Being the transfer of balances of opening inventory, purchases and wages accounts) | Dr. | 23,40,000 | 3,00,000 18,00,000 1,50,000 90,000 |
| | Closing Inventory A/c To Trading A/c (Being the incorporation of value of closing Inventory) | Dr. | 6,00,000 | 6,00,000 |

| | | | | |
|--|---|-----|-----------|-----------|
| | Trading A/c To Gross Profit (Being the amount of gross profit) | Dr. | 12,60,000 | 12,60,000 |
| | Gross profit To Profit and Loss A/c (Being the transfer of gross profit to Profit and Loss Account) | Dr. | 12,60,000 | 12,60,000 |

OR

(ii) In the Books of Mr. Mandeep

Manufacturing Account for the year ended on March 31,2024

| Particulars | ₹ | Amount ₹ | Particulars | Amount ₹ |
|-----------------------------------|------------|-----------|------------------------------------|-----------|
| To Opening W.I.P. | | 3,90,000 | By Closing W-I-P | 5,07,000 |
| To Raw Material Consumed: | | | By products | 20,000 |
| Opening inventory | 3,02,000 | | By Trading A/c- | 17,81,000 |
| Purchases | 12,10,000 | | Cost of finished goods transferred | |
| | 15,12,000 | | | |
| Less: Return | (18,000) | | | |
| | 14,94,000 | | | |
| Less: Closing inventory | (3,10,000) | 11,84,000 | | |
| To Direct Wages | | 2,10,000 | | |
| To Direct expenses: | | | | |
| Royalty | | 1,30,000 | | |
| To Manufacturing Overhead: | | | | |
| Indirect Material | 16,000 | | | |
| Indirect Wages | 48,000 | | | |
| Repairs & Maintenance | 2,30,000 | | | |
| Depreciation on Factory Shed | 40,000 | | | |
| Depreciation on Plant & Machinery | 60,000 | 3,94,000 | | |
| | | 23,08,000 | | 23,08,000 |

(c) **Journal Entries in the books of Verma Ltd.**

| | | | ₹ | ₹ |
|-----------|--|--|--|----------|
| 1-4-2023 | Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated .) | | 5,40,000 | 5,40,000 |
| 20-4-2023 | Bank A/c Dr. To Equity share final call A/c (For final call money on 2,70,000 equity shares received) | | 5,40,000 | 5,40,000 |
| | Securities Premium A/c Dr. Capital Redemption Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.) Dr. To Bonus to equity shareholders A/c (For making provision for bonus issue of one share for every four shares held) | | 75,000 1,20,000 3,60,000 1,20,000 | 6,75,000 |
| | Bonus to equity shareholders A/c Dr. To Equity share capital A/c (For issue of bonus shares) | | 6,75,000 | 6,75,000 |

Extract of Balance Sheet as at 30th April, 2023 (after bonus issue)

| | | ₹ |
|---|-----------------|------------------|
| Share Capital | | |
| Authorised Capital | | |
| 30,000 12% Preference shares of ₹10 each | | 3,00,000 |
| 3,37,500 Equity shares of ₹10 each (refer working note below) | | <u>33,75,000</u> |
| Issued and subscribed capital | | |
| 24,000 12% Preference shares of ₹10 each, fully paid | | 2,40,000 |
| 3,37,750 Equity shares of ₹10 each, fully paid (Out of above, 67,500 equity shares @ ₹10 each were issued by way of bonus) | | 33,75,000 |
| Reserves and surplus | | |
| Securities Premium | 75,000 | |
| Less: Utilised for bonus issue | <u>(75,000)</u> | NIL |
| Capital Redemption Reserve | 1,20,000 | |

| | | |
|--------------------------------|------------|----------|
| Less: Utilised for bonus issue | (1,20,000) | NIL |
| General Reserve | 3,60,000 | |
| Less: Utilised for bonus issue | (3,60,000) | NIL |
| Profit and Loss Account | 6,00,000 | |
| Less: Utilised for bonus issue | (1,20,000) | 4,80,000 |

Working Notes:

- Number of Bonus shares to be issued- ₹
(2,70,000 shares / 4) X 1 = 67,500 shares
 - The authorised capital should be increased as per details given below:
- | | |
|---|------------------|
| Existing issued Equity share capital | 27,00,000 |
| Add: Issue of bonus shares to equity shareholders | <u>6,75,000</u> |
| | <u>33,75,000</u> |

6. (a) In the books of Woodland Mills Ltd.

Journal Entries

| Particulars | L.F. | Debit Amount (₹) | Credit Amount (₹) |
|--|------|------------------|-------------------|
| Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 10,000 shares @ ₹ 1 per share) | | 10,000 | 10,000 |
| Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on allotment of 10,000 shares) | | 10,000 | 10,000 |
| Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ ₹ 2 per share) | | 20,000 | 20,000 |
| Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received on 9,900 shares) | | 19,800 | 19,800 |
| OR | | | |
| Bank A/c Dr. Calls in arrears A/c Dr. To Equity Share Allotment A/c | | 19,800 200 | 20,000 |

| | | | |
|---|------------|---------------|------------|
| (Allotment Amount received except 100 shares) | | | |
| Equity Share Capital A/c To Share Forfeiture A/c To Equity Shares Allotment A/c (100 Shares of Amar forfeited) | Dr. | 300 | 100 200 |
| OR | | | |
| Equity Share Capital A/c To Shares Forfeiture A/c To Calls in arrears A/c (100 shares forfeited due to non-payment of allotment money) | Dr. | 300 | 100 200 |
| Equity Share First Call A/c To Equity Share Capital A/c (First call made due on 9,900 shares at ₹ 3 per share) | Dr. | 29,700 | 29,700 |
| Bank A/c To Equity Share First Call A/c (First call money received on 9,750 shares at ₹ 3 per share) | Dr. | 29,250 | 29,250 |
| OR | | | |
| Bank A/c Calls in arrears A/c To Equity Share First Call A/c (First Call money received except 150 shares) | Dr. Dr. | 29,250 450 | 29,700 |
| Equity Share Capital A/c To Share Forfeiture A/c To Equity Share First Call A/c (150 Shares of Kabir forfeited) | Dr. | 900 | 450 450 |
| OR | | | |
| Equity Share Capital A/c To Share Forfeiture A/c To Calls in arrears A/c (150 shares forfeited due to non - payment of First call money) | Dr. | 900 | 450 450 |
| Equity Share Second and Final Call A/c To Equity Share Capital A/c (Second and Final call made due on 9,750 shares at ₹ 4 per share) | Dr. | 39,000 | 39,000 |

| | | | | |
|---|------------|--|---------------|------------|
| Bank A/c To Equity Share Second and Final Call A/c (Second and Final call money received on 9,700 shares at ₹ 4 per share) | Dr. | | 38,800 | 38,800 |
| OR | | | | |
| Bank A/c Calls in arrears A/c To Equity Shares Second and Final call (Second and Final call money received except 50 shares) | Dr. Dr. | | 38,800 200 | 39,000 |
| Equity Share Capital A/c To Share Forfeiture A/c To Equity Share Second and Final Call A/c (50 Shares of Dilip forfeited) | Dr. | | 500 | 300 200 |
| OR | | | | |
| Equity Share Capital A/c To Shares Forfeiture A/c To Calls in arrears A/c (50 shares forfeited due to non- payment of Second and final call money) | Dr. | | 500 | 300 200 |
| Bank A/c Share Forfeiture A/c To Equity Share Capital A/c (300 shares reissued at ₹ 9 per share) | Dr. Dr. | | 2,700 300 | 3,000 |
| Share Forfeiture A/c To Capital Reserve A/c (W.N.1) (Profit on re-issue transferred to Capital Reserve) | Dr. | | 550 | 550 |

Working Note-1: Calculation of amount to be transferred to Capital Reserve:

| | |
|--|--------------|
| Surplus out of 100 shares of Amar forfeited | ₹ 100 |
| Surplus out of 150 shares of Kabir forfeited | ₹ 450 |
| Surplus out of 50 shares of Dilip forfeited | <u>₹ 300</u> |
| | ₹ 850 |
| Less: Loss on re-issue of shares | <u>₹ 300</u> |
| Transferred to Capital Reserve | <u>₹ 550</u> |

(b) Rules regarding posting of entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words To and By while posting transactions in the ledger. The word To is used in the particular column with the accounts written on the debit side while By is used with the accounts written in the particular column of the credit side. These To and By do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

(c)

| Bills of Exchange | Promissory Note |
|---|--|
| There are three parties involved drawer, drawee and payee. | There are only two parties involved promissory (maker) and Payee. |
| it is drawn by the creditor. | It is drawn by the debtor. |

ANSWERS OF MODEL TEST PAPER 3

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a) (i) **True:** Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.
- (ii) **True:** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 15 lakhs.
- (iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- (iv) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- (v) **False:** The debit notes issued are used to prepare purchases return book.
- (vi) **False:** Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.
- (b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

(c) **Calculation of depreciation for 5th year**

Depreciation per year charged for four years = ₹ 80,00,000 / 10 = ₹ 8,00,000

WDV of the machine at the end of fourth year = ₹ 80,00,000 – ₹ 8,00,000 × 4 = ₹ 48,00,000.

Depreciable amount after revaluation = ₹ 48,00,000 + ₹ 3,20,000 = ₹ 51,20,000

Remaining useful life as per previous estimate = 6 years

Remaining useful life as per revised estimate = 8 years

Depreciation for the fifth year and onwards = ₹ 51,20,000 / 8 = ₹ 6,40,000.

2. (a) **Profit and Loss Adjustment A/c**

| | ₹ | | ₹ |
|----------------------------|----------|---------------|-----------|
| To Advertisement (samples) | 3,20,000 | By Net profit | 32,00,000 |

| | | | |
|---|------------------|--|------------------|
| To Sales (goods approved in April to be taken as April sales) | 8,00,000 | By Electric fittings | 1,20,000 |
| | | By Samples | 3,20,000 |
| | | By Stock (Purchases of March not included in stock) | 20,00,000 |
| To Adjusted net profit | 67,20,000 | By Sales (goods sold in March wrongly taken as April sales) | 16,00,000 |
| | | By Stock (goods sent on approval basis not included in stock) | 6,00,000 |
| | <u>78,40,000</u> | | <u>78,40,000</u> |

Calculation of value of inventory on 31st March, 2024

| | ₹ |
|---|------------------|
| Stock on 31 st March, 2024 (given) | 30,00,000 |
| Add: Purchases of March, 2024 not included in the stock | 20,00,000 |
| Goods lying with customers on approval basis | <u>6,00,000</u> |
| | <u>56,00,000</u> |

(b) (i) Cash Book (Bank Column)

| Date | Particulars | Amount | Date | Particulars | Amount |
|-------------|-------------------------------------|-----------------|-------------|--------------------------------------|-----------------|
| 2023 | | ₹ | 2023 | | ₹ |
| Sept. 30 | To Party A/c | 64,000 | Sept. 30 | By Balance b/d | 16,248 |
| | To Customer A/c (Direct deposit) | 4,69,600 | | By Bank charges | 2,320 |
| | To Balance c/d | 44,968 | | By Customer A/c (B/R dishonoured) | 5,60,000 |
| | | <u>5,78,568</u> | | | <u>5,78,568</u> |

(ii) Bank Reconciliation Statement as on 30th September, 2023

| Particulars | Amount |
|--|------------------|
| | ₹ |
| Overdraft as per Cash Book | 44,968 |
| Add: Cheque deposited but not collected upto 30 th Sept., 2023 | <u>52,56,000</u> |
| | <u>53,00,968</u> |

| | |
|--|-------------|
| Less: Cheques issued but not presented for payment upto 30 th Sept., 2023 | (53,04,000) |
| Credit by Bank erroneously on 6th Sept. | (80,000) |
| Credit balance as per bank statement | 83,032 |

Note: Bank has credited Akhil by 80,000 in error on 6th September, 2023. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 53,04,000 resulting in credit balance of ₹ 3,032 as per pass-book.

3. (a) **Manufacturing A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|-----------|-------------------------|-----------|
| To Raw Material Consumed (Balancing Figure) | 9,15,000 | By Trading A/c (W.N. 4) | 18,32,000 |
| To Wages (W.N. 2) | 3,15,000 | | |
| To Depreciation (W.N. 1) | 3,95,000 | | |
| To Direct Expenses (W.N. 3) | 2,07,000 | | |
| | 18,32,000 | | 18,32,000 |

Raw Material A/c

| Particulars | ₹ | Particulars | ₹ |
|---------------------------|-----------|---|-----------|
| To Opening Stock A/c | 1,27,000 | By Raw Material Consumed (from Manufacturing A/c above) | 9,15,000 |
| To Creditors A/c (W.N. 5) | 14,40,000 | By Closing Stock A/c (Balancing Figure) | 6,52,000 |
| | 15,67,000 | | 15,67,000 |

Working Notes:

- (1) Since purchase of Machinery worth ₹ 12,00,000 has been omitted.
So, depreciation omitted from being charged = $12,00,000 \times 15\%$
= ₹ 1,80,000
Correct total depreciation expense = ₹ (2,15,000+1,80,000)
= 3,95,000
- (2) Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.
- (3) Expenses to be excluded from direct expenses:

| | |
|---|---------------|
| Office Electricity Charges (80,000 X 25%) | 20,000 |
| Delivery Charges to Customers | <u>22,000</u> |

Total expenses not part of Direct Expenses 42,000
 => Revised Direct Expenses = ₹ (2,49,000 - 42,000)
 = ₹ 2,07,000

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

| Particulars | ₹ |
|--|------------------|
| Current Balance transferred | 17,44,000 |
| Add: Depreciation charges not recorded earlier | 1,80,000 |
| Less: Wages related to Office | (50,000) |
| Less: Office Expenses | <u>(42,000)</u> |
| Revised balance to be transferred | <u>18,32,000</u> |

(5) **Creditors A/c**

| Particulars | ₹ | Particulars | ₹ |
|----------------|-----------------|------------------------------------|------------------|
| To Bank A/c | 23,50,000 | By Balance b/d | 15,70,000 |
| To Balance c/d | <u>6,60,000</u> | By Raw Materials A/c (Bal. figure) | <u>14,40,000</u> |
| | 30,10,000 | | 30,10,000 |

(b)

| Particulars | Ram | Lakhan | Bharat | Total Profit of firm |
|---|----------|--------|---------|----------------------|
| I. Amount already credited: Share of profit (in the ratio of 1:1:1) (2022-23, 2023-24) | 78,000 | 78,000 | 78,000 | 2,34,000 |
| II. Amount which should have been credited: C's Salary (2022-23, 2023-24) | | | 30,000 | |
| Interest on Capital (2022-23, 2023-24) | 15,000 | 7,500 | 7,500 | |
| Share of Profit | 87,000 | 43,500 | 43,500 | 1,74,000 |
| | 1,02,000 | 51,000 | 81,000 | |
| Net effect (I-II) | (24,000) | 27,000 | (3,000) | - |

The necessary journal entry will be:

| Particulars | Debit (₹) | Credit (₹) |
|----------------------|-----------|------------|
| Lakhan's Current A/c | 27,000 | |
| To Ram's Current A/c | | 24,000 |

| | | |
|---|--|-------|
| To Bharat's Current A/c (Salary to Bharat, Interest on capital charged and profit shared among partners in the ratio of capital) | | 3,000 |
|---|--|-------|

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

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

$$\text{Average Profits for Goodwill} = ₹ 36,000 - \text{Proprietor Remuneration} \\ = ₹ 36,000 - ₹ 6,000 = ₹ 30,000$$

$$\text{Normal Profit} = \text{Interest on Capital employed} \\ = ₹ 20,000 \text{ (i.e. ₹ 2,00,000} \times 10/100) = ₹ 20,000$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit} = ₹ 30,000 - ₹ 20,000 \\ = ₹ 10,000$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No. of years purchases} = ₹ 10,000 \times 2 = ₹ 20,000$$

4. (a) **Revaluation A/c**

| | ₹ | | ₹ |
|---|----------|---------------------------|----------|
| To Plant & Machinery (1,70,000 x 15%) | 25,500 | By Land & Building A/c | 1,52,000 |
| To Provision for Bad & Doubtful Debts (60,000 x 5%) | 3,000 | | |
| To Outstanding Repairs to Building | 6,000 | | |
| To X's Capital A/c (5/8) | 73,438 | | |
| To Y's Capital A/c (3/8) | 44,062 | | |
| | 1,52,000 | | 1,52,000 |

Partners Capital A/c

| | X | Y | Z | | X | Y | Z |
|-----------------------|----------|----------|----------|-------------------------|----------|----------|----------|
| To X's Capital A/c | - | - | 20,000 | By Balance b/d | 4,10,000 | 3,30,000 | - |
| To Y's Capital A/c | | | 12,000 | By Revaluation A/c | 73,438 | 44,062 | - |
| To Y's Current A/c | - | 68,062 | | By Profit & Loss A/c | 70,000 | 42,000 | - |
| To Balance c/d | 6,00,000 | 3,60,000 | 2,40,000 | By Bank | - | - | 2,72,000 |
| | | | | By Z's Capital A/c | 20,000 | 12,000 | - |
| | | | | By X's Current A/c | 26,562 | - | - |
| | 6,00,000 | 4,28,062 | 2,72,000 | | 6,00,000 | 4,28,062 | 2,72,000 |

Calculation of New Profit Sharing Ratio and gaining ratio:

Z's Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

X's Share = $5/8 \times 4/5 = 20/40 = 5/10$

Ys Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Alpha and Associates as on 31.3.2024

| Liabilities | | ₹ | Assets | | |
|---------------------------------|-----------------|------------------|--------------------|---------------|------------------|
| Capital Accounts: | | | Land & Buildings | | 5,32,000 |
| X | 6,00,000 | | Plant & Machinery | 1,70,000 | |
| Y | 3,60,000 | | Less: Depreciation | <u>25,500</u> | 1,44,500 |
| Z | <u>2,40,000</u> | 12,00,000 | Furniture | | 1,09,480 |
| Y's Current A/c | | 68,062 | Stock | | 1,45,260 |
| Trade Creditors | | 54,800 | Sundry Debtors | 60,000 | |
| Outstanding Repairs to Building | | 6,000 | Less: Provision | <u>3,000</u> | 57,000 |
| | | | Cash at Bank | | 3,14,060 |
| | | | X's current A/c | | <u>26,562</u> |
| | | <u>13,28,862</u> | | | <u>13,28,862</u> |

Working Note:

Required Balance of Capital Accounts

Z's Capital after writing off Goodwill = $2,72,000 - 32,000 = 2,40,000$

Z's Share of Profit = $1/5$

Thus Capital of the firm shall be = $2,40,000 \times 5 = 12,00,000$

X's Capital = $12,00,000 \times 5/10 = 6,00,000$ and

Y's Capital = $12,00,000 \times 3/10 = 3,60,000$

**(b) Trading A/c
for the year ended 31st March, 2024**

| | ₹ | | ₹ |
|-----------------------|----------|----------|------------------|
| To Opening stock | 2,80,000 | By Sales | |
| To Purchases | 7,70,000 | Cash | 2,40,000 |
| To Gross Profit @ 25% | 3,10,000 | Credit | <u>10,00,000</u> |
| | | | 12,40,000 |

| | | | | |
|--|------------------|--------------------------|-------|------------------|
| | _____ | By Closing (bal.fig.) | Stock | <u>1,20,000</u> |
| | <u>13,60,000</u> | | | <u>13,60,000</u> |

Profit and Loss Account
for the year ended 31st March, 2024

| | ₹ | | ₹ |
|--|-----------------|-----------------|-----------------|
| To Salaries | 40,000 | By Gross Profit | 3,10,000 |
| To Business expenses | 1,20,000 | | |
| To Interest on loan (10% of 1,00,000*6/ 12) | 5,000 | | |
| To Net Profit | <u>1,45,000</u> | | _____ |
| | <u>3,10,000</u> | | <u>3,10,000</u> |

Balance Sheet as at 31st March, 2024

| <i>Liabilities</i> | ₹ | ₹ | <i>Assets</i> | ₹ |
|--|-----------------|-----------------|----------------|-----------------|
| Ram's capital: | | | Cash in hand | 10,000 |
| Opening | 3,00,000 | | Cash at Bank | 80,000 |
| Add: Net Profit | <u>1,45,000</u> | | Sundry Debtors | 3,50,000 |
| | 4,45,000 | | Stock in trade | 1,20,000 |
| Less: Drawings | <u>(80,000)</u> | 3,65,000 | | |
| Loan from Laxman (including interest due) | | 1,05,000 | | |
| Sundry Creditors | | <u>90,000</u> | | _____ |
| | | <u>5,60,000</u> | | <u>5,60,000</u> |

Working Notes:

1. Sundry Debtors Account

| | ₹ | | ₹ |
|----------------------------|------------------|----------------|------------------|
| To Balance b/d | 1,00,000 | By Bank A/c | 7,50,000 |
| To Credit sales (Bal. fig) | <u>10,00,000</u> | By Balance c/d | <u>3,50,000</u> |
| | <u>11,00,000</u> | | <u>11,00,000</u> |

2. Sundry Creditors Account

| | ₹ | | ₹ |
|----------------|-----------------|--------------------------|-----------------|
| To Bank A/c | 7,00,000 | By Balance b/d | 40,000 |
| To Cash A/c | 20,000 | By Purchases (Bal. fig.) | 7,70,000 |
| To Balance c/d | <u>90,000</u> | | _____ |
| | <u>8,10,000</u> | | <u>8,10,000</u> |

3. Cash and Bank Account

| | Cash | Bank | | Cash | Bank |
|---------------------|-----------------|-----------------|----------------------|-----------------|-----------------|
| | ₹ | ₹ | | ₹ | ₹ |
| To Balance b/d | 10,000 | | By Balance b/d | | 50,000 |
| To Sales (bal. fig) | 2,40,000 | | By Bank A/c (C) | 1,00,000 | |
| To Cash (C) | | 1,00,000 | By Salaries | 40,000 | |
| To Debtors | | 7,50,000 | By Creditors | 20,000 | 7,00,000 |
| To Laxman's loan | | 1,00,000 | By Drawings | 80,000 | |
| | | | By Business expenses | | 1,20,000 |
| | | | By Balance c/d | <u>10,000</u> | <u>80,000</u> |
| | <u>2,50,000</u> | <u>9,50,000</u> | | <u>2,50,000</u> | <u>9,50,000</u> |

4. Calculation of Ram's Capital on 1st April, 2023

Balance Sheet as at 1st April, 2023

| Liabilities | ₹ | Assets | ₹ |
|--------------------------|-----------------|----------------|-----------------|
| Ram's Capital (bal. fig) | 3,00,000 | Cash in hand | 10,000 |
| Bank Overdraft | 50,000 | Sundry Debtors | 1,00,000 |
| Sundry Creditors | <u>40,000</u> | Stock in trade | <u>2,80,000</u> |
| | <u>3,90,000</u> | | <u>3,90,000</u> |

5. (a) Rectification entries in the books of M/s VB Wires

| | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|----|--|------|----------|----------|
| 1. | Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified) | | 37,500 | 37,500 |
| 2. | Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made) | | 4,500 | 4,500 |

| | | | | |
|----|--|-----|--------|--------|
| 3. | Suspense Account To Seven & Co. (Goods returned by Seven & Co. had been posted wrongly to the debit of her account, now rectified) | Dr. | 6,300 | 6,300 |
| 4. | Profit and Loss Adjustment Account To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified) | Dr. | 90,000 | 90,000 |
| 5. | Comfort & Co. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified) | Dr. | 60,000 | 60,000 |

(b) Receipts and Payments Account for the year ended 31-03-2024

| Receipts | ₹ | Payments | ₹ |
|------------------------------------|-----------------|-----------------------------|-----------------|
| To balance b/d | | By Salaries | 30,000 |
| Cash and bank | 55,000 | By Purchase of sports goods | 5,000 |
| To Subscription received (W.N.1) | 1,22,500 | ₹ (12,500 - 7,500) | |
| To Sale of investments (W.N.2) | 35,000 | By Purchase of machinery | 5,000 |
| To Interest received on investment | 7,000 | ₹ (10,000-5,000) | |
| To Sale of furniture | 4,000 | By Sports expenses | 25,000 |
| | | By Rent paid | 11,000 |
| | | ₹ (12,000 -1,000) | |
| | | By Miscellaneous expenses | 2,500 |
| | | By Balance c/d | |
| | | Cash and bank | <u>1,45,000</u> |
| | <u>2,23,500</u> | | <u>2,23,500</u> |

Income and Expenditure account for the year ended 31-03-2024

| Expenditure | ₹ | | ₹ | Income | ₹ | ₹ |
|---------------------------|--------------|--|---|------------------------------------|-------|----------|
| To Salaries | 30,000 | | | By Subscription | | 1,50,000 |
| Add: Outstanding for 2024 | <u>9,000</u> | | | By Interest on Investment Received | 7,000 | |
| | 39,000 | | | | | |

| | | | | | |
|--------------------------------------|----------------|-----------------|-----------------|--------------|-----------------|
| Less: Outstanding for 2023 | <u>(7,500)</u> | 31,500 | Accrued (W.N.5) | <u>1,750</u> | 8,750 |
| To Sports expenses | | 25,000 | | | |
| To Rent | | 12,000 | | | |
| To Miscellaneous exp. | | 2,500 | | | |
| To Loss on sale of furniture (W.N.3) | | 3,000 | | | |
| To Depreciation (W.N.4) | | | | | |
| Furniture | 700 | | | | |
| Machinery | 750 | | | | |
| Sports goods | <u>1,125</u> | 2,575 | | | |
| To Surplus | | <u>82,175</u> | | | |
| | | <u>1,58,750</u> | | | <u>1,58,750</u> |

Working Notes:

1. Calculation of Subscription received during the year 2023-24

| | ₹ |
|--|-----------------|
| Subscription due for 2023-24 | 1,50,000 |
| Add: Outstanding of 2023 | 70,000 |
| Less: Outstanding of 2024 | (1,00,000) |
| Add: Subscription of 2024 received in advance | 15,000 |
| Less: Subscription of 2023 received in advance | <u>(12,500)</u> |
| | <u>1,22,500</u> |

2. Calculation of Sale price and profit on sale of investment

Face value of investment sold: ₹ 87,500 × 50% = ₹ 43,750

Sales price: ₹ 43,750 × 80% = ₹ 35,000

Cost price of investment sold: ₹ 70,000 × 50% = ₹ 35,000

Profit/loss on sale of investment: ₹ 35,000 - ₹ 35,000 = NIL

3. Loss on sale of furniture

| | ₹ |
|--|----------------|
| Value of furniture as on 01-04-2023 | 14,000 |
| Value of furniture as on 31-03-2024 | <u>7,000</u> |
| Value of furniture sold at the beginning of the year | 7,000 |
| Less: Sales price of furniture | <u>(4,000)</u> |
| Loss on sale of furniture | <u>3,000</u> |

4. Depreciation

| | | | |
|----------------|--------------|---|-------|
| Furniture - | ₹7,000 × 10% | = | 700 |
| Machinery - | ₹5,000 × 15% | = | 750 |
| Sports goods - | ₹7,500 × 15% | = | 1,125 |

5. Interest accrued on investment

| | ₹ |
|---|----------------|
| Face value of investment on 01-04-2023 | 87,500 |
| Interest @ 10% | 8,750 |
| Less: Interest received during the year | <u>(7,000)</u> |
| Interest accrued during the year | <u>1,750</u> |

Note: It is assumed that the sale of investment has taken place at the end of the year.

6. (a)

| Entry No. | Particulars | L.F. | Debit Amount (₹) | Credit Amount (₹) |
|-----------|--|------|------------------|-------------------|
| 1 | Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 20,000 shares @ ₹ 2 per share) | | 40,000 | 40,000 |
| 2 | Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital) | | 40,000 | 40,000 |
| 3 | Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share) | | 80,000 | 60,000 20,000 |
| 4 | Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received) | | 80,000 | 80,000 |
| 5 | Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call made due on 20,000 shares at ₹ 2 per share) | | 40,000 | 40,000 |

| | | | | |
|----|--|-------------------|------------------------|-----------------|
| 6 | Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share) | Dr. | 46,000 | 40,000 6,000 |
| 7 | Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 20,000 shares at ₹ 3 each) | Dr. | 60,000 | 60,000 |
| 8 | Bank A/c Calls in Advance A/c Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted) | Dr. Dr. Dr. | 53,100 6,000 900 | 60,000 |
| 9 | Interest on Calls in Advance A/c To Shareholders A/c (Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.) | Dr. | 240 | 240 |
| 10 | Shareholders A/c To Bank A/c (Being payment of interest made to shareholder) | Dr. | 240 | 240 |
| 11 | Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%) | Dr. | 15 | 15 |
| 12 | Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 200 shares for calls in arrears and interest thereupon) | Dr. | 615 | 600 15 |
| 13 | Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%) | Dr. | 10 | 10 |
| 14 | Bank A/c | Dr. | 310 | |

| | | | | |
|--|--|--|--|-----|
| To Calls in Arrears A/c | | | | 300 |
| To Shareholders A/c | | | | 10 |
| (Being money received from shareholder having 100 share for calls in arrears and interest thereupon) | | | | |

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

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

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

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

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

- (b) (i)** A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
- (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
- (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.

- (ii) 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.

OR

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

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

ANSWERS OF MODEL TEST PAPER 4

FOUNDATION COURSE

PAPER 1: ACCOUNTING

1. (a) (i) **True:** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.
- (ii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iii) **True:** The financial statements must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
- (iv) **False:** The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships
- (v) **False:** Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained.
- (vi) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.
- (b) Difference between Provision and Contingent liability

| | Provision | Contingent liability |
|-----|---|---|
| (1) | Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation. | A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events. |
| (2) | A provision meets the recognition criteria. | A contingent liability fails to meet the same. |
| (3) | Provision is 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 | If the management estimates, that it is less likely that any economic |

| | |
|--|--|
| <p>that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.</p> | <p>benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.</p> |
|--|--|

(c)

| S. No. | Debit (₹) | Credit (₹) |
|--------|---|----------------------|
| 1 | Commission A/c Dr. To Interest Received (Correcting wrong entry of interest received into commission account) | 13,500 13,500 |
| 2 | M/s Kamal Traders A/c Dr. To Suspense A/c (Being credit sale of ₹ 5,920 posted as ₹ 5,290 i.e. debiting M/s Kamal Traders A/c less by 630, now rectified) | 630 630 |
| 3 | Drawing A/c Dr. To Machinery A/c (Correction of wrong debit to machinery account for purchase of air-conditioner for personal use) | 44,000 44,000 |
| 4 | Return Inward A/c Dr. To Debtors (Personal) A/c (Correction of omission to record return of goods by customers) | 20,000 20,000 |

2. (a) **In the books of Firm**
Machinery Account

| | | ₹ | | | ₹ |
|----------|-----------------------------------|---------------|------------|--|---------------|
| 1.1.2020 | To Bank A/c | 37,000 | 31.12.2020 | By Depreciation A/c | 4,000 |
| | To Bank A/c (overhauling charges) | 3,000 | 31.12.2020 | By Balance c/d | 36,000 |
| | | <u>40,000</u> | | | <u>40,000</u> |
| 1.1.2021 | To Balance b/d | 36,000 | 31.12.2021 | By Depreciation A/c (₹ 5,400 + ₹ 750) | 6,150 |

| | | | | | |
|----------|----------------|---------------|------------|---|---------------|
| 1.7.2021 | To Bank A/c | 10,000 | 31.12.2021 | By Balance c/d (₹ 30,600 + ₹ 9,250) | 39,850 |
| | | <u>46,000</u> | | | <u>46,000</u> |
| 1.1.2022 | To Balance b/d | 39,850 | 1.7.2022 | By Bank A/c(sale) | 28,000 |
| 1.7.2022 | To Bank A/c | 25,000 | 1.7.2022 | By Profit and Loss A/c (Loss on Sale W.N. 1) | 305 |
| | | | 31.12.2022 | By Depreciation A/c (₹ 2,295 + ₹ 1,388 + ₹ 1,875) | 5,558 |
| | | | | By Balance c/d (₹ 7,862 + ₹ 23,125) | 30,987 |
| | | <u>64,850</u> | | | <u>64,850</u> |
| 1.1.2023 | To Balance b/d | 30,987 | 1.7.2023 | By Bank A/c (sale) | 2,000 |
| | | | 1.7.2023 | By Profit and Loss A/c (Loss on Sale W.N. 1) | 5,272 |
| | | | 31.12.2023 | By Depreciation A/c (₹ 590 + ₹ 3,469) | 4,059 |
| | | | 31.12.2023 | By Balance c/d | <u>19,656</u> |
| | | 30,987 | | | 30,987 |

Working Note:

Book Value of machines

| | <i>Machine I ₹</i> | <i>Machine II ₹</i> | <i>Machine III ₹</i> |
|--|----------------------------|-----------------------------|------------------------------|
| Cost of all machinery (Machinery cost for 2020) | 40,000 | 10,000 | 25,000 |
| Depreciation for 2020 | <u>4,000</u> | | |
| Written down value as on 31.12.2020 | 36,000 | | |
| Purchase 1.7.2021 (6 months) | | 10,000 | |

| | | | |
|-------------------------------------|---------------|--------------|---------------|
| Depreciation for 2021 | <u>5,400</u> | <u>750</u> | |
| Written down value as on 31.12.2021 | 30,600 | 9,250 | |
| Depreciation for 6 months (2022) | <u>2,295</u> | | |
| Written down value as on 1.7.2022 | 28,305 | | |
| Sale proceeds | <u>28,000</u> | | |
| Loss on sale | <u>305</u> | | |
| Purchase 1.7.2022 | | | 25,000 |
| Depreciation for 2022 | | <u>1,388</u> | <u>1,875</u> |
| Written down value as on 31.12.2022 | | 7,862 | 23,125 |
| Depreciation for 6 months in 2023 | | <u>590</u> | |
| Written down value as on 1.7.2023 | | 7,272 | |
| Sale proceeds | | <u>2,000</u> | |
| Loss on sale | | <u>5,272</u> | |
| Depreciation for 2023 | | | <u>3,469</u> |
| Written down value as on 31.12.2023 | | | <u>19,656</u> |

(b) Valuation of Physical Stock as at March 31, 2024

| | | ₹ |
|--|-----------------|-----------------|
| Stock at cost on 31 st March, 2023 | | 7,20,000 |
| Add: (1) Under casting of a page total | 1,800 | |
| (2) Goods purchased and delivered during January March, 2024 ₹ (6,30,000 27,000 + 36,000) | 6,39,000 | |
| (3) Cost of sales return ₹ (9,000 1,800) | <u>7,200</u> | <u>6,48,000</u> |
| | | 13,68,000 |
| Less: (1) Overcasting of a page total ₹ (54,000 45,000) | 9,000 | |
| (2) Goods sold and dispatched during January March, 2024 ₹ (8,10,000 45,000 + 36,000)8,01,000 | | |
| Less: Profit margin $8,01,000 \times \frac{25}{125}$ | <u>1,60,200</u> | <u>6,40,800</u> |
| Value of stock as on 31 st March, 2024 | | <u>7,18,200</u> |

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 36,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2023-2024 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced in April, 2024 would be excluded and treated as sale of the year 2023-2024

3. (a) **Income and Expenditure Account**
for the year ended 31st March, 2024

| | ₹ | | ₹ |
|--|-----------------|-----------------------|-----------------|
| To Medicines consumed | | By Prescription fees | 6,60,000 |
| Purchases 2,45,000 | | By Visiting fees | 2,50,000 |
| Less: Stock on 31.3.24 (95,000) | 1,50,000 | By Fees from lectures | 24,000 |
| To Motor car expense | 80,000 | | |
| To Wages and salaries (1,05,000 30,000) | 75,000 | | |
| To Rent for clinic | 60,000 | | |
| To General charges | 49,000 | | |
| To Interest on loan | 36,000 | | |
| To Net Income | <u>4,84,000</u> | | |
| | <u>9,34,000</u> | | <u>9,34,000</u> |

Capital Account
for the year ended 31st March, 2024

| | ₹ | | ₹ |
|----------------------------|-----------------|-------------------------|-----------------|
| To Drawings: | | By Cash/bank | 2,00,000 |
| Motor car expenses | 40,000 | By Cash/ bank (pension) | 3,00,000 |
| (one-third of ₹ 1,20,000) | | By Net income from | 4,84,000 |
| Household expenses | 1,80,000 | practice (derived from | |
| Daughter s Surgery exp. | 2,15,000 | income and expenditure | |
| Wages of domestic servants | 30,000 | A/c) | |
| Household furniture | 25,000 | | |
| To Balance c/d | <u>4,94,000</u> | | |
| | <u>9,84,000</u> | | <u>9,84,000</u> |

(b) **Revaluation Account**

| | ₹ | | ₹ |
|---------------------------|-----------------|---------------------------------|-----------------|
| To Furniture A/c | 40,000 | By Office equipment A/c | 47,000 |
| To Stock A/c | 30,000 | By Building A/c | 5,00,000 |
| To Partners capital A/cs: | | By Provision for doubtful debts | 15,000 |
| P 2,46,000 | | | |
| Q 1,64,000 | | | |
| R <u>82,000</u> | <u>4,92,000</u> | | |
| | <u>5,62,000</u> | | <u>5,62,000</u> |

Partners Capital Accounts

| | P ₹ | Q ₹ | R ₹ | | P ₹ | Q ₹ | R ₹ |
|--------------------|------------------|-----------------|-----------------|------------------------|------------------|-----------------|-----------------|
| To Q s capital A/c | 90,000 | | 30,000 | By Balance b/d | 8,00,000 | 4,20,000 | 4,00,000 |
| To Q s loan A/c | | 8,24,000 | | By General Reserve | 1,80,000 | 1,20,000 | 60,000 |
| To Balance c/d | 11,36,000 | | 5,12,000 | By revaluation reserve | 2,46,000 | 1,64,000 | 82,000 |
| | | | | By P s capital A/c | | 90,000 | |
| | | | | By R s capital A/c | | 30,000 | |
| | <u>12,26,000</u> | <u>8,24,000</u> | <u>5,42,000</u> | | <u>12,26,000</u> | <u>8,24,000</u> | <u>5,42,000</u> |

Balance Sheet as on 1.4.2024 (After Q s retirement)

| <i>Liabilities</i> | ₹ | ₹ | <i>Assets</i> | ₹ | ₹ |
|--------------------|-----------------|------------------|------------------------------------|-----------------|------------------|
| Capital accounts: | | | Building | | 15,00,000 |
| P | 11,36,000 | | Furniture | | 2,00,000 |
| R | <u>5,12,000</u> | 16,48,000 | Office equipment | | 3,27,000 |
| Q s loan account | | 8,24,000 | Stock | | 2,20,000 |
| Sundry creditors | | 3,70,000 | Sundry debtors | 3,00,000 | |
| | | | Less: Provision for doubtful debts | <u>(15,000)</u> | 2,85,000 |
| | | <u>28,42,000</u> | Cash at bank | | <u>3,10,000</u> |
| | | | | | <u>28,42,000</u> |

Working Notes:

Calculation of goodwill:

1. Average of last 4 year s profit

$$= (90,000 + 1,40,000 + 1,20,000 + 1,30,000) / 4$$

$$= ₹ 1,20,000$$
2. Goodwill at three years purchase

$$₹ 1,20,000 \times 3 = ₹ 3,60,000$$

Goodwill adjustment

| | <i>Share of goodwill (Old ratio)</i> | <i>Share of goodwill (New ratio)</i> | <i>Adjustment</i> |
|---|--|--|-------------------|
| P | 1,80,000 | 2,70,000 | 90,000 (Dr.) |
| Q | 1,20,000 | - | 1,20,000 (Cr.) |
| R | 60,000 | 90,000 | 30,000 (Dr.) |

4. (i) **Statement showing Realization of Cash**

| Sr. No. | Particulars | Realization | Creditors | Partner s Loan | Partner s Capital |
|---------|--|-------------|-----------|----------------|-------------------|
| 1 | After taking into account cash balance and amount set aside for expenses | 1,500 | 1,500 | - | - |
| 2 | | 4,500 | 1,500 | 3,000 | |
| 3 | | 5,850 | - | 4,500 | 1,350 |
| 4 | | 9,000 | - | - | 9,000 |
| | Including Savings in Exp | 30,150 | - | - | 30,150 |
| | | 51,000 | 3,000 | 7,500 | 40,500 |

To ascertain the amount distributable out of each installment realized among the partners, the following table will be constructed:

Statement of Distribution on Capital Accounts

(1) Calculation to determine the mode of distribution of ₹1,350

| Particulars | Total | A | B | C |
|--|----------|----------|----------|----------|
| Balance | 63,000 | 22,500 | 27,000 | 13,500 |
| Less: Maximum Loss in 2:2:1 | (61,650) | (24,660) | (24,660) | (12,330) |
| | +1,350 | -2,160 | +2,340 | +1,170 |
| Deficiency of A's capital written off against those of B and C in the ratio of their capital 27,000: 13,500, (Garner vs. Murray) | | | (1,440) | (720) |
| Manner in which the first ₹ 1,350 should be distributed | | | + 900 | + 450 |

(2) Distribution of ₹9,000

| | | | | |
|-----------------------------------|----------|----------|----------|----------|
| Balance after (1) | 61,650 | 22,500 | 26,100 | 13,050 |
| Less : Maximum Loss in 2:2:1 | (52,650) | (21,060) | (21,060) | (10,530) |
| Balance available and distributed | 9,000 | 1,440 | 5,040 | 2,520 |

(3) Distribution of ₹30,150

| | | | | |
|-----------------------------|----------|---------|---------|---------|
| Balance after (2) | 52,650 | 21,060 | 21,060 | 10,530 |
| Less: Maximum Loss in 2:2:1 | (22,500) | (9,000) | (9,000) | (4,500) |

| | | | | |
|--------------------------|--------|--------|--------|--------|
| Distribution of ₹ 30,150 | 30,150 | 12,060 | 12,060 | 6,030 |
| <u>Summary:</u> | | | | |
| Balance | 63,000 | 22,500 | 27,000 | 13,500 |
| Total Amounts Paid | 40,500 | 13,500 | 18,000 | 9,000 |
| Loss | 22,500 | 9,000 | 9,000 | 4,500 |

(b) **Trading and Profit and Loss Account of Mr. Chauhan**
for the year ended 31st March, 2024

| Dr. | | | | Cr. | | | |
|---|--------------|-----------------|------------------------|--------------|-----------------|--|--|
| Particulars | ₹ | Amount (₹) | Particulars | ₹ | Amount (₹) | | |
| To Opening stock | | 64,500 | By Sales | 4,27,150 | | | |
| To Purchases | 3,13,200 | | Less: Sales return | <u>5,150</u> | 4,22,000 | | |
| Less: Purchases return | <u>3,450</u> | 3,09,750 | By Closing stock | | 2,50,000 | | |
| To Carriage inward | | 2,250 | | | | | |
| To Wages | | 23,430 | | | | | |
| To Gross profit c/d | | <u>2,72,070</u> | | | | | |
| | | <u>6,72,000</u> | | | <u>6,72,000</u> | | |
| To Salaries | | 45,100 | By Gross profit b/d | | 2,72,070 | | |
| To Rent | | 8,600 | By Bad debts recovered | | 900 | | |
| To Advertisement expenses | | 8,350 | | | | | |
| To Printing and stationery | | 2,500 | | | | | |
| To Bad debts | | 2,200 | | | | | |
| To Carriage outward | | 2,700 | | | | | |
| To Provision for doubtful debts | | | | | | | |
| 5% of ₹ 2,40,000 | 12,000 | | | | | | |
| Less: Existing provision | <u>6,400</u> | 5,600 | | | | | |
| To Provision for discount on debtors | | | | | | | |
| 2.5% of ₹ 2,28,000 | 5,700 | | | | | | |
| Less: Existing provision | <u>2,750</u> | 2,950 | | | | | |
| To Depreciation: | | | | | | | |
| Plant and machinery | 6,000 | | | | | | |
| Furniture and fittings | <u>2,050</u> | 8,050 | | | | | |
| To Office expenses | | 20,320 | | | | | |
| To Interest on loan | | 6,000 | | | | | |
| To Net profit (Transferred to capital account) | | <u>1,60,600</u> | | | | | |
| | | <u>2,72,970</u> | | | <u>2,72,970</u> | | |

Balance Sheet of Mr. Chauhan as on 31st March, 2024

| Liabilities | ₹ | Amount ₹ | Assets | ₹ | Amount ₹ |
|------------------|-----------------|-----------------|------------------------------------|--------------|-----------------|
| Capital account | 1,30,000 | | Plant and machinery | 40,000 | |
| Add: Net profit | <u>1,60,600</u> | | Less: Depreciation | <u>6,000</u> | 34,000 |
| | 2,90,600 | | Furniture and fittings | 20,500 | |
| Less: Drawings | <u>16,000</u> | 2,74,600 | Less: Depreciation | <u>2,050</u> | 18,450 |
| Bank overdraft | | 1,60,000 | Closing stock | | 2,50,000 |
| Sundry creditors | | 95,000 | Sundry debtors | 2,40,000 | |
| Payable salaries | | 4,900 | Less: Provision for doubtful debts | 12,000 | |
| | | | Less: Provision for bad debts | <u>5,700</u> | 2,22,300 |
| | | | Prepaid rent | | 600 |
| | | | Cash in hand | | 2,900 |
| | | | Cash at bank | | 6,250 |
| | | <u>5,34,500</u> | | | <u>5,34,500</u> |

**5. (a) In the books of Katen
Journal Entries**

| Particulars | ₹ | ₹ |
|--|---------------|--------|
| Bills Receivable A/c Dr. To Bharat A/c (Being a 3 month s bill drawn on Bharat for the amount due) | 50,000 | 50,000 |
| Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being the bill discounted) | 49,500 500 | 50,000 |
| Bharat A/c Dr. To Bank A/c (Being the bill cancelled up due to Bharat s inability to pay it) | 50,000 | 50,000 |
| Bharat A/c Dr. To Interest A/c (Being the interest due on ₹ 25,000 @ 12% for 3 months) | 750 | 750 |

| | | | |
|---|------------|------------------|--------|
| Bank A/c To Bharat A/c (Being the receipt of a portion of the amount due on the bill together with interest) | Dr. | 25,750 | 25,750 |
| Bills Receivable A/c To Bharat A/c (Being the new bill drawn for the balance) | Dr. | 25,000 | 25,000 |
| Bharat A/c To Bills Receivable A/c (Being the dishonour of the bill due to Bharat s insolvency) | Dr. | 25,000 | 25,000 |
| Bank A/c Bad Debts A/c To Bharat A/c (Being the receipt of 40% of the amount due on the bill from Bharat s estate) | Dr. Dr. | 10,000 15,000 | 25,000 |

(b) (i) (i) Computation of Income for the year 2023-24:

| | ₹ |
|--|------------------|
| Money received during the year related to 2023-24 | 15,00,000 |
| Add: Money received in advance during previous years | 4,50,000 |
| Total income of the year 2023-24 | 19,50,000 |

(ii) Advance from Customers A/c

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---------|--|-----------------|----------|-----------------------------------|-----------------|
| | To Sales A/c (Advance related to current year transferred to sales) | 4,50,000 | 1.4.2023 | By Balance b/d | 6,00,000 |
| 31.3.24 | To Balance c/d | 5,10,000 | | By Bank A/c (Balancing Figure) | 3,60,000 |
| | | <u>9,60,000</u> | | | <u>9,60,000</u> |

So, total money received during the year is:

| | ₹ |
|---|-------------------------|
| Cash Sales during the year | 15,00,000 |
| Add: Advance received during the year | 3,60,000 |
| Total money received during the year | <u>18,60,000</u> |

OR

(ii) (i) Amount of salaries to be charged to P & L A/c for the year ended 31stDecember, 2023

| | | | |
|-------------------------------|-----------------------|---|----------------------|
| Employees | = 9 x ₹ 1,32,000 x 12 | = | ₹ 1,42,56,000 |
| Trainees | = 2 x ₹ 63,000 x 6 | = | ₹ <u>7,56,000</u> |
| Salaries charged to P & L A/c | | | ₹ <u>1,50,12,000</u> |

(ii) Amount actually paid as salaries during 2023

| | | | |
|-------------------------|---------------------------------|---|----------------------|
| Employees | = 9 x ₹ 1,32,000x11+9x₹1,20,000 | = | ₹ 1,41,48,000 |
| Trainees | = 2 x ₹ 63,000 x 5 | = | ₹ <u>6,30,000</u> |
| Amount paid as salaries | | | ₹ <u>1,47,78,000</u> |

(iii) Outstanding salaries as on 31.12.2023

| | | | |
|----------------------|------------------|---|--------------------|
| Employees | = 9 x ₹ 1,32,000 | = | ₹ 11,88,000 |
| Trainees | = 2 x ₹ 63,000 | = | ₹ <u>1,26,000</u> |
| Outstanding salaries | | | ₹ <u>13,14,000</u> |

(c) Journal Entries in the books of Puri Ltd.

| | | ₹ | ₹ |
|-----------|---|--|----------|
| 1-4-2024 | Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated .) | 2,70,000 | 2,70,000 |
| 20-4-2024 | Bank A/c Dr. To Equity share final call A/c (For final call money on 1,35,000 equity shares received) | 2,70,000 | 2,70,000 |
| | Securities Premium A/c Dr. Capital Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held) | 37,500 60,000 1,80,000 60,000 | 3,37,500 |
| | Bonus to shareholders A/c Dr. To Equity share capital A/c (For issue of bonus shares) | 3,37,500 | 3,37,500 |

Extract of Balance Sheet as at 30th April, 2024 (after bonus issue)

| | ₹ |
|---|------------------|
| Authorised Capital | |
| 15,000 12% Preference shares of ₹10 each | 1,50,000 |
| 1,83,750 Equity shares of ₹10 each (W.N.2) | <u>18,37,500</u> |
| Issued and subscribed capital | |
| 12,000 12% Preference shares of ₹10 each, fully paid | 1,20,000 |
| 1,68,750 Equity shares of ₹10 each, fully paid | 16,87,500 |
| (Out of above, 33,750 equity shares @ ₹10 each were issued by way of bonus) | |
| Reserves and surplus | |
| Profit and Loss Account | 2,40,000 |

Working Notes:

| | |
|---|------------------|
| The authorized capital should be increased as per details given below: | ₹ |
| Existing authorized Equity share capital | 15,00,000 |
| <i>Add:</i> Issue of bonus shares to equity shareholders (25% of ₹ 13,50,000) | <u>3,37,500</u> |
| | <u>18,37,500</u> |

**6. (a) In the books of Devis Ltd.
Journal Entries**

| | Dr. ₹ | Cr. ₹ |
|--|-----------|-----------------------|
| Bank A/c Dr. To Equity Share Application A/c (Being the application money received for 4,50,000 shares at ₹ 6 per share) | 27,00,000 | 27,00,000 |
| Equity Share Application A/c Dr. To Equity Share Capital A/c To Share allotment A/c (Being share allotment made for 3,00,000 shares and excess adjusted towards allotment) | 27,00,000 | 18,00,000 9,00,000 |
| Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment amount due on 3,00,000 equity shares at ₹ 10 per share as per Directors resolution no... dated...) | 30,00,000 | 30,00,000 |

| | | | |
|--|-----|---------------------|--------------------|
| Bank A/c To Equity Share Allotment A/c (Being balance allotment money received for 3,00,000 shares) | Dr. | 21,00,000 | 21,00,000 |
| Equity Share first and final call A/c To Equity Share Capital A/c (Being first and final call amount due on 3,00,000 equity shares at ₹ 4 per share as per Directors resolution no... dated...) | Dr. | 12,00,000 | 12,00,000 |
| Bank A/c Calls in arrears A/c To Equity Share first and final call A/c (Being final call received on 2,91,000 shares) | Dr. | 11,64,000 36,000 | 12,00,000 |
| Share capital A/c (9,000 x ₹ 20) To Forfeited shares A/c (9,000 x ₹ 16) To Calls in arrears A/c (9,000 x ₹ 4) (Being forfeiture of 9,000 shares of ₹ 20 each fully called-up for non payment of first and final call @ ₹ 4 as per Directors resolution no... dated..) | Dr. | 1,80,000 | 1,44,000 36,000 |
| Bank A/c (7,500 x ₹16) Forfeited shares A/c (7,500 x ₹4) To Equity Share Capital A/c (7,500 x ₹ 20) (Being re-issue of 7,500 shares @ ₹ 16) | Dr. | 1,20,000 30,000 | 1,50,000 |
| Forfeited share A/c (7,500 x ₹ 12) To capital reserve A/c (7,500 x ₹ 12) (Being profit on re-issue transferred to capital reserve) | | 90,000 | 90,000 |

Working Note:

Calculation of amount to be transferred to Capital reserve A/c

| | | | |
|-----------------------------|------------------|---|-----------|
| | | | ₹ |
| Forfeited amount per share | = 1,44,000/9,000 | = | 16 |
| Loss on re issue (20-16) | | | <u>4</u> |
| Surplus per share | | | <u>12</u> |
| Transfer to capital reserve | = ₹ 12 x 7,500 | = | ₹ 90,000 |

(b)

In the Books of Universe Limited

Journal Entries

| | | | Dr. (₹) | Cr. (₹) |
|-----------|--|-----|-----------|-----------|
| 1-4-2023 | Bank A/c | Dr. | 36,00,000 | |
| | Discount/Loss on Issue of Debentures A/c | Dr. | 6,00,000 | |
| | To 12% Debentures A/c | | | 40,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 2,00,000 |
| | (For issue of debentures at discount redeemable at premium) | | | |
| 30-9-2023 | Debenture Interest A/c | Dr. | 2,40,000 | |
| | To Debenture holders A/c | | | 2,16,000 |
| | To Tax Deducted at Source A/c | | | 24,000 |
| | (For interest payable) | | | |
| 30-9-2023 | Debenture holders A/c | Dr. | 2,16,000 | |
| | Tax Deducted at Source A/c | Dr. | 24,000 | |
| | To Bank A/c | | | 2,40,000 |
| | (For payment of interest and TDS) | | | |
| 31-3-2024 | Debenture Interest A/c | Dr. | 2,40,000 | |
| | To Debenture holders A/c | | | 2,16,000 |
| | To Tax Deducted at Source A/c | | | 24,000 |
| | (For interest payable) | | | |
| 31-3-2024 | Debenture holders A/c | Dr. | 2,16,000 | |
| | Tax Deducted at Source A/c | Dr. | 24,000 | |
| | To Bank A/c | | | 2,40,000 |
| | (For payment of interest and tax) | | | |
| 31-3-2024 | Profit and Loss A/c | Dr. | 4,80,000 | |
| | To Debenture Interest A/c | | | 4,80,000 |
| | (For transfer of debenture interest to profit and loss account at the end of the year) | | | |
| 31-3-2024 | Profit and Loss A/c | Dr. | 1,20,000 | |
| | To Discount/Loss on issue of debenture A/c | | | 1,20,000 |
| | (For proportionate debenture discount and premium on redemption written off, i.e., 6,00,000 x 1/5) | | | |

(c) **Adjusted Cash Book as on 31st December, 2023**

| Particulars | ₹ | Particulars | ₹ |
|----------------|----------|------------------------------|----------|
| To Balance b/d | 1,98,000 | By Bank charges | 34,000 |
| To Debtors | 1,00,000 | By Debtor (cheque dishonour) | 5,000 |
| | | By Balance c/d | 2,59,000 |
| | 2,98,000 | | 2,98,000 |

Bank Reconciliation Statement as on 31st December, 2023

| Particulars | ₹ | ₹ |
|--|--------------|-----------------|
| Balance as per adjusted cash book | | 2,59,000 |
| ADD: Cheque issued but not presented | 45,000 | |
| Payment not effected by bank | <u>4,000</u> | |
| | | <u>49,000</u> |
| | | 3,08,000 |
| LESS: Cheque deposited but not cleared | (25,000) | <u>(25,000)</u> |
| Balance as per Bank Pass Book | | 2,83,000 |

ANSWERS OF MODEL TEST PAPER 5

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a)
1. **True:** The balance represents the cash physically in existence and is therefore an asset.
 2. **False:** Finished goods are normally valued at cost or net realizable value whichever is lower.
 3. **False:** Current year subscription shall be shown in the credit side of the income and expenditure account and not in the balance sheet, as it is not a capital item.
 4. **False:** When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.
 5. **True:** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
 6. **True:** Yes they are types of subsidiary books which is alternate to the journals.
- (b) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.
- Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:
- (i) Maintenance of books of accounts;
 - (ii) Statutory audit;
 - (iii) Internal Audit;
 - (iv) Taxation;
 - (v) Management accounting and consultancy services;
 - (vi) Financial advice and financial investigations etc.
- Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(c) **Corrected Trial Balance of Mr. X as on 31st March, 2024**

| Particulars | Dr. Amount ₹ | Cr. Amount ₹ |
|----------------------|--------------|--------------|
| X's Capital | | 4,668 |
| X's Drawings | 1,692 | |
| Leasehold premises | 2,250 | |
| Sales | | 8,250 |
| Due from customers | 1,590 | |
| Purchases | 3,777 | |
| Purchase return | | 792 |
| Loan from Bank | | 768 |
| Trade expenses | 2,100 | |
| Trade Payable | | 1,584 |
| Bills payable | | 300 |
| Salaries and Wages | 1,800 | |
| Cash at Bank | 678 | |
| Inventory (1.4.2023) | 792 | |
| Rent and rates | 1,389 | |
| Sales return | 294 | |
| | 16,362 | 16,362 |

Reasons:

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

2. (a)

| Date | Particulars | | Dr. ₹ | Cr. ₹ |
|------|--|-----|----------|----------|
| (1) | Scooter A/c To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified- | Dr. | 27,000 | 27,000 |

| | | | | |
|-----|--|-----|----------|----------|
| | capitalization of ₹27,000, i.e., ₹30,000 less 10% depreciation) | | | |
| (2) | Suspense A/c 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 Sam's Account (Credit purchase from Sam's ₹20,000, entered as sales last year, now rectified) | Dr. | 40,000 | 40,000 |
| (4) | Bhaskar's A/c To Anand's A/c (Amount received from Mr. Anand wrongly posted to the account of Mr. Bhaskar; now rectified) | Dr. | 10,000 | 10,000 |
| (5) | Suspense A/c To Paras's A/c (₹ 5,000 received from Paras wrongly debited to his account; now rectified) | Dr. | 10,000 | 10,000 |
| (6) | Trade receivables (Ramesh) / Ramesh A/c To Suspense A/c (₹5,000 due by Mr. Ramesh not taken into trial balance now rectified) | Dr. | 5,000 | 5,000 |
| (7) | Ram's A/c To Profit & Loss Adjustment A/c (Sales to Ram omitted last year; now adjusted) | Dr. | 20,000 | 20,000 |
| (8) | Suspense A/c To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹25,930, instead of ₹23,950, now adjusted) | Dr. | 1,980 | 1,980 |
| (9) | Profit & Loss Adjustment A/c To Manas's Capital A/c (Balance of Profit & Loss Adjustment A/c transferred to Capital Account) | Dr. | 1,08,980 | 1,08,980 |

| | | | | |
|------|--|-----|----------|----------|
| (10) | Manas's Capital A/c To Suspense A/c (Balance of Suspense Account transferred to Capital Account) | Dr. | 1,06,980 | 1,06,980 |
|------|--|-----|----------|----------|

(b) Profit and Loss Adjustment A/c

| | ₹ | | ₹ |
|---|------------------|---|------------------|
| To Advertisement (samples) | 80,000 | By Net profit | 8,00,000 |
| To Sales (goods approved in April to be taken as April sales) | 2,00,000 | By Electric fittings | 30,000 |
| To Adjusted net profit | 16,80,000 | By Samples | 80,000 |
| | | By Stock (Purchases of March not included in stock) | 5,00,000 |
| | | By Sales (goods sold in March wrongly taken as April sales) | 4,00,000 |
| | | By Stock (goods sent on approval basis not included in stock) | 1,50,000 |
| | <u>19,60,000</u> | | <u>19,60,000</u> |

Calculation of value of inventory on 31st March, 2024

| | ₹ |
|---|------------------|
| Stock on 31 st March, 2024 (given) | 7,50,000 |
| Add: Purchases of March, 2024 not included in the stock | 5,00,000 |
| Goods lying with customers on approval basis | <u>1,50,000</u> |
| | <u>14,00,000</u> |

3. (a) Trading and Profit and Loss Account of Mr. Saurav for the year ended 31st March, 2024

| | ₹ | ₹ | | ₹ | ₹ |
|----------------------|----------|----------|------------------|----------|----------|
| To Opening stock | | 1,17,000 | By Sales | 9,74,000 | |
| To Purchases | 8,04,250 | | Less: Returns | 21,500 | 9,52,500 |
| Add: Omitted invoice | 1,000 | | By Closing stock | | 1,96,500 |
| | 8,05,250 | | | | |
| Less: Returns | 14,500 | | | | |
| | 7,90,750 | | | | |
| Less: Drawings | 1,500 | 7,89,250 | | | |

| | | | | |
|---|--------|-----------|----------------------|-----------|
| To Carriage Inwards | | 49,000 | | |
| To Gross profit c/d | | 1,93,750 | | |
| | | 11,49,000 | | 11,49,000 |
| To Rent and taxes | | 11,750 | By Gross profit b/d | 1,93,750 |
| To Salaries and wages | | 23,250 | By Discount received | 11,100 |
| To Bank interest | 2,750 | | | |
| Add: Due | 4,250 | 7,000 | | |
| To Printing and stationary | 36,000 | | | |
| Less: Prepaid (1/4) | 9,000 | 27,000 | | |
| To Discount allowed | | 4,500 | | |
| To General expenses | | 28,625 | | |
| To Insurance | | 3,250 | | |
| To Postage & telegram expenses | | 5,825 | | |
| To Travelling expenses | | 2,175 | | |
| To Provision for bad debts [W.N.] | | 2,875 | | |
| To Provision for discount on debtors [W.N.] | | 1,093 | | |
| To Depreciation on furniture & fittings | | 1,250 | | |
| To Net profit | | 86,257 | | |
| | | 2,04,850 | | 2,04,850 |

Working Note:

Provision for bad & doubtful debts:

@ 5% on ₹ 57,500 (60,000-2,500)

2,875

Provision for discount:

2% on ₹ 54,625 (57,500 -2,875)

1,093

(b) (i) **Journal Entry in the books of the M/s Vivek Bros**

| Date | Particulars | Dr. ₹ | Cr. ₹ |
|------------------|---|----------------|----------|
| April, 1 2024 | Amit's Capital A/c Dr. Puneet's Capital A/c Dr. To Sumit's Capital A/c (Being the required adjustment for goodwill through partner's capital accounts) | 3,000 3,000 | 6,000 |

(ii) **Revaluation Account**

| Dr. Particulars | ₹ | Particulars | Cr. ₹ |
|--|-------|---|----------|
| To Furniture A/c (₹ 16,800 – 13,800) | 3,000 | By Machinery A/c (₹ 35,100 - 30,000) | 5,100 |
| To Inventory A/c (₹ 5,700 – 4,500) | 1,200 | | |
| To Partners' Capital A/c (Amit - ₹ 300, Puneet - ₹ 300, Sumit - ₹ 300) | 900 | | |
| | 5,100 | | 5,100 |

Partners' Capital Accounts

| Particulars | Amit | Puneet | Sumit | Particulars | Amit | Puneet | Sumit |
|------------------------|--------|--------|--------|--------------------------------|--------|--------|--------|
| To Sumit (Goodwill) | 3,000 | 3,000 | – | By Balance b/d | 24,600 | 24,600 | 27,000 |
| To Bank A/c | – | – | 6,000 | By General Reserve A/c | 3,000 | 3,000 | 3,000 |
| To Executors A/c | – | – | 30,300 | By Revaluation A/c (Profit) | 300 | 300 | 300 |
| To Balance C/d | 24,900 | 24,900 | – | By Amit (Goodwill) | – | – | 3,000 |
| | | | | By Puneet (Goodwill) | – | – | 3,000 |
| | 27,900 | 27,900 | 36,300 | | 27,900 | 27,900 | 36,300 |

Working Note:

Statement showing the Required Adjustment for Goodwill

| Particulars | Amit | Puneet | Sumit |
|--------------------------------|---------|---------|---------|
| Right of goodwill before death | 1/3 | 1/3 | 1/3 |
| Right of goodwill after death | 1/2 | 1/2 | – |
| Gain / (Sacrifice) | (+) 1/6 | (+) 1/6 | (-) 1/3 |

4. (a) (i) **Revaluation Account**

| | | ₹ | | | ₹ |
|----|---|---------------|----|------------------|---------------|
| To | Furniture | 1,740 | By | Building | 6,400 |
| To | Stock | 2,140 | By | Sundry creditors | 2,800 |
| To | Provision of doubtful debts (₹ 3,500 – ₹ 400) | 3,100 | By | Investment | 900 |
| To | Outstanding wages | <u>3,120</u> | | | |
| | | <u>10,100</u> | | | <u>10,100</u> |

(ii) **Partners' Capital Accounts**

| | | A | B | C | | | A | B | C |
|----|-------------|---------------|---------------|---------------|----|--------------------------------|---------------|---------------|---------------|
| | | ₹ | ₹ | ₹ | | | ₹ | ₹ | ₹ |
| To | A's Capital | | | 9,000 | By | Balance b/d | 88,000 | 72,000 | – |
| To | B's Capital | | | 6,000 | By | Cash A/c | – | – | 50,000 |
| To | Balance c/d | 97,000 | 78,000 | 35,000 | By | C's Capital A/c (Working Note) | 9,000 | 6,000 | |
| | | <u>97,000</u> | <u>78,000</u> | <u>50,000</u> | | | <u>97,000</u> | <u>78,000</u> | <u>50,000</u> |

(iii) **Balance Sheet of New Partnership Firm
(after admission of C) as on 31.3.2024**

| Liabilities | ₹ | Assets | ₹ |
|---------------------------------|-----------------|---------------------------------------|-----------------|
| Capital Accounts: | | Building (52,000 + 6,400) | 58,400 |
| A 97,000 | | Furniture (11,600 – 1,740) | 9,860 |
| B 78,000 | | Stock-in-trade (42,800 – 2,140) | 40,660 |
| C <u>35,000</u> | 2,10,000 | Debtors | 70,000 |
| Bills Payable | 8,200 | Less: Provision for bad Debts (3,500) | 66,500 |
| Bank Overdraft | 18,000 | Investment (5,000 + 900) | 5,900 |
| Sundry creditors (25,800-2,800) | 23,000 | Cash (31,000 + 50,000) | 81,000 |
| Outstanding wages | <u>3,120</u> | | |
| | <u>2,62,320</u> | | <u>2,62,320</u> |

Working Note:

1. **Calculation of goodwill**

C's contribution of ₹ 50,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 50,000 × 6 = ₹ 3,00,000.

But combined capital of A, B and C amounts ₹ 88,000 + 72,000 + 50,000 = ₹ 2,10,000.

Thus Hidden goodwill is ₹ 90,000 (₹ 3,00,000 – ₹ 2,10,000).

C's share $\frac{1}{6}$ th = 15,000

Goodwill will be shared by A & B in their sacrificing ratio.

2. Calculation of sacrificing ratio

| Partners | New share | Old share | Sacrifice | Gain |
|----------|---------------|---------------|-----------------|---------------|
| A | $\frac{3}{6}$ | $\frac{3}{5}$ | $\frac{-3}{30}$ | - |
| B | $\frac{2}{6}$ | $\frac{2}{5}$ | $\frac{-2}{30}$ | - |
| C | $\frac{1}{6}$ | - | - | $\frac{1}{6}$ |

Therefore,

$$\text{A will get} = ₹ 90,000 \times \frac{3}{30} = ₹ 9,000;$$

$$\text{B will get} = ₹ 90,000 \times \frac{2}{30} = ₹ 6,000; \text{ and}$$

$$\text{C will be debited on account of goodwill} = ₹ 90,000 \times \frac{1}{6} = ₹ 15,000$$

(b) Subscription for the year ended 31.3.2024

| | | ₹ |
|--|---------------|------------------|
| Subscription received during the year | | 22,50,000 |
| Less: Subscription receivable on 1.4.2023 | 67,500 | |
| Less: Subscription received in advance on 31.3.2024 | <u>31,500</u> | <u>(99,000)</u> |
| | | 21,51,000 |
| Add: Subscription receivable on 31.3.2023 | 99,000 | |
| Add: Subscription received in advance on 1.4.2024 | <u>54,000</u> | <u>1,53,000</u> |
| Amount of Subscription to appear in Income & Expenditure Account | | <u>23,04,000</u> |

Sports material consumed during the year end 31.3.2024

| | | ₹ |
|---|--|-------------------|
| Payment for Sports material | | 13,50,000 |
| Less: Amounts due for sports material on 1.4.2023 | | <u>(4,05,000)</u> |
| | | 9,45,000 |
| Add: Amounts due for sports material on 31.3.2024 | | <u>5,85,000</u> |

| | |
|---|-------------------|
| Purchase of sports material | <u>15,30,000</u> |
| Sports material consumed: | |
| Stock of sports material on 1.4.2023 | 4,50,000 |
| Add: Purchase of sports material during the year | <u>15,30,000</u> |
| | 19,80,000 |
| Less: Stock of sports material on 31.3.2024 | <u>(6,75,000)</u> |
| Amount of Sports Material appearing in Income & Expenditure Account | <u>13,05,000</u> |

Balance Sheet of M/s Football Club For the year ended 31st March, 2024 (An extract)

| Liabilities | ₹ | Assets | ₹ |
|--------------------------------|----------|--------------------------|----------|
| Unearned Subscription | 31,500 | Subscription receivable | 99,000 |
| Amount due for sports material | 5,85,000 | Stock of sports material | 6,75,000 |

5. (a) Bank Reconciliation Statement as on 31st March, 2024

| Particulars | Details (₹) | Amount (₹) |
|---|-------------|------------|
| Balance as per Pass Book (Cr.) | | 1,50,000 |
| Add: Cheque deposited but not yet cleared | 22,000 | |
| Add: Cheque recorded in Cash Book but not yet deposited | 5,000 | |
| Add: Bank Charges debited by bank | 250 | 27,250 |
| Less: Cheque issued but not yet presented | (48,000) | |
| Less: Amount deposited but not recorded in Cash Book | (15,700) | |
| Less: Interest allowed by bank | (1,500) | (65,200) |
| Balance as per Cash Book | | 1,12,050 |

(b) Calculation of Capital of Zavier

| | ₹ | 1-4-2021 ₹ | ₹ | 1-4-2023 ₹ |
|------------------|---|---------------|---|---------------|
| Assets | | | | |
| Cash in hand | | 25,500 | | 16,000 |
| Inventory | | 56,000 | | 91,500 |
| Sundry debtors | | 41,500 | | 52,500 |
| Land & Building | | 1,90,000 | | 1,90,000 |
| Wife's Jewellery | | 75,000 | | 1,25,000 |

| | | | | |
|--|--------|----------|--------|------------|
| Motor Car | | — | | 1,25,000 |
| Loan to Zavier's Brother | | — | | 20,000 |
| | | 3,88,000 | | 6,20,000 |
| Liabilities: | | | | |
| Owing to Zavier's Brother | 40,000 | | — | |
| Sundry creditors | 35,000 | 75,000 | 55,000 | 55,000 |
| Capital | | 3,13,000 | | 5,65,000 |
| Income during the two years: | | | | |
| Capital as on 1-4-2023 | | | | 5,65,000 |
| Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months) | | | | 96,000 |
| | | | | 6,61,000 |
| Less: Capital as on 1-4-2021 | | | | (3,13,000) |
| Income earned in 2021-2022 and 2022-2023 | | | | 3,48,000 |
| Income declared (₹ 1,05,000 + ₹ 1,33,000) | | | | 2,38,000 |
| Suppressed Income | | | | 1,10,000 |

The Income-tax officer's contention that Zavier has not declared his true income is correct. Zavier's true income is in excess of the disclosed income by ₹ 1,10,000 based on the information available.

(c) Journal Entries in the Books of Safari Ltd.

| | | Dr. ₹ | Cr. ₹ |
|---|-----|----------|----------|
| Bank A/c | Dr. | 1,12,500 | |
| To Equity Shareholders A/c | | | 1,12,500 |
| (Application money received on 7,500 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4) | | | |
| Equity Shareholders A/c | Dr. | 1,12,500 | |
| To Equity Share Capital A/c | | | 75,000 |
| To Securities Premium A/c | | | 37,500 |
| (Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated...) | | | |
| Securities Premium A/c | Dr. | 37,500 | |

| | | | |
|---|-----|----------|----------|
| Profit & Loss A/c | Dr. | 37,500 | |
| To Bonus to Shareholders A/c | | | 75,000 |
| (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...) | | | |
| Bonus to Shareholders A/c | Dr. | 75,000 | |
| To Equity Share Capital A/c | | | 75,000 |
| (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....) | | | |
| 12% Debentures A/c | Dr. | 1,80,000 | |
| Premium Payable on Redemption A/c | Dr. | 5,400 | |
| To Debenture holders A/c | | | 1,85,400 |
| (Amount payable to debentures holders) | | | |
| Profit and loss A/c | Dr. | 5,400 | |
| To Premium Payable on Redemption A/c | | | 5,400 |
| (Premium payable on redemption of debentures charged to Profit & Loss A/c) | | | |
| Debenture Redemption Reserve A/c | Dr. | 18,000 | |
| To General Reserve | | | 18,000 |
| (For DRR transferred to general reserve) | | | |
| Bank A/c | Dr. | 27,000 | |
| To Debenture Redemption Reserve Investment | | | 27,000 |
| (for DRR Investment realised) | | | |
| Debenture holders A/c | Dr. | 1,85,400 | |
| To Bank A/c | | | 1,85,400 |
| (Amount paid to debenture holders on redemption) | | | |

6. (a)

| | | | <i>Dr.</i> ₹ | <i>Cr.</i> ₹ |
|---|---|-----|-----------------|-----------------|
| 1 | Bank A/c | 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 To Share Capital A/c (75,000 x ₹ 4) To Securities premium A/c (75,000 x ₹ 5) To Bank A/c (2,00,000 x ₹ 9) To Share First & Final Call A/c (Being application money transferred) | Dr. | 27,00,000 | | |
| | | | | | 3,00,000 |
| | | | | | 3,75,000 |
| | | | | | 18,00,000 |
| | | | | | 2,25,000 |
| 3 | Share First & Final Call A/c (75,000 x 6) To Share Capital Account (Amount First & Final Call A/c due from members as per Directors, resolution no..... dated.....) | Dr. | 4,50,000 | | |
| | | | | | 4,50,000 |
| 4 | Bank Account A/c Calls in arrear A/c To Share First & Final Call Account (Being Receipt of the amounts due on first call.) | Dr. Dr. | 2,21,625 3,375 | | |
| | | | | | 2,25,000 |
| 5 | Equity share capital A/c To Share forfeiture A/c To Calls in arrear A/c (Being 1,125 shares forfeited for non payment of final call.) | Dr. | 11,250 | | |
| | | | | | 7,875 |
| | | | | | 3,375 |
| 6 | Bank Account A/c (1,125 x ₹ 6) Share forfeiture A/c (1,125 x ₹ 4) To Share Capital A/c (1,125 x ₹ 10) (Being forfeited shares reissued at ₹ 4 discount) | Dr. | 6,750 4,500 | | |
| | | | | | 11,250 |
| 7 | Share forfeiture A/c To Capital reserve A/c (Being share forfeiture transferred to capital reserve) | | 3,375 | | |
| | | | | | 3,375 |

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 including excess appl. Money received | Money Refunded |
|----------------|-----------------|---------------------------------------|--|---|--------------------------|------------------------------------|---|----------------|
| 2,00,000 | - | 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 | 4,46,625 | - |
| 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 |

* ₹ ₹ 2,25,000 - ₹ 3,375.

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

3. **Calculation of calls in arrear**

| | | |
|---|-------------|----------------|
| Application money received from Raj | (1,500 x 9) | 13,500 |
| Less: actual application money | 1,125 x 9 | <u>10,125</u> |
| Excess Application & Allotment Money Adjusted with first and final call | | <u>3,375</u> |
| Final call due from Raj | | 6,750 |
| Less: Adjusted with final call | | <u>(3,375)</u> |
| Calls in arrear | | <u>3,375</u> |

(c) The difference between the balance shown by the passbook and the cashbook may arise on account of the following:

- (i) Cheques issued but not yet presented for payment.
- (ii) Cheques deposited into the bank but not yet cleared.
- (iii) Interest allowed by the bank.
- (iv) Interest and expenses charged by the bank.
- (v) Interest and dividends collected by the bank.
- (vi) Direct payments by the bank.
- (vii) Direct deposits into the bank by a customer.
- (viii) Dishonour of a bill discounted with the bank.
- (ix) Bills collected by the bank on behalf of the customer.
- (x) An error committed by the bank etc.

OR

- (c)** Normally, the following subsidiary books are used in a business:
- (i) Cash book to record receipts and payments of cash, including receipts into and payments out of the bank.
 - (ii) Purchases book to record credit purchases of goods dealt in or of the materials and stores required in the factory.
 - (iii) Purchase Returns Books to record the returns of goods and materials previously purchased.
 - (iv) Sales Book to record the sales of the goods dealt in by the firm.
 - (v) Sale Returns Book to record the returns made by the customers.
 - (vi) Bills receivable books to record the receipts of promissory notes or hundies from various parties.
 - (vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.
 - (viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

ANSWERS OF MODEL TEST PAPER 6

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

1. (a) (i) **False:** Such wages being related to capital asset should be debited to the machinery account.
- (ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
- (iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iv) **True:** In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.
- (v) **False:** The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.
- (vi) **False:** Debenture interest is payable before the payment of any dividend on shares.
- (b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.
- On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created/impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.
- Mercantile system of accounting is generally accepted accounting system by business entities
- (c) Using the Accounting Equation:
Assets = Capital + Liabilities
- (i) 37,50,000

- (ii) 6,75,000
- (iii) 2,25,000
- (iv) 1,79,40,000

2. (a) **Savin & Co.**

| Dr. Machinery Account | | | Cr. | | |
|-----------------------|----------------|------------|------------|---------------------------|------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 1.4.2021 | To Bank A/c | 1,00,000 | 31.3.2022 | By Balance c/d | 1,00,000 |
| | | 1,00,000 | | | 1,00,000 |
| 1.4.2022 | To Balance b/d | 1,00,000 | | | |
| 1.10.2022 | To Bank A/c | 1,50,000 | 31.03.2023 | By Balance c/d | 2,50,000 |
| | | 2,50,000 | | | 2,50,000 |
| 1.4.2023 | To Balance b/d | 2,50,000 | 31.03.2024 | By Machinery Disposal A/c | 1,00,000 |
| | | | 31.03.2024 | By Balance c/d | 1,50,000 |
| | | 2,50,000 | | | 2,50,000 |
| 1.4.2024 | To Balance b/d | 1,50,000 | | | |

| Dr. Provision for Depreciation Account | | | Cr. | | |
|--|---|------------|------------|---|------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 31.03.2022 | To Balance c/d | 15,000 | 31.03.2022 | By Depreciation A/c | 15,000 |
| | | 15,000 | | | 15,000 |
| 31.03.2023 | To Balance c/d | 39,000 | 1.4.2022 | By Balance b/d | 15,000 |
| | | | 31.03.2023 | By Depreciation A/c (₹ 12,750+₹11,250) | 24,000 |
| | | 39,000 | | | 39,000 |
| 31.03.2024 | To Machinery Disposal A/c [100000-61,413] | 38,587 | 1.4.2023 | By Balance b/d | 39,000 |
| 31.03.2024 | To Balance c/d | 32,063 | 31.03.2024 | By Depreciation A/c | 20,813 |
| | | | 31.03.2024 | By Depreciation- Machinery disposed | 10,837 |
| | | 70,650 | | | 70,650 |
| | | | 1.4.2024 | By Balance b/d | 32,063 |

| Dr. | | Machinery Disposal Account | | Cr. | |
|------------|------------------|-----------------------------------|------------|-------------------------------------|---------------|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 31.03.2024 | To Machinery A/c | 1,00,000 | 31.03.2024 | By Provision for Depreciation A/c | 38,587 |
| | | | 31.03.2024 | By Bank A/c | 50,000 |
| | | | 31.03.2024 | By Profit & Loss A/c (Loss on Sale) | 11,413 |
| | | 1,00,000 | | | 1,00,000 |

Working Notes:

1. Depreciation for the machine purchased on 1.10.2022.

$$\text{For the year 2022-23 (used for 6 months)} = ₹ 1,50,000 \times 15\% \times \frac{6}{12}$$

$$= ₹ 11,250$$

$$\text{For the year 2023-24 (used for full year)} = ₹ 1,38,750 \times 15\% = ₹ 20,813$$

2. Depreciation for the machine purchased on 1.4.2021.

$$\text{Depreciation} = ₹ 1,00,000 \times 15\% = ₹ 15,000$$

$$\text{So, Depreciation for 2nd year} = ₹ 85,000 \times 15\% = ₹ 12,750$$

$$\text{Depreciation for 3rd year} = ₹ 72,250 \times 15\% = ₹ 10,837$$

(b) Bank Reconciliation Statement of Ms. Suman

| | | | | |
|-------------|--|--------------|--------------|---------------|
| | Balance as per Cash Book | | | (1,97,400) |
| <i>Add:</i> | Cheques issued but not presented for payment | | 14,800 | |
| | Crossed Cheque issued to Abdul not presented for payment | | 3,000 | |
| | Amounts collected by Bank on our behalf but not entered in the Cash Book | | | |
| | Dividend | 600 | | |
| | Insurance claim | <u>3,200</u> | | |
| | | 3,800 | | |
| | (-) Bank Commission | <u>400</u> | 3,400 | |
| | Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c | | <u>2,000</u> | <u>23,200</u> |
| | | | | (1,74,200) |

| | | | | |
|--|--|--------------|--------------|-----------------|
| <p><i>Less:</i> Cheques deposited in the bank but no cleared (₹ 5,200 + ₹ 1,000)</p> <p>Payments made by Bank on our behalf but not entered in the Cash Book</p> <p>Interest</p> <p>Premium</p> <p>Second call</p> <p>Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c</p> <p>Overdraft as per Pass Book</p> | | 6,200 | | |
| | | 1,280 | | |
| | | 640 | | |
| | | <u>2,400</u> | 4,320 | |
| | | | | |
| | | | <u>1,200</u> | <u>(11,720)</u> |
| | | | | 1,85,920 |

3. (a) Corrected Receipts and Payments Account of Gold Smith Club for the year ended 31st March, 2024

| Receipts | | ₹ | Amount ₹ | Payments | | Amount ₹ |
|----------|--|--------------|------------------|----------|----------------------------|------------------|
| To | Balance b/d | | 9,000 | By | Expenses | |
| To | Subscription | | | | (₹ 1,26,000 – ₹ 54,000) | 72,000 |
| | Annual Income | 91,800 | | By | Sports Material | 54,000 |
| | | | | By | Balance c/d | 18,14,400 |
| | Less: Receivable as on 31.3.2024 | 5,400 | | | (Cash in Hand and at Bank) | |
| | Add: Advance received for the year 2024–2025 | 1,800 | | | | |
| | Add: Receivable as on 31.3.2023 | 3,600 | | | | |
| | Less: Advance received as on 31.3.2023 | <u>1,800</u> | 90,000 | | | |
| To | Other Fees | | 36,000 | | | |
| To | Donation for Building | | 18,00,000 | | | |
| To | Sale of Furniture | | 5,400 | | | |
| | | | <u>19,40,400</u> | | | <u>19,40,400</u> |

Income and Expenditure Account of Gold Smith Club
for the year ended 31st March, 2024

| Expenditure | | ₹ | Amount ₹ | Income | | Amount ₹ |
|-------------|-------------------------------|----------|-------------|--------|--|-------------|
| To | Sundry Expenses | | 72,000 | By | Subscription | 91,800 |
| To | Sports Material | | | By | Other fees | 36,000 |
| | Balance as on 1.4.2023 | 1,33,200 | | By | Interest on investment (5% on ₹ 5,40,000) | 27,000 |
| | Add: Purchases | 54,000 | | By | Deficit: Excess of Expenditure over Income | 72,000 |
| | Less: Balance as on 31.3.2023 | (36,000) | 1,51,200 | | | |
| | Loss on sale of Furniture | | 3,600 | | | |
| | | | 2,26,800 | | | 2,26,800 |

Balance Sheet of Gold Smith Club
as on 31st March, 2024

| Liabilities | | Amount (₹) | Assets | Amount (₹) |
|---|---------------|---------------|--------------------------------|------------------|
| Capital Fund (W N) | 7,20,000 | | Furniture | 36,000 |
| Less: Excess of Expenditure over Income | <u>72,000</u> | 6,48,000 | Less: Sold | <u>9,000</u> |
| | | | 5% Investment | 5,40,000 |
| Building Fund | | 18,00,000 | Interest Accrued on Investment | 27,000 |
| Subscription Received in advance | | 1,800 | Sports Material | 36,000 |
| | | | Subscription Receivable | 5,400 |
| | | | Cash in Hand and at Bank | <u>18,14,400</u> |
| | | 24,49,800 | | 24,49,800 |

Working Note:

Balance Sheet of Gold Smith Club as on 1st April, 2023

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|----------------------------------|-------------|-------------------------|-------------|
| Subscription Received in Advance | 1,800 | Furniture | 36,000 |
| Capital Fund (Balancing Figure) | 7,20,000 | Investment | 5,40,000 |
| | | Sports Material | 1,33,200 |
| | | Subscription Receivable | 3,600 |

| | | | |
|--|----------|--------------------------|----------|
| | | Cash in Hand and at Bank | 9,000 |
| | 7,21,800 | | 7,21,800 |

(b) (i) If Guarantee is given by firm

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

| Particulars | ₹ | Particulars | ₹ |
|---|-------------|------------------------|-------------|
| To P's Capital A/c (3/5 of ₹ 1,30,00,000) | 78,00,000 | By Profit and Loss A/c | 1,80,00,000 |
| To Q's Capital A/c (2/5 of ₹ 1,30,00,000) | 52,00,000 | | |
| To R's Capital A/c (1/6 of ₹ 1,80,00,000 or ₹ 50,00,000 whichever is more) | 50,00,000 | | |
| | 1,80,00,000 | | 1,80,00,000 |

(ii) If Guarantee is given by P and Q equally

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

| Particulars | | ₹ | Particulars | ₹ |
|---|--------------------|-------------|---------------------------------------|-------------|
| To P's Capital A/c (3/6 of ₹ 1,80,00,000) | 90,00,000 | | By Profit and Loss, A/c (net profits) | 1,80,00,000 |
| Less: Deficiency borne for R (1/2 of 20,00,000) | <u>(10,00,000)</u> | 80,00,000 | | |
| To Q's Capital A/c (2/6 of ₹ 1,80,00,000) | 60,00,000 | | | |
| Less: Deficiency borne for R (1/2 of 20,00,000) | <u>(10,00,000)</u> | 50,00,000 | | |
| To R's Capital A/c (1/6 of ₹ 1,80,00,000) | 30,00,000 | | | |
| Add: Deficiency Recovery from P | 10,00,000 | | | |
| Add: Deficiency Recovery from Q | <u>10,00,000</u> | 50,00,000 | | |
| | | 1,80,00,000 | | 1,80,00,000 |

4. (a)

Revaluation Account

| | ₹ | | ₹ |
|---|----------|---------------------------|----------|
| To Plant & Machinery (3,40,000 x 15%) | 51,000 | By Land & Building A/c | 3,04,000 |
| To Provision for Bad & Doubtful Debts (1,20,000 x 5%) | 6,000 | | |
| To Outstanding Repairs to Building | 12,000 | | |
| To Albert's Capital A/c (5/8) | 1,46,875 | | |
| To Andrew's Capital A/c (3/8) | 88,125 | | |
| | 3,04,000 | | 3,04,000 |

Capital Accounts of Partners

| | Albert | Andre | David | | Albert | Andre | David |
|----------------------------|-----------|----------|----------|----------------------------|-----------|----------|----------|
| To Albert's Capital A/c | - | - | 40,000 | By Balance b/d | 8,20,000 | 6,60,000 | - |
| To Andrew's Capital A/c | | | 24,000 | By Revaluation A/c | 1,46,875 | 88,125 | - |
| To Andrew's Current A/c | - | 1,36,125 | | By Profit & Loss A/c | 1,40,000 | 84,000 | - |
| To Balance c/d | 12,00,000 | 7,20,000 | 4,80,000 | By Bank | | | 5,44,000 |
| | | | | By David's Capital A/c | 40,000 | 24,000 | |
| | | | | By Albert's Current A/c | 53,125 | | |
| | 12,00,000 | 8,56,125 | 5,44,000 | | 12,00,000 | 8,56,125 | 5,44,000 |

Calculation of New Profit Sharing Ratio and gaining ratio:

David's Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

Albert's Share = $5/8 \times 4/5 = 20/40 = 5/10$

Andrew's Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Thomas & Associates as on 31.3.2024

| Liabilities | | ₹ | Assets | | |
|-------------------|-----------|---|--------------------|---------------|-----------|
| Capital Accounts: | | | Land & Buildings | | 10,64,000 |
| Albert | 12,00,000 | | Plant & Machinery | 3,40,000 | |
| Andrew | 7,20,000 | | Less: Depreciation | <u>51,000</u> | 2,89,000 |

| | | | | | |
|---------------------------------|----------|------------------|----------------------|--------------|------------------|
| David | 4,80,000 | 24,00,000 | Furniture | | 2,18,960 |
| Andrew's Current A/c | | 1,36,125 | Stock | | 2,90,520 |
| Trade Creditors | | 1,09,600 | Sundry Debtors | 1,20,000 | |
| Outstanding Repairs to Building | | 12,000 | Less: Provision | <u>6,000</u> | 1,14,000 |
| | | | Cash at Bank | | 6,28,120 |
| | | | Albert's current A/c | | <u>53,125</u> |
| | | <u>26,57,725</u> | | | <u>26,57,725</u> |

Working Note:

Required Balance of Capital Accounts

David's Capital after writing off Goodwill = 5,44,000 – 64,000 = 4,80,000

David's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Albert's Capital = 24,00,000 x 5/10 = 12,00,000 and

Andrew's Capital = 24,00,000 x 3/10 = 7,20,000

(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31stDecember, 2024

Employees = 8 x ₹ 1,32,000 x 12 = ₹ 1,26,72,000

Trainees = 2 x ₹ 63,000 x 6 = ₹ 7,56,000

Salaries charged to P & L A/c ₹ 1,34,28,000

(ii) Amount actually paid as salaries during 2024

Employees = 8 x ₹ 1,32,000 x 11 + 8 x ₹ 1,20,000 = ₹ 1,25,76,000

Trainees = 2 x ₹ 63,000 x 5 = ₹ 6,30,000

Amount paid as salaries ₹ 1,32,06,000

(iii) Outstanding salaries as on 31.12.2024

Employees = 8 x ₹ 1,32,000 = ₹ 10,56,000

Trainees = 2 x ₹ 63,000 = ₹ 1,26,000

Outstanding salaries ₹ 11,82,000

5. (a) Trading and Profit & Loss Account for the year ended 31-03-2024

| | ₹ | ₹ | | ₹ |
|----------------------------|---|-----------------|------------------|-----------------|
| To Opening stock | | 38,600 | By Sales | 8,54,000 |
| To Purchases | | 6,13,750 | By Closing stock | 55,700 |
| To Gross profit c/d (b.f.) | | 2,57,350 | | |
| | | <u>9,09,700</u> | | <u>9,09,700</u> |

| | | | | |
|---|--------------|-----------------|--|-----------------|
| To Salaries (75,000 + 14,000 - 12,000) | | 77,000 | By Gross Profit b/d | 2,57,350 |
| To Rent and taxes | | 11,800 | By Interest on investment (9,750+450) | 10,200 |
| To General expenses | | 22,500 | | |
| To Depreciation: | | | | |
| Machinery @ 10% | 8,500 | | | |
| Furniture @ 10% | <u>2,450</u> | 10,950 | | |
| To Bad Debts | 7,200 | | | |
| To Provision for doubtful debts | <u>7,000</u> | 14,200 | | |
| To Balance being profit carried to Capital A/c (b.f.) | | | | |
| | | 1,31,100 | | |
| | | <u>2,67,550</u> | | <u>2,67,550</u> |

Balance Sheet as on 31st March, 2024

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|--------------------------------------|-----------------|-----------------|---|----------------|-----------------|
| Prakash's Capital on 1st April, 2023 | 3,32,150 | | Machinery | 85,000 | |
| Add: Fresh Capital | 50,000 | | Less: Depreciation | <u>(8,500)</u> | 76,500 |
| Add: Profit for the year | <u>1,31,100</u> | | Furniture | 24,500 | |
| | 5,13,250 | | Less: Depreciation | <u>(2,450)</u> | 22,050 |
| Less: Drawings | <u>(96,000)</u> | 4,17,250 | Inventory-in-trade | | 55,700 |
| Sundry creditors | | 2,08,200 | Sundry debtors | 3,50,000 | |
| Outstanding expenses | | 14,000 | Less: Provision for Doubtful debts | <u>(7,000)</u> | 3,43,000 |
| | | | Investment (including accrued interest ₹ 450) | | 85,450 |
| | | | Cash at bank | | 36,600 |
| | | | Cash in hand | | 20,150 |
| | | <u>6,39,450</u> | | | <u>6,39,450</u> |

Working Notes:

1. Balance sheet as on 1-4-2023

| | ₹ | | ₹ |
|-------------------------------|----------|------------------------------------|----------|
| Sundry creditors | 60,200 | Machinery | 85,000 |
| Capital (balancing figure) | 3,32,150 | Furniture | 24,500 |
| Outstanding salaries | 12,000 | Inventory | 38,600 |
| | | Sundry debtors | 1,55,000 |
| | | 12% Investments | 85,000 |
| | | Bank balance (from Cash statement) | 16,250 |
| | 4,04,350 | | 4,04,350 |

2. Total Debtors Account

| | | ₹ | | | ₹ |
|---------|-------------------------------------|----------|---------|----------------------------|----------|
| 1.4.23 | To Balance b/d | 1,55,000 | 31.3.24 | By Cash | 4,81,000 |
| 31.3.24 | To Credit sales (1,70,800/20x80) | 6,83,200 | 31.3.24 | By Bad debts | 7,200 |
| | | | | By Balance c/d (Bal. Fig.) | 3,50,000 |
| | | 8,38,200 | | | 8,38,200 |

3. Total Creditors Account

| | | ₹ | | | ₹ |
|---------|----------------------------|----------|---------|---|----------|
| 31.3.24 | To Cash | 3,43,000 | 1.4.23 | By Balance b/d | 60,200 |
| 31.3.24 | To Balance c/d (Bal. Fig.) | 2,08,200 | 31.3.24 | By Credit Purchases (1,22,750/20x80) | 4,91,000 |
| | | 5,51,200 | | | 5,51,200 |

(b) Journal Entries in the books of Snowberry Ltd.

| 2024 | | | Dr. ₹ in lakhs | Cr. ₹ in lakhs |
|---------|---|-----|-------------------|-------------------|
| April 2 | Equity Share Final Call A/c | Dr. | 2,000 | |
| | To Equity Share Capital A/c (Final call of ₹ 2 per share on 10 crore equity shares made due) | | | 2,000 |
| | Bank A/c | Dr. | 2,000 | |
| | To Equity Share Final Call A/c (Final call money on 10 crore equity shares received) | | | 2,000 |

| | | | | | |
|--------|--|-----|-------|--|-------|
| June 1 | Capital Redemption Reserve A/c | Dr. | 1,000 | | |
| | Securities Premium A/c | Dr. | 2,000 | | |
| | Capital Reserve A/c | Dr. | 485 | | |
| | General Reserve A/c | Dr. | 515 | | |
| | To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.....) | | | | 4,000 |
| | Bonus to Shareholders A/c | Dr. | 4,000 | | |
| | To Equity Share Capital A/c (Capitalisation of profit) | | | | 4,000 |

Notes to Accounts

| | | | ₹ in lakhs |
|-----------|---|----------------|---------------|
| 1. | Share Capital | | |
| | Authorised share capital | | |
| | 20 crore shares of ₹ 10 each | | <u>20,000</u> |
| | Issued, subscribed and fully paid up share capital | | |
| | 14 crore Equity shares of ₹ 10 each, fully paid up | | 14,000 |
| | (Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus) | | |
| | 2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up | | <u>2,000</u> |
| | | | <u>16,000</u> |
| 2. | Reserves and Surplus | | |
| | Capital Reserves | 485 | |
| | Less: Utilized for bonus issue | <u>(485)</u> | - |
| | Capital Redemption reserve | 1,000 | |
| | Less: Utilized for bonus issue | <u>(1,000)</u> | - |
| | Securities Premium | 2,000 | |
| | Less: Utilized for bonus issue | <u>(2,000)</u> | - |
| | General Reserve | 1,040 | |
| | Less: Utilized for bonus issue | <u>(515)</u> | 525 |
| | Surplus (Profit and Loss Account) | | <u>273</u> |
| | Total | | <u>798</u> |

6. (a) (i) **Journal Entries in the books of Gama Ltd.**

| Date | | | Dr. ₹ | Cr. ₹ |
|------|---|------------|------------------|----------------------------|
| (a) | Equity Share Capital A/c To Equity Share Allotment money A/c (9000 x ₹ 3) To Equity Share Final Call A/c (9000 x ₹ 4) To Forfeited Shares A/c (9000 x ₹ 3) (Being the forfeiture of 9000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No.....dated.....) | Dr. | 90,000 | 27,000 36,000 27,000 |
| (b) | Bank A/c (9,000 x 8) Forfeited Shares A/c (9,000x 2) To Equity Share Capital A/c (Being the re-issue of 9,000 forfeited shares @ ₹ 8 each as fully paid up to Katen as per Board's resolution No.....dated.....) | Dr. Dr. | 72,000 18,000 | 90,000 |
| (c) | Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve) | Dr. | 9,000 | 9,000 |

(ii) **Journal Entries in the book of Mr. Y**

| | | Dr. ₹ | Cr. ₹ |
|---|------------|--------------------|----------------------------------|
| Preference Share Capital A/c (10,000 x ₹ 70) To Preference Share Allotment A/c (10,000 x ₹ 20) To Preference Share First Call A/c (10,000 x ₹ 20) To Forfeited Share A/c (Being the forfeiture of 10,000 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....) | Dr. | 7,00,000 | 2,00,000 2,00,000 3,00,000 |
| Bank A/c (8,000 x ₹60) Forfeited Shares A/c (8,000 x ₹10) | Dr. Dr. | 4,80,000 80,000 | |

| | | | |
|--|-----|----------|----------|
| To Preference Share Capital A/c (Being re-issue of 8,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....) | | | 5,60,000 |
| Forfeited Shares A/c To Capital Reserve A/c (WN 1) (Being profit on re-issue transferred to Capital/Reserve) | Dr. | 1,60,000 | 1,60,000 |

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 3,00,000/10,000 = ₹ 30

Loss on re-issue = ₹ 70 – ₹ 60 = ₹ 10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 8,000 = ₹ 1,60,000.

(b) In the books of Shell chemicals Ltd.

Journal Entries

| | | ₹ | ₹ |
|--|-----|----------|------------------|
| 9% Preference Share Capital A/c To Calls in Arrears A/c To Shares Forfeited A/c (For Shares Forfeited because of non-payment of calls as holders are unknown) | Dr. | 1,00,000 | 20,000 80,000 |
| Bank A/c (W N) To Equity Share Capital A/c (Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated....) | Dr. | 2,00,000 | 2,00,000 |
| General Reserve A/c To Capital Redemption Reserve A/c (For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares) | Dr. | 7,00,000 | 7,00,000 |
| 9% Preference Share Capital A/c To Preference Shareholders A/c (For amount payable to preference shareholders) | Dr. | 9,00,000 | 9,00,000 |
| Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders) | Dr. | 9,00,000 | 9,00,000 |

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

| | |
|---|-----------------|
| Face value of shares redeemed | 9,00,000 |
| Less: Profit available for distribution as dividend: General Reserve | <u>7,00,000</u> |
| | <u>2,00,000</u> |
| Therefore, number of shares to be issued = ₹ 2,00,000/ ₹ 10 = 20,000 shares. | |

- (c) (i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.
- (ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Or

- (c) (i) Revenue Expenditure.
(ii) Capital Expenditure.
(iii) Revenue Expenditure.
(iv) Revenue Expenditure.
(v) Capital Expenditure.

ANSWERS OF MODEL TEST PAPER 7
FOUNDATION COURSE
PAPER 1: ACCOUNTING
ANSWERS

1. (a) (i) **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.
- (ii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iii) **True:** If closing stock appears in trail balance, it depicts that one aspect of the double entry has been completed, hence it is taken only to Balance Sheet.
- (iv) **False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.
- (v) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.
- (vi) **True:** As per perpetual existence the company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

(b) **Distinction between Money Measurement concept and Matching concept**

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

(c)

Chemical Mill**Calculation of the value of Inventory as on 31-3-2024**

| Date | Receipts | | | Issues | | | Balance | | |
|-----------|----------|------|--------|--------|------|--------|---------|------|--------|
| | Units | Rate | Amount | Units | Rate | Amount | Units | Rate | Amount |
| | | ₹ | ₹ | | ₹ | ₹ | | ₹ | ₹ |
| 1-1-2024 | Balance | | | | | | | Nil | |
| 1-1-2024 | 100 | 300 | 30,000 | | | | 100 | 300 | 30,000 |
| 15-1-2024 | | | | 50 | 300 | 15,000 | 50 | 300 | 15,000 |
| 1-2-2024 | 200 | 400 | 80,000 | | | | 250 | 380 | 95,000 |
| 15-2-2024 | | | | 100 | 380 | 38,000 | 150 | 380 | 57,000 |
| 20-2-2024 | | | | 100 | 380 | 38,000 | 50 | 380 | 19,000 |

Therefore, the value of Inventory as on 31-3-2024 = 50 units @ ₹ 380
= ₹19,000

2. (a)

In the books of Saraswat & Sons**Journal**

| | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|-------|---|------|----------|----------|
| (i) | Furniture A/c Dr. To Purchases A/c (Correction of wrong debit to Purchases A/c for furniture purchased) | | 20,000 | 20,000 |
| (ii) | Satyam A/c Dr. To Bad Debts Recovered A/c (Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts) | | 3,000 | 3,000 |
| (iii) | Repairs A/c Dr. To Building A/c (Correction of wrong debit to building A/c for repairs made) | | 18,500 | 18,500 |
| (iv) | Purchases A/c Dr. To Ram Singh A/c (Purchases of goods from Ram Singh remained unrecorded) | | 18,000 | 18,000 |
| (v) | Drawings A/c Dr. To Audit Fees A/c (Correction of wrong debit to Audit Fees A/c for college fees of proprietor s son) | | 15,000 | 15,000 |

| | | | | |
|--------|--|------------|------------------|--------|
| (vi) | Anita To Kanika (Correction of wrong credit to Anita instead of Kanika) | Dr. | 4,500 | 4,500 |
| (vii) | Returns Inwards / Sales Return A/c To Customer/Debtors A/c (Entry of goods returned by customer and taken in inventory omitted from records) | Dr. | 8,900 | 8,900 |
| (viii) | Furniture A/c To Wages A/c (Wages paid to workmen for office furniture wrongly charged to wages a/c now rectified) | Dr. | 7,500 | 7,500 |
| (ix) | Salaries A/c To Clerk s (Personal) A/c (Correction of wrong debit to Clerk s personal A/c for salaries paid) | Dr. | 18,000 | 18,000 |
| (x) | Purchases A/c Sales A/c To Raghav A/c (Correction of wrong entry in the sales Book for purchases of goods from Raghav) | Dr. Dr. | 20,000 20,000 | 40,000 |

(b) S Chand & Associates

| Dr. | | | Cr. | | |
|--------------------------|----------------|------------|------------|---------------------------|------------|
| Machinery Account | | | | | |
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 1.1.2021 | To Bank A/c | 3,00,000 | 31.12.2021 | By Balance c/d | 3,00,000 |
| | | 3,00,000 | | | 3,00,000 |
| 1.1.2022 | To Balance b/d | 3,00,000 | | | |
| 1.7.2022 | To Bank A/c | 4,50,000 | 31.12.2022 | By Balance c/d | 7,50,000 |
| | | 7,50,000 | | | 7,50,000 |
| 1.1.2023 | To Balance b/d | 7,50,000 | 31.12.2023 | By Machinery Disposal A/c | 3,00,000 |
| | | | 31.12.2023 | By Balance c/d | 4,50,000 |
| | | 7,50,000 | | | 7,50,000 |
| 1.1.2024 | To Balance b/d | 4,50,000 | | | |

| Dr. | | | Cr. | | |
|------------------------------------|---------------------------|------------|------------|---|------------|
| Provision for Depreciation Account | | | | | |
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 31.12.2021 | To Balance c/d | 45,000 | 31.12.2021 | By Depreciation A/c | 45,000 |
| | | 45,000 | | | 45,000 |
| 31.12.2022 | To Balance c/d | 1,17,000 | 1.1.2022 | By Balance b/d | 45,000 |
| | | | 31.12.2022 | By Depreciation A/c (₹ 38,250 + ₹ 33,750) | 72,000 |
| | | 1,17,000 | | | 1,17,000 |
| 31.12.2023 | To Machinery Disposal A/c | 1,15,762 | 1.1.2023 | By Balance b/d | 1,17,000 |
| 31.12.2023 | To Balance c/d | 96,188 | 31.12.2023 | By Depreciation A/c (WN 1) | 62,438 |
| | | | 31.12.2023 | By Depreciation on machinery sold (WN 2) | 32,512 |
| | | 2,11,950 | | | 2,11,950 |
| | | | 1.1.2024 | By Balance b/d | 96,188 |

| Dr. | | | Cr. | | |
|----------------------------|------------------|------------|------------|-------------------------------------|------------|
| Machinery Disposal Account | | | | | |
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
| 31.12.2023 | To Machinery A/c | 3,00,000 | 31.12.2023 | By Provision for Depreciation A/c | 1,15,762 |
| | | | 31.12.2023 | By Bank A/c | 1,50,000 |
| | | | 31.12.2023 | By Profit & Loss A/c (Loss on Sale) | 34,238 |
| | | 3,00,000 | | | 3,00,000 |

Working Notes:

- Depreciation for the machine purchased on 1.7.2022.
 For the year 2022 (Used for 6 months) = ₹ 4,50,000 x 15% x $\frac{6}{12}$
 = ₹ 33,750
 For the year 2023 (Used for full year) = ₹ 4,16,250 x 15% = ₹ 62,438
- Depreciation for the machine purchased on 1.1.2021.
 Depreciation for the year 2021 = ₹ 3,00,000 x 15% = ₹ 45,000
 Depreciation for the year 2022 = ₹ 2,55,000 x 15% = ₹ 38,250
 Depreciation for the year 2023 = ₹ 2,16,750 x 15% = ₹ 32,512

3. (a) (i)

Realisation Account

| <i>Particulars</i> | <i>Amount (₹)</i> | <i>Particulars</i> | <i>Amount (₹)</i> |
|---|-----------------------|---|-----------------------|
| To Land and building | 2,46,000 | By Sundry creditors | 36,000 |
| To Furniture and fixtures | 65,000 | By Mortgage loan | 1,10,000 |
| To Stock | 1,00,000 | By Cash account - | |
| To Debtors | 72,500 | Land and building | 2,30,000 |
| To Cash A/c (expenses on dissolution) | 7,800 | Furniture & fixtures | 42,000 |
| To Cash A/c (creditors ₹ 36,000 + ₹ 18,000) | 54,000 | Stock | 72,000 |
| To Cash A/c (Mortgage loan) | 1,10,000 | Debtors | 65,000 |
| | | By Partners capital accounts (Loss 4:3:2:1) | |
| | | P = 40,120 | |
| | | Q = 30,090 | |
| | | R = 20,060 | 1,00,300 |
| | | S = <u>10,030</u> | |
| | 6,55,300 | | 6,55,300 |

Partners Capital Accounts

| <i>Particulars</i> | <i>P</i> | <i>Q</i> | <i>R</i> | <i>S</i> | <i>Particulars</i> | <i>P</i> | <i>Q</i> | <i>R</i> | <i>S</i> |
|---------------------------------|----------|----------|----------|----------|--------------------------------|----------|----------|----------|----------|
| | ₹ | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ | ₹ |
| To Balance b/d | - | - | 1,000 | 6,000 | By Balance b/d | 2,16,000 | 1,44,000 | | |
| To Realization A/c (Loss) | 40,120 | 30,090 | 20,060 | 10,030 | By Cash A/c (realization loss) | 40,120 | 30,090 | - | 10,030 |
| To R s Capital A/c (Deficiency) | 12,636 | 8,424 | - | - | By P s Capital A/c | | | 12,636 | |
| | | | | | By Q s Capital A/c | | | 8,424 | |
| To Cash A/c | 2,03,364 | 1,35,576 | - | - | By Cash A/c | | | | 6,000 |
| | 2,56,120 | 1,74,090 | 21,060 | 16,030 | | 2,56,120 | 1,74,090 | 21,060 | 16,030 |

Note: P, Q and S brought cash to make good, their share of the loss on realization. However, in actual practice they will not be bringing any cash, only a notional entry will be made.

Cash Account

| <i>Particulars</i> | <i>Amount (₹)</i> | <i>Particulars</i> | <i>Amount (₹)</i> |
|----------------------|-----------------------|-----------------------------|-----------------------|
| To Balance b/d | 15,500 | By Realization A/c: | |
| To Realization A/c: | | Expenses on | 7,800 |
| Land and building | 2,30,000 | dissolution | |
| Furniture & fixtures | 42,000 | Creditors (36,000 + 18,000) | 54,000 |
| | | Mortgage loan | 1,10,000 |
| Stock | 72,000 | By P s capital A/c | 2,03,364 |

| | | | |
|--|-----------------|--------------------|-----------------|
| Debtors | 65,000 | By Q s capital A/c | 1,35,576 |
| To P, Q, S s capital A/c s (Realisation Loss-) (40,120 + 30,090 + 10,030) | 80,240 | | |
| To S s capital A/c | <u>6,000</u> | | |
| | <u>5,10,740</u> | | <u>5,10,740</u> |

Working Note:

As per Garner Vs. Murray rule, solvent partners have to bear the loss due to insolvency of a partner in their capital ratio.

Calculation of Capital Ratio of Solvent Partners

Though S is a solvent partner yet he cannot be called upon to bear loss on account of insolvency of R because his capital account has a debit balance.

Therefore, capital ratio of P & Q = 216 : 144 = 3 : 2

Deficiency of R will be shared by P & Q in the capital ratio of 3 : 2 i.e.

$$P = ₹ 21,060 \times \frac{3}{5} = ₹ 12,636$$

$$Q = ₹ 21,060 \times \frac{2}{5} = ₹ 8,424$$

(b)

In the books of Mr. Dilip

Trading Account for the year ended 31st March, 2024

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|------------------------|------------------|------------------------|------------------|
| To Opening Inventory | 3,30,000 | By Sales | 29,10,000 |
| To Purchases 12,90,000 | | Less: Returns (60,000) | 28,50,000 |
| Less: Returns (36,000) | 12,54,000 | By Closing Inventory | 5,40,000 |
| To Freight Inwards | 1,20,000 | | |
| To Gross profit | 16,86,000 | | |
| | <u>33,90,000</u> | | <u>33,90,000</u> |

Profit and Loss Account for the year ended 31st March, 2024

| Particulars | ₹ | Particulars | ₹ |
|----------------------------|----------|----------------------|-----------|
| To Depreciation | 1,57,500 | By Gross profit | 16,86,000 |
| To Salaries | 6,30,000 | By Discount received | 27,000 |
| To Administration expenses | 4,50,000 | | |
| To Discount allowed | 57,000 | | |

| | | | |
|---------------|-----------|--|-----------|
| To Bad debts | 15,000 | | |
| To Net profit | 4,03,500 | | |
| | 17,13,000 | | 17,13,000 |

Balance Sheet as at 31st March, 2024

| Liabilities | | Amount (₹) | Assets | | Amount (₹) |
|-----------------|-----------|---------------|-------------------------------|------------|---------------|
| Capital | 19,50,000 | | Furniture | 10,50,000 | |
| Add: Net profit | 4,03,500 | 23,53,500 | Less: Depreciation | (1,57,500) | 8,92,500 |
| Trade payables | | 5,70,000 | Closing Inventory | | 5,40,000 |
| Output IGST | | 6,000 | Trade receivables | | 6,30,000 |
| | | | Investment in Govt Securities | | 3,00,000 |
| | | | Cash in Hand and Cash at Bank | | 5,67,000 |
| | | 29,29,500 | | | 29,29,500 |

Working Note:

Summary of Output and Input GST liability (as per trial balance)

| | OUTPUT GST (₹) | INPUT GST (₹) |
|------|----------------|---------------|
| CGST | 24,000 | 30,000 |
| SGST | 24,000 | 30,000 |
| IGST | 18,000 | |

| Output liability (Tax head) | Tax Payable | Paid through ITC | | | Tax Liability |
|-----------------------------|-------------|------------------|--------|--------|---------------|
| | | IGST | CGST | SGST | |
| CGST | 24,000 | | 24,000 | | |
| SGST | 24,000 | | | 24,000 | |
| IGST | 18,000 | | 6,000 | 6,000 | 6,000 |

In the above solution, it is assumed that balance IGST liability of ₹ 6,000 (after utilising CGST and SGST) is not paid off in cash.

Alternatively, it can also be assumed that the balance liability of ₹ 6,000 is paid off in cash. Accordingly, Output IGST liability of ₹ 6,000 shall not appear under liability side of the balance sheet and amount of cash at bank is reported as ₹ 5,61,000.

4. (a)

New State Society
Income and Expenditure Account
for the year ended 31st March, 2024

| Dr. | | | | | Cr. |
|--------------------------------------|---------------|-----------------|-----------------------------------|---------------|-----------------|
| Expenditure | ₹ | ₹ | Income | | ₹ |
| To Electric charges | | 14,400 | By Entrance fee (40% of ₹ 60,000) | | 24,000 |
| To Postage and stationary | | 10,000 | | | |
| To Telephone charges | | 10,000 | By Membership subscription | 4,00,000 | |
| To Rent | 1,76,000 | | Less: Received in advance | <u>20,000</u> | 3,80,000 |
| Add: Outstanding | <u>8,000</u> | 1,84,000 | | | |
| To Salaries | 1,32,000 | | By Sale proceeds of old papers | | 3,000 |
| Add: Outstanding | <u>6,000</u> | 1,38,000 | By Hire of lecture hall | | 40,000 |
| To Depreciation (W.N.1) | | | By Interest on securities (W.N.2) | 16,000 | |
| Electrical fittings | 30,000 | | Add: Receivable | <u>35,000</u> | 51,000 |
| Furniture | 10,000 | | | | |
| Books | <u>92,000</u> | 1,32,000 | | | |
| To Excess of Income over Expenditure | | <u>9,600</u> | | | |
| | | <u>4,98,000</u> | | | <u>4,98,000</u> |

Working Notes:

| | |
|---|-----------------|
| 1. Depreciation | ₹ |
| Electrical fittings 10% of ₹ 3,00,000 | 30,000 |
| Furniture 10% of ₹ 1,00,000 | 10,000 |
| Books 10% of ₹ 9,20,000 | 92,000 |
| 2. Interest on Securities | |
| Interest @ 15% p.a. on ₹ 3,00,000 for full year | 45,000 |
| Interest @ 15% p.a. on ₹ 80,000 for half year | <u>6,000</u> |
| | 51,000 |
| Less: Received | <u>(16,000)</u> |
| Receivable | <u>35,000</u> |

(b) (i) Journal Entry in the books of the M/s Krishna

| Date | Particulars | | Dr. ₹ | Cr. ₹ |
|------------------|--|------------|----------------|----------|
| April, 1 2024 | Amit s Capital A/c Lalit s Capital A/c To Sumit s Capital A/c (Being the required adjustment for goodwill through partner s capital accounts) | Dr. Dr. | 3,000 3,000 | 6,000 |

(ii) **Revaluation Account**

| Particulars | ₹ | Particulars | ₹ |
|---|-------|------------------|-------|
| To Furniture A/c | 3,000 | By Machinery A/c | 5,100 |
| To Inventory A/c | 1,200 | | |
| To Partners Capital A/cs (Amit - ₹ 300, Lalit - ₹ 300, Sumit - ₹ 300) | 900 | | |
| | 5,100 | | 5,100 |

Partners Capital Account

| Particulars | Amit | Lalit | Sumit | Particulars | Amit | Lalit | Sumit |
|------------------------|--------|--------|--------|--------------------------------|--------|--------|--------|
| To Sumit (Goodwill) | 3,000 | 3,000 | | By Balance b/d | 24,600 | 24,600 | 27,000 |
| To Cash A/c | | | 6,000 | By General Reserve A/c | 3,000 | 3,000 | 3,000 |
| To Executors A/c | | | 30,300 | By Revaluation A/c (Profit) | 300 | 300 | 300 |
| To Balance c/d | 24,900 | 24,900 | | By Amit (Goodwill) | | | 3,000 |
| | | | | By Lalit (Goodwill) | | | 3,000 |
| | 27,900 | 27,900 | 36,300 | | 27,900 | 27,900 | 36,300 |

Balance Sheet M/s Krishna Bros after death of Sumit

| Liabilities | | ₹ | Assets | ₹ |
|----------------|-------|--------|---------------------------------------|--------------|
| Capital | Amit | 24,900 | Machinery | 35,100 |
| | Lalit | 24,900 | Furniture | 13,800 |
| | | | Fixture | 12,600 |
| Sumit s | | 30,300 | Cash (9,000-6,000) | 3,000 |
| Executors A/c | | | | |
| Trade payables | | 14,100 | Inventories | 4,500 |
| | | | Trade receivables | 27,000 |
| | | | Less: Provision for Doubtful debts | <u>1,800</u> |
| | | | | 25,200 |
| | | 94,200 | | 94,200 |

Working Note:

Statement showing the Required Adjustment for Goodwill

| Particulars | Amit | Lalit | Sumit |
|--------------------------------|---------|---------|---------|
| Right of goodwill before death | 1/3 | 1/3 | 1/3 |
| Right of goodwill after death | 1/2 | 1/2 | |
| Gain / (Sacrifice) | (+) 1/6 | (+) 1/6 | (-) 1/3 |

5. (a)

In the books of Ali

Journal Entries

| Date | Particulars | Debit Amount | Credit Amount |
|----------|--|---------------|---------------|
| 2024 | | ₹ | ₹ |
| April 15 | Bills receivable A/c Dr. To Akbar s A/c (Being acceptance received from Akbar for mutual accommodation) | 45,000 | 45,000 |
| April 18 | Bank A/c Dr. Discount A/c Dr. To Bills receivable A/c (Being bill discounted with bank) | 44,100 900 | 45,000 |
| April 18 | Akbar s A/c Dr. To Bank A/c To Discount A/c (Being one-third proceeds of the bill sent to Akbar) | 15,000 | 14,700 300 |
| July 18 | Akbar s A/c Dr. To Bills payable A/c (Being Acceptance given) | 52,500 | 52,500 |
| July 18 | Bank A/c Dr. Discount A/c Dr. $\left\{ 1,200 \left(\frac{30,000 + 8,475}{51,300} \right) \right\}$ To Akbar s A/c (Being proceeds of second bill received from Akbar) | 8,475 900 | 9,375 |

(b)

Trading and Profit and Loss Account

for the year ended 31st December, 2024

| | Amount | | Amount |
|---|----------|---------------------------------|----------|
| | ₹ | | ₹ |
| To Opening stock | 50,000 | By Sales (₹ 2,60,000 × 125/100) | 3,25,000 |
| To Purchases (balancing figure) | 2,72,500 | By Closing stock | 62,500 |
| To Gross profit c/d (₹ 2,60,000 × 25/100) | 65,000 | | |
| | 3,87,500 | | 3,87,500 |

| | | | |
|---|---------------|---------------------|---------------|
| To Expenses | 49,250 | By Gross profit b/d | 65,000 |
| To Loss on sale of fixed assets (W.N.1) | 750 | | |
| To Depreciation on fixed assets (W.N.1) | 1,000 | | |
| To Net profit | 14,000 | | |
| | <u>65,000</u> | | <u>65,000</u> |

Working Note:

1. Fixed Assets A/c

| | ₹ | | ₹ |
|---------------------|---------------|--|---------------|
| To Balance b/d | 7,500 | By Bank (sale) | 1,750 |
| To Bank (Purchases) | 5,000 | By Loss on sale of fixed asset (2,500-1,750) | 750 |
| | | By Depreciation (bal fig) | 1,000 |
| | | By Balance c/d | <u>9,000</u> |
| | <u>12,500</u> | | <u>12,500</u> |

(c) Journal Entries in the books of Substance Ltd.

| | | ₹ | ₹ |
|-----------|---|--|-----------|
| 1-4-2024 | Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated .) | 8,10,000 | 8,10,000 |
| 20-4-2024 | Bank A/c Dr. To Equity share final call A/c (For final call money on 4,05,000 equity shares received) | 8,10,000 | 8,10,000 |
| | Securities Premium A/c Dr. Capital Reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held) | 1,12,500 1,80,000 5,40,000 1,80,000 | 10,12,500 |

| | | | | |
|--|-----------------------------|-----|-----------|-----------|
| | Bonus to shareholders A/c | Dr. | 10,12,500 | |
| | To Equity share capital A/c | | | 10,12,500 |
| | (For issue of bonus shares) | | | |

Extract of Balance Sheet as at 30th April, 2024 (after bonus issue)

| | ₹ |
|---|------------------|
| Authorised Capital | |
| 45,000 12% Preference shares of ₹10 each | 4,50,000 |
| 5,06,250 Equity shares of ₹10 each (W.N.) | <u>50,62,500</u> |
| Issued and subscribed capital | |
| 36,000 12% Preference shares of ₹10 each, fully paid | 3,60,000 |
| 5,06,250 Equity shares of ₹10 each, fully paid | 50,62,500 |
| (Out of above, 1,01,250 equity shares @ ₹10 each were issued by way of bonus) | |
| Reserves and surplus | |
| Profit and Loss Account | 7,20,000 |

W.N.: The authorised capital has been increased by sufficient number of shares. $(5,06,250 - 4,50,000) = 56,250$ shares

6. (a)

| Entry No. | Particulars | L.F. | Debit Amount (₹) | Credit Amount (₹) |
|-----------|--|------|------------------|----------------------|
| 1 | Bank A/c To Equity Share Application A/c (Money received on applications for 2,00,000 shares @ ₹ 2 per share) | Dr. | 4,00,000 | 4,00,000 |
| 2 | Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 2,00,000 shares to share capital) | Dr. | 4,00,000 | 4,00,000 |
| 3 | Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Amount due on the allotment of 2,00,000 shares @ ₹ 3 per share and Securities Premium @ ₹1 per share) | Dr. | 8,00,000 | 6,00,000 2,00,000 |
| 4 | Bank A/c To Equity Share Allotment A/c (Allotment money received) | Dr. | 800,000 | 800,000 |

| | | | | |
|----|---|-------------------|----------------------------|--------------------|
| 5 | Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 2,00,000 shares at ₹ 2 per share) | Dr. | 4,00,000 | |
| 6 | Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 20,000 shares at ₹ 3 per share) | Dr. | 460,000 | 4,00,000 60,000 |
| 7 | Equity Share Final Call A/c To Equity Share Capital A/c (Being final call made due on 2,00,000 shares at ₹ 3 each) | Dr. | 6,00,000 | 6,00,000 |
| 8 | Bank A/c Calls in Advance A/c Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 1,77,000 shares, calls in advance for 20,000 shares and calls in arrears on 3,000 shares adjusted) | Dr. Dr. Dr. | 53,1000 60,000 9,000 | 6,00,000 |
| 9 | Interest on Calls in Advance A/c To Shareholders A/c (Being interest made due on calls in advance of ₹60,000 at the rate of 12% p.a.) | Dr. | 2,400 | 2,400 |
| 10 | Shareholders A/c To Bank A/c (Being payment of interest made to shareholder) | Dr. | 2,400 | 2,400 |
| 11 | Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made for 2000 shares due at the rate of 10%) | Dr. | 150 | 150 |
| 12 | Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 2,000 shares for calls in arrears and interest thereupon) | Dr. | 6,150 | 6,000 150 |

| | | | | |
|----|--|-----|-------|--------------|
| 13 | Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made on 1,000 shares due at the rate of 10%) | Dr. | 100 | 100 |
| 14 | Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder having 1,000 share for calls in arrears and interest thereupon) | Dr. | 3,100 | 3,000 100 |

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

Interest on Calls in Advance = ₹ 60,000 x 12% x 4 / 12 = ₹ 2,400

Interest on Calls in Arrears ₹ 6,000 x 10% x 3 / 12 = ₹ 150

Interest on Calls in Arrears ₹ 3,000 x 10% x 4 / 12 = ₹ 100

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

(c) Bank Reconciliation Statement as on 31st March,2024

| | ₹ | ₹ |
|--|-----------|-------------|
| Bank balance as per Pass book | | 75,00,000 |
| <i>Add:</i> Bills dishonoured not recorded in the cash book | 37,50,000 | |
| Cheque received entered twice in the cash book | 75,000 | |
| Insurance premium paid directly not recorded in the cash book | 4,50,000 | |
| Cheque received but not sent to the bank | 84,00,000 | |
| Credit side of the bank column cast short | 15,000 | 1,26,90,000 |
| | | 20,19,0000 |
| <i>Less:</i> Cheque deposited into the bank but no entry was passed in the cash book | 37,50,000 | |
| Bank charges recorded twice in the cash book | 15,000 | |
| Cheque issued but not presented to the bank | 37,50,000 | (75,15,000) |
| Bank balance as per Cash book | | 1,26,75,000 |

Or

(c) Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

- (i) Reduction in variations.
- (ii) Disclosure beyond that required by law.
- (iii) Facilities comparison.

ANSWERS OF MODEL TEST PAPER 8

FOUNDATION COURSE

PAPER 1: ACCOUNTING

ANSWERS

1. (a) (i) **False:** Depreciation is a charge against profit and not an appropriation of profit. Therefore, depreciation has to be provided for, even in case of loss in a financial year.
- (ii) **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.
- (iii) **False:** Amount spent for replacement of any worn-out part of a machine is revenue expense since it is part of its maintenance cost.
- (iv) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- (v) **False:** The debit notes issued are used to prepare purchases return book.
- (vi) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.
- (b) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.
- (c) **Corrected Trial Balance of Mr. Govind as on 31st March, 2024**

| Particulars | Dr. Amount ₹ | Cr. Amount ₹ |
|--------------------|--------------|--------------|
| Govind s Capital | | 14,004 |
| Govind s Drawings | 5,076 | |
| Leasehold Premises | 6,750 | |
| Sales | | 24,750 |
| Due from customers | 4,770 | |
| Purchases | 11,331 | |
| Purchases Returns | | 2,376 |
| Loan from Bank | | 2,304 |
| Trade expenses | 6,300 | |
| Trade Payable | | 4,752 |

| | | |
|------------------------------|--------|--------|
| Bills payable | | 900 |
| Salaries and Wages | 5,400 | |
| Cash at Bank | 2,034 | |
| Opening Inventory (1.4.2023) | 2,376 | |
| Rent and rates | 4,167 | |
| Sales return | 882 | |
| | 49,086 | 49,086 |

Reasons:

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

2. (a) Valuation of Physical Stock as at March 31, 2024

| | | ₹ |
|---|---------------|-----------------|
| Stock at cost on 31 st December, 2023 | | 80,000 |
| <i>Add:</i> (1) Undercasting of a page total | 200 | |
| (2) Goods purchased and delivered during January March, 2024 ₹ (70,000 3,000 + 4,000) | 71,000 | |
| (3) Cost of sales return ₹ (1,000 200) | <u>800</u> | <u>72,000</u> |
| | | 1,52,000 |
| <i>Less:</i> (1) Overcasting of a page total ₹ (6,000 5,000) | (1,000) | |
| (2) Goods sold and dispatched during January March, 2024 ₹ (90,000 5,000 + 4,000) 89,000 | | |
| <i>Less:</i> Profit margin $\left(89,000 \times \frac{25}{125}\right)$ | <u>17,800</u> | <u>(72,200)</u> |
| Value of stock as on 31st March, 2024 | | <u>79,800</u> |

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, therefore ₹ 4,000 goods delivered in March 2024 for which invoice was received in April, 2024, would be treated as purchases of the accounting year 2024-2025 and thus excluded. Similarly, goods dispatched in March, 2024 but invoiced

in April, 2024 would be excluded and treated as sale of the year 2024-2025.

(b) Bank Reconciliation Statement of Ramesh Traders as on 31st March, 2024

| Particulars | Amount (₹) | Amount (₹) |
|--|---------------|---------------|
| Balance as per Cash Book | | 8,24,400 |
| Add: | | |
| Mistake in bringing forward ₹ 37,000/- debit balance as credit balance on 22nd March | 74,000 | |
| Cheques issued but not presented Issued = ₹ 84,000 less cashed ₹ 57,000 = ₹ 27,000/- | 27,000 | |
| Dividend directly collected but not entered in cash book | 70,000 | |
| Cheques recorded twice in the cash book | 2,58,000 | |
| Wrongly credited cheque by bank | 50,000 | |
| Discount amount wrongly entered in bank column | 1,000 | 4,80,000 |
| Less: | | |
| Wrong casting in cash book on 12th March, 2024 | (24,000) | |
| Cheque issued and not entered in the Bank Column | (1,70,000) | |
| Fire Insurance premium paid directly by bank | (40,000) | |
| Cheque dishonored not recorded in books | (10,000) | |
| Credit card payment not recorded in cash book | (5,000) | |
| Cheque wrongly deposited by bank in savings account | (4,000) | |
| Bank charges debited not recorded in cash book | (400) | (2,53,400) |
| Balance as per the Passbook | | 10,51,000 |

Note : No effects of cheque deposit directly and dishonored in the same Month. Alternatively amount of ₹ 64,000/- can be added as well as deducted from balance as per cash book.

3. (a) **In the books of Natures Beauty Society**

**Income and Expenditure Account
for the year ending 31st March, 2024**

| 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) |
| Equipment | 60,000 | | 1,10,000 |
| Building | 20,000 | | |
| To Surplus | <u>1,02,000</u> | | |
| | <u>8,62,000</u> | | <u>8,62,000</u> |

**Balance Sheet of Natures Beauty Society
as on 31st March, 2024**

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

Working Note:

(i) Subscription for the year ended 31st March, 2024

| Particulars | Amount |
|---|---------------|
| Subscription Received during the year | 5,00,000 |
| Less: Subscription outstanding as on 1 st April, 2023 | (15,000) |
| Add: Subscription outstanding as on 31 st March, 2024 | 22,000 |
| Add: Subscription received in advance as on 1 st April, 2023 | 12,000 |

| | |
|---|----------|
| Less: Subscription received in advance as on 31 st March, 2024 | (7,000) |
| Total | 5,12,000 |

(ii) Medicines purchased during the year ended 31st March, 2024

| 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, 2024

| 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 |

(b) Joint Life Policy Account

| | | ₹ | | | ₹ |
|-------------------------------|-----------------|-------|-----------------------------|------------------------|-------|
| 10 th June, 2020 | To Bank Account | 3,000 | 31 st Dec., 2020 | By Profit and Loss A/c | 3,000 |
| 10 th June, 2021 | To Bank Account | 3,000 | 31 st Dec., 2021 | By Profit and Loss A/c | 2,100 |
| | | | 31 st Dec., 2021 | By Balance c/d | 900 |
| | | 3,000 | | | 3,000 |
| 1 st January, 2022 | To Balance b/d | 900 | 31 st Dec., 2022 | By Profit and Loss A/c | 1,900 |
| 10 th June, 2022 | To Bank Account | 3,000 | 31 st Dec., 2022 | By Balance c/d | 2,000 |
| | | 3,900 | | | 3,900 |
| 1 st January, 2023 | To Balance b/d | 2,000 | 31 st Dec., 2023 | By Profit and Loss A/c | 1,400 |
| 10 th June, 2023 | To Bank Account | 3,000 | 31 st Dec., 2023 | By Balance c/d | 3,600 |

| | | | | | |
|----------------------------------|----------------|-------|---------------------------------|---------|-------|
| 1 st January, 2024 | To Balance b/d | 5,000 | 15 th April, 2024 | By Bank | 5,000 |
| | | 3,600 | | | 3,600 |
| | | 3,600 | | | 3,600 |

(c) (ii) **Computation of Goodwill of Mr. Nikhil**

| Average maintainable profits: | | ₹ |
|---|------|----------|
| Trading profit during | 2020 | 2,40,000 |
| | 2021 | 2,16,000 |
| | 2023 | 3,00,000 |
| | | 7,56,000 |
| Less: Loss during | 2022 | (36,000) |
| Total | | 7,20,000 |
| Average Profits (₹ 7,20,000 / 4) | | 1,80,000 |
| Less: Remuneration for the proprietor | | (36,000) |
| Average maintainable Profit | | 1,44,000 |
| Less: Normal Profit (11% on capital employed of ₹ 9,00,000) | | (99,000) |
| Super Profit | | 45,000 |
| Goodwill at 6 year s purchase of Super Profit | | 2,70,000 |

Alternative:

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

4. (a) **Revaluation A/c**

| | ₹ | | ₹ |
|---|-----------------|---------------------------|-----------------|
| To Plant & Machinery (1,70,000 x 15%) | 25,500 | By Land & Building A/c | 1,52,000 |
| To Provision for Bad & Doubtful Debts (60,000 x 5%) | 3,000 | | |
| To Outstanding Repairs to Building | 2,000 | | |
| To Trade Creditors | 4,000 | | |
| To P s Capital A/c (5/8) | 73,438 | | |
| To Q s Capital A/c (3/8) | 44,062 | | |
| | <u>1,52,000</u> | | <u>1,52,000</u> |

Partners Capital A/c

| | P | Q | R | | P | Q | R |
|--------------------|----------|----------|----------|----------------------|----------|----------|----------|
| To P s Capital A/c | - | - | 20,000 | By Balance b/d | 4,10,000 | 3,30,000 | - |
| To Q s Capital A/c | | | 12,000 | By Revaluation A/c | 73,438 | 44,062 | - |
| To Q s Current A/c | - | 68,062 | | By Profit & Loss A/c | 70,000 | 42,000 | - |
| To Balance c/d | 6,00,000 | 3,60,000 | 2,40,000 | By Bank | - | - | 2,72,000 |
| | | | | By R s Capital A/c | 20,000 | 12,000 | - |
| | | | | By P s Current A/c | 26,562 | - | - |
| | 6,00,000 | 4,28,062 | 2,72,000 | | 6,00,000 | 4,28,062 | 2,72,000 |

Calculation of New Profit Sharing Ratio and gaining ratio:

R s Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

P s Share = $5/8 \times 4/5 = 20/40 = 5/10$

Q s Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of M/s Dutch and Associates as on 31.3.2024

| Liabilities | | ₹ | Assets | | ₹ |
|---------------------------------|-----------------|------------------|--------------------|-----------------|------------------|
| Capital Accounts: | | | Land & Buildings | 3,80,000 | |
| | | | Add: Appreciation | <u>1,52,000</u> | 5,32,000 |
| P | 6,00,000 | | Plant & Machinery | 1,70,000 | |
| Q | 3,60,000 | | Less: Depreciation | <u>25,500</u> | 1,44,500 |
| R | <u>2,40,000</u> | 12,00,000 | Furniture | | 1,09,480 |
| Q s Current A/c | | 68,062 | Stock | | 1,45,260 |
| Trade Creditors | | 58,800 | Sundry Debtors | 60,000 | |
| Outstanding Repairs to Building | | 2,000 | Less: Provision | <u>3,000</u> | 57,000 |
| | | | Cash at Bank | | 3,14,060 |
| | | | P s current A/c | | <u>26,562</u> |
| | | <u>13,28,862</u> | | | <u>13,28,862</u> |

Working Note:

Required Balance of Capital Accounts

R s Capital after writing off Goodwill = 2,72,000 - 32,000 = 2,40,000

R s Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

P s Capital = 12,00,000 x 5/10 = 6,00,000 and

Q s Capital = 12,00,000 x 3/10 = 3,60,000

(b) **In the books of Sameer Distributors**
Trading and Profit and Loss Account
for the year ended 31st March, 2024

| Particulars | Amount (₹) | Amount (₹) | | Amount (₹) | Amount (₹) |
|---|-------------------------|--------------------|---------------------------|--------------------|--------------------|
| To Opening Stock | | 5,12,400 | By Sales | | |
| To Purchases | | | Cash | 30,67,200 | |
| Cash | 28,45,200 | | Credit (W.N. 1) | <u>2,60,68,800</u> | 2,91,36,000 |
| Credit (W.N. 2) | <u>2,28,31,200</u> | 2,56,76,400 | By Closing stock | | 6,94,800 |
| To Gross profit c/d (12.5% of 2,91,36,000) | | 36,42,000 | (bal fig) | | |
| | | <u>2,98,30,800</u> | | | <u>2,98,30,800</u> |
| To Rent & taxes | | 7,54,800 | By Gross profit b/d | | 36,42,000 |
| To Salaries (W.N. 3) | | 12,55,800 | By Discount received | | 1,05,000 |
| To Sundry expenses | | 4,15,200 | By Interest on investment | | 10,800 |
| To Discount allowed | | 1,87,500 | | | |
| To Depreciation (10% on (3,30,000 & 2,20,500)) | 33,000 <u>22,050</u> | 55,050 | | | |
| To Net Profit (b.f.) | | 10,89,450 | | | |
| | | <u>37,57,800</u> | | | <u>37,57,800</u> |

Balance Sheet as at 31st March, 2024

| Liabilities | | Amount | Assets | Amount |
|-------------------------------|-------------------|------------------|-----------------------------|------------------|
| Capital | | | Motor vehicle | 3,30,000 |
| Opening balance | 18,15,000 | | Less: Depreciation (33,000) | 2,97,000 |
| Less: Drawings | <u>(7,20,000)</u> | | Furniture | 2,20,500 |
| | 10,95,000 | | Less: Depreciation (22,050) | 1,98,450 |
| Add: Net profit for the years | <u>10,89,450</u> | 21,84,450 | Closing Stock | 6,94,800 |
| Trade creditors | | 3,16,800 | Trade receivable | 6,61,500 |
| Outstanding salary | | 44,400 | 6% Investment | 1,80,000 |
| | | | Cash in hand & at bank | 5,13,900 |
| | | <u>25,45,650</u> | | <u>25,45,650</u> |

Working Notes:**1. Trade Debtors Account**

| | ₹ | | ₹ |
|-----------------------------|------------|---------------------|-------------|
| To Balance b/d | 4,36,200 | By Cash/Bank | 2,56,56,000 |
| To Credit sales (Bal. fig.) | 260,68,800 | By Discount allowed | 1,87,500 |
| | | By Balance c/d | 6,61,500 |
| | 265,05,000 | | 265,05,000 |

2. Trade Creditors Account

| | ₹ | | ₹ |
|----------------------|------------|-------------------------------|-------------|
| To Cash/Bank | 226,35,000 | By Balance b/d | 2,25,600 |
| To Discount received | 1,05,000 | By Credit purchases (bal fig) | 2,28,31,200 |
| To Balance c/d | 3,16,800 | | |
| | 230,56,800 | | 230,56,800 |

3. Computation of salary to be charged to Profit & Loss A/c

| | ₹ |
|--|-----------|
| Salary expenses paid (as per cash book) | 12,38,400 |
| Less: Outstanding expenses as on 31.3.2023 | (27,000) |
| | 12,11,400 |
| Add: Outstanding expenses as on 31.3.2024 | 44,400 |
| | 12,55,800 |

5. (a) Rectification entries in the books of M/s Satya Paul Steels

| | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|----|--|------|----------|----------|
| 1. | Profit and Loss Adjustment A/c Dr. To Building Account (Repairs amounting ₹ 37,500 wrongly debited to building account, now rectified) | | 37,500 | 37,500 |
| 2. | Profit and Loss Adjustment A/c Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made) | | 4,500 | 4,500 |
| 3. | Suspense A/c Dr. To Parth (Goods returned by Parth had been posted | | 6,500 | 6,500 |

| | | | | |
|----|--|--|--------|--------|
| | wrongly to the debit of his account, now rectified) | | | |
| 4. | Profit and Loss Adjustment A/c Dr. To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified) | | 50,000 | 50,000 |
| 5. | Comfort & Co. Dr. To Bills receivable A/c (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified) | | 60,000 | 60,000 |

(b) In the Books of Mr. Sanjay

Manufacturing Account for the year ended on March 31,2024

| Particulars | ₹ | Amount ₹ | Particulars | Amount ₹ |
|-----------------------------------|-------------|-------------|------------------------------------|-------------|
| To Opening W.I.P. | | 18,75,000 | By Closing W-I-P | 21,45,000 |
| To Raw Material Consumed: | | | By Sale of Scrap | 1,08,000 |
| Opening inventory | 17,55,000 | | By Trading A/c- | 95,46,000 |
| Purchases | 56,22,000 | | Cost of finished goods transferred | |
| | 73,77,000 | | | |
| Less: Returns | (2,85,000) | | | |
| | 70,92,000 | | | |
| Less: Closing inventory | (14,10,000) | 56,82,000 | | |
| To Carriage Inwards | | 8,10,000 | | |
| To Direct Wages | | 11,91,000 | | |
| To Manufacturing Overhead: | | | | |
| Power and Electricity | 5,28,000 | | | |
| Repairs & Maintenance | 7,95,000 | | | |
| Depreciation on Factory Shed | 4,32,000 | | | |
| Depreciation on Plant & Machinery | 4,86,000 | 22,41,000 | | |
| | | 1,17,99,000 | | 1,17,99,000 |

(c) In the books of Rishab Limited

Journal Entries

| Particulars | Dr. (₹) | Cr. (₹) |
|---|----------|----------|
| 12% Redeemable Preference Share Capital A/c Dr. | 3,60,000 | |
| Premium on Redemption of Preference Shares A/c Dr. | 72,000 | |
| To Preference Shareholders A/c | | 4,32,000 |
| (Being the amount payable on redemption of 36,000 12% | | |

| | | | |
|---|------------|--------------------|-----------------|
| Redeemable Preference Shares transferred to Shareholders Account) | | | |
| Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of 35,800 preference shares) | Dr. | 4,29,600 | 4,29,600 |
| Bank A/c To Equity Shares Capital A/c To Securities Premium A/c (Being the issue of 6,000 Equity Shares of ₹ 10 each at a premium of 10% as per Board s Resolution No . Dated) | Dr. | 66,000 | 60,000 6,000 |
| General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Working Note) (Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.) | Dr. Dr. | 2,40,000 60,000 | 3,00,000 |
| Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No. .. dated) | Dr. | 2,40,000 | 2,40,000 |
| Bonus to Shareholders A/c To Equity Share Capital A/c (Being the utilisation of bonus dividend for issue of 24,000 equity shares of ₹ 10 each fully paid) | Dr. | 2,40,000 | 2,40,000 |
| Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account) | Dr. | 72,000 | 72,000 |

Working Note:

- (1) Partly paid-up preference shares cannot be redeemed.
- (2) Amount to be Transferred to Capital Redemption Reserve Account

| | |
|--|-------------------|
| Face value of share to be redeemed | ₹ 3,60,000 |
| Less: Proceeds from fresh issue (excluding premium) (₹ 60,000) | <u>₹ 3,00,000</u> |
- (3) No bonus shares on 6,000 equity shares issued for redemption.

Note: Bonus shares does not result in receipt of cash, and hence the increase in share capital on account of bonus issue cannot be considered in determination of amount to be transferred to Capital Redemption Reserve.

6. (a)

In the books of Samuel Limited

Journal Entries

| Particulars | Dr. (₹) | Cr. (₹) |
|--|-------------------|----------------------------------|
| Bank A/c (Note 1 Column 3) Dr. To Equity Share Application A/c (Being application money received on 3,60,000 shares @ ₹ 3 per share) | 10,80,000 | 10,80,000 |
| Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 Column 5) To Bank A/c (Note 1 Column 6) (Being application money on 1,20,000 shares transferred to Equity Share Capital Account; out of the excess application money received, ₹4,40,000 is adjusted towards allotment and ₹ 2,80,000 refunded as per Board s Resolution No ..dated) | 10,80,000 | 3,60,000 4,40,000 2,80,000 |
| Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,20,000 shares @ ₹ 5 each including premium at ₹ 4 each as per Board s Resolution No ..dated .) | 6,00,000 | 3,60,000 2,40,000 |
| Bank A/c (Note 1 Column 8) Dr. To Equity Share Allotment A/c (Being balance allotment money received) | 1,60,000 | 1,60,000 |
| Equity Share First and Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due on 1,20,000 shares @ ₹ 4 per share as per Board s Resolution No ..dated .) | 4,80,000 | 4,80,000 |
| Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First and Final Call A/c (Being final call money on 1,19,660 shares @ ₹ 4 each received) | 4,78,640 1,360 | 4,80,000 |

| | | | |
|---|-----|-------|-------|
| Equity Share Capital A/c | Dr. | 3,400 | |
| To Calls in Arrears A/c | | | 1,360 |
| To Forfeited Shares A/c | | | 2,040 |
| Being forfeiture of 340 equity shares for non-payment of call money as per Board's Resolution No. ..dated ..) | | | |
| Bank A/c | Dr. | 4,420 | |
| To Equity Shares Capital A/c | | | 3,400 |
| To Securities Premium A/c | | | 1,020 |
| Being re-issue of 340 shares @ ₹13 each as per Board's Resolution No. ..dated ..) | | | |
| Forfeited Shares A/c | Dr | 2,040 | |
| To Capital Reserve A/c | | | 2,040 |
| (Being profit on re-issue transferred to Capital Reserve) | | | |

Working Note:

Calculation for Adjustment and Refund

| Category | No. of Shares Applied for | No. of Shares Allotted | Amount Received on Application | Amount Required on Application | Amount adjusted on Allotment | Refund [3 - 4 + 5] | Amount due on Allotment | Amount received on Allotment |
|----------|---------------------------|------------------------|--------------------------------|--------------------------------|------------------------------|--------------------|-------------------------|------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Rejected | 80,000 | Nil | 2,40,000 | Nil | Nil | 2,40,000 | Nil | Nil |
| (i) | 1,60,000 | 80,000 | 4,80,000 | 2,40,000 | 2,40,000 | Nil | 4,00,000 | 1,60,000 |
| (ii) | 1,20,000 | 40,000 | 3,60,000 | 1,20,000 | 2,00,000 | 40,000 | 2,00,000 | Nil |
| TOTAL | 3,60,000 | 1,20,000 | 10,80,000 | 3,60,000 | 4,40,000 | 2,80,000 | 6,00,000 | 1,60,000 |

Also,

- (i) Amount Received on Application (3) = No. of shares applied for (1) x ₹ 3
- (ii) Amount Required on Application (4) = No. of shares allotted (2) x ₹ 3
- (b) (i) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- (i) The drawer, who draws the bill, that is, the creditor to whom the money is owing;
 - (ii) The drawee, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
 - (iii) The payee, the person who is to receive the payment. The drawer in many cases is also the payee.
- (ii) **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.

OR

GST is a single tax on the supply of goods and services, right from the manufacturer to consumer.

- GST is levied on supply i.e., manufacture or sale of goods and provision of services. In other words, supply is taxable event which own its occurrence creates or attracts the liability to pay tax.
- Under GST, tax is levied only the value added at each stage of the supply chain.
- GST is a destination-based consumption tax, i.e. the tax is levied at the place where the goods or services are consumed, rather than the place where they are produced.
- There is no tax on tax or cascading of taxes under GST system.
- Under GST, there is a harmonization of laws, procedures and rates of tax across the country.

ANSWERS OF MODEL TEST PAPER 9

FOUNDATION COURSE

PAPER 1: ACCOUNTING

1. (a) (i) **True:** If closing stock appears in the trial balance then it is not entered in the trading account but it is shown only in the balance sheet because it has already been adjusted to purchase account.
- (ii) **False:** If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of commission and not error of Principle.
- (iii) **False:** Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.
- (iv) **True:** In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.
- (v) **False:** Errors not affecting the trial balance can be rectified by passing a rectification journal entry. While other errors that affect one account of trial balance cannot be rectified by passing journal entries. Totaling errors cannot be rectified by passing journal entries
- (vi) **True:** Revaluation is also called as profit and loss adjustment account. It is used to record the gain/loss arising from the revaluation of assets and liabilities of a firm at the time of reconstitution.
- (b) (i) **Accounting Policy:**
- (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; and
- (b) Policies are based on various accounting concepts, principles, and conventions.

Conditions under which change takes place:

A change in accounting policies shall be made in the following conditions:

- (a) It is required by some statute or for compliance with an Accounting Standard
- (b) Change would result in more appropriate presentation of financial statement
- (ii) (i) Cash Basis of Accounting is the method of recording financial transactions, by which revenues and expenditure and assets and liabilities are reflected in the accounts in the period in which the receipts or payments are actually effected/made.

- (ii) Going Concern concept states that the financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used needs to be disclosed.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

(c) **Journal entries in the books of Mr. Kapil**

| S No. | Particulars | L.F. | Amount Dr. (₹) | Amount Cr. (₹) |
|-------|---|------|----------------|----------------|
| (i) | Purchases A/c Dr. | | 1,35,000 | |
| | Input CGST A/c Dr. | | 8,100 | |
| | Input SGST A/c Dr. | | 8,100 | |
| | To Sonu s A/c | | | 1,51,200 |
| | (Being goods purchased from Sonu, CGST and SGST payable @ 6% each) | | | |
| (ii) | Bank A/c Dr. | | 22,000 | |
| | Mohit s A/c Dr. | | 33,000 | |
| | To Sales A/c | | | 50,000 |
| | To Output CGST A/c | | | 2,500 |
| | To Output SGST A/c | | | 2,500 |
| | (Being goods sold to Mohit, charged CGST and SGST @ 5% each and received 40% in cash) | | | |
| (iii) | Drawings A/c Dr. | | 28,000 | |
| | To Purchase A/c | | | 25,000 |
| | To Input CGST A/c | | | 1,500 |
| | To Input SGST A/c | | | 1,500 |
| | (Being goods withdrawn for personal use and input CGST and input SGST debited at the time of purchase reversed) | | | |
| (iv) | Machinery A/c Dr. | | 2,00,000 | |
| | Input CGST A/c Dr. | | 18,000 | |
| | Input SGST A/c Dr. | | 18,000 | |
| | To Bank A/c | | | 1,00,000 |
| | To Bright Industries | | | 1,36,000 |
| | (Being machinery purchased and paid ₹ 1,00,000 immediately, CGST and SGST @ 9% each) | | | |

2. (a) **Journal Entries in the Books of Mr. Sarvesh Kumar**

| Particulars | | L.F. | Amount Dr. (₹) | Amount Cr. (₹) |
|-------------|--|------|-------------------|-------------------|
| (i) | Returns Inward/ Sales Return A/c Dr. To Suspense A/c (Being the mistake in totalling the Returns Inward Book corrected) | | 1,000 | 1,000 |
| (ii) | Machinery A/c Dr. To Freight A/c To Suspense A/c (Being the freight paid for installation of machinery should have been capitalised and not to be charged to freight Account) | | 6,500 | 5,600 900 |
| (iii) | Returns Inward/Sales Return A/c Dr. Sales A/c Dr. To Suspense A/c (Being value of goods returned by a customer wrongly posted to sales and omission of debit to sales returns account, now rectified) | | 2,500 2,500 | 5,000 |
| (iv) | Drawings A/c Dr. To Conveyance A/c (Being the motorcycle purchased for Mr. Suresh Kumar debited to his Drawings Account instead of Conveyance Account as previously done by mistake) | | 18,000 | 18,000 |
| (v) | Suspense A/c Dr. To Creditors (personal) A/c (Being the mistake in crediting the creditors account less by ₹ 700, now corrected) | | 700 | 700 |
| (vi) | Suspense A/c Dr. To Mr. Avinash s A/c (Being cash received for Rs 5,000 wrongly posted to the debit of his account now corrected) | | 10,000 | 10,000 |
| (vii) | Mr. Alok s A/c Dr. To Ashok s A/c (Being the cheque of Mr. Alok dishonoured, previously debited to Mr. Ashok) | | 2,500 | 2,500 |
| (viii) | Deepak A/c Dr. To Suspense A/c (Being the correction of mistake by which the account of Deepak A/c was credited instead of being debited) | | 17,000 | 17,000 |
| (ix) | Discount A/c Dr. To Suspense A/c (Being the total of discount allowed during December not posted; error now rectified) | | 3,800 | 3,800 |

| | | | | |
|-----|---|-----|-------|-------|
| (x) | Sales A/c To Furniture A/c (Being the rectification of mistake by which sales of furniture was entered in sales book and hence now corrected by debiting the sales A/c) | Dr. | 2,200 | 2,200 |
|-----|---|-----|-------|-------|

(b) **In the books of LMP Co.**
Machinery Account

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|----------|----------------|------------|----------|--|------------|
| 01.04.22 | To Balance b/d | 9,72,000 | 01.10.22 | By Depreciation on machinery sold (W.N.1) | 3,240 |
| 01.10.22 | To Bank | 1,58,000 | 01.10.22 | By Bank- Machinery sold | 45,000 |
| | | | 01.10.22 | By Loss on sale of machinery (W.N.1) | 16,560 |
| | | | 31.03.23 | By Depreciation on remaining machineries (W.N.4) | 98,620 |
| | | | 31.03.23 | By Balance c/d | 9,66,580 |
| | | 11,30,000 | | | 11,30,000 |

Working Note:

1. Calculation of amount of Depreciation, written down value and loss on sale of the part of the machinery

| Particulars | Amount (₹) |
|---|------------|
| Cost as on 01.04.2020 | 80,000 |
| Less: Depreciation @10% for the year 2020-2021 | (8,000) |
| Written Down Value (WDV) as on 31.03.2021 or 01.04.2021 | 72,000 |
| Less: Depreciation @10% for the year 2021-2022 | (7,200) |
| Written Down Value (WDV) as on 01.04.2022 | 64,800 |
| Less: Depreciation @10% for the half year till 30 th September, 2022 | (3,240) |
| Written Down Value (WDV) as on 1.10.2022 | 61,560 |
| Less: Sale price of the asset sold on 01.10.2022 | (45,000) |
| Loss on sale of Machinery sold | 16,560 |

2. Computation of written down value of the remaining asset as on 01.04.2022

| | ₹ |
|---|----------|
| Total WDV of the machinery as on 01.04.2022 | 9,72,000 |

| | |
|--|-----------------|
| Less: WDV of the part of the machinery sold as on 01.04.2022 | <u>(64,800)</u> |
| Written down value of the remaining asset as on 01.04.2022 | 9,07,200 |

3. Computation of the written down value of the machinery as on 31.03.2023

| | ₹ | |
|---|-----------------|-----------------|
| Written down value of the remaining asset as on 01.04.2022 | 9,07,200 | |
| Less: Depreciation @ 10% for the year 2022-2023 | <u>(90,720)</u> | 8,16,480 |
| Add: New machinery purchased on 1.10.2022 (1,50,000 +8,000) | 1,58,000 | |
| Less: Depreciation for 6 months @10% | <u>(7,900)</u> | <u>1,50,100</u> |
| Written down value of the machinery as on 31.03.2023 | | <u>9,66,580</u> |

4. Total Depreciation to be charged to Profit and Loss Account during the year 2022-2023

| S. No. | Particulars | Depreciation (₹) |
|--------|--|------------------|
| 1. | Depreciation at 10% on existing machinery on 01.4.2022 i.e. (9,07,200*10%) | 90,720 |
| 2. | Depreciation on addition i.e. 1,58,000* 10%*1/2 | 7,900 |
| | Sub-Total | 98,620 |
| 3. | Depreciation on machinery sold 1.10.2022 | 3,240 |
| | Grand Total | <u>1,01,860</u> |

3. (a) In the books of Vandana Sports club.

Income and Expenditure Account for the year ending 31st March, 2024

| Expenditure | Amount (₹) | Income | Amount (₹) |
|-------------------------------|------------|----------------------------|------------|
| To Salaries (W.N.2) | 1,57,200 | By Subscription (WN. 2) | 2,95,500 |
| To Rent & Electricity (W.N.2) | 70,850 | By Interest on Investments | 8,000 |
| To Magazines & Newspapers | 16,600 | By Misc. Income | 19,850 |
| To Sundry Expenses | 71,050 | By Entrance Fees | 20,000 |
| To Depreciation: Furniture | 6,550 | | |

| | | | |
|--------------------------------------|--------------|----------|----------|
| Sports Equipment | 10,500 | | |
| Library Books | <u>2,500</u> | 19,550 | |
| To Excess of income over expenditure | | 8,100 | |
| | | 3,43,350 | 3,43,350 |

Balance Sheet as on 31st March, 2024

| Liabilities | Amount (₹) | Amount (₹) | Assets | Amount (₹) | Amount (₹) |
|----------------------------------|------------|------------|---------------------------|------------|------------|
| Capital Fund: | | | Furniture Cost | 65,500 | |
| Opening balance (W.N.1) | 2,66,700 | | Less: Depreciation | (6,550) | 58,950 |
| Add: Excess of Income over exp | 8,100 | | Sports Equipment: | | |
| Entrance fees (60%) | 30,000 | 3,04,800 | Opening balance | 41,500 | |
| Subscription received in advance | | 8,400 | Addition | 28,500 | |
| Outstanding Expenses: | | | Less: Depreciation | (10,500) | 59,500 |
| Salaries | 12,400 | | Library Books: | | |
| Rent & Electricity | 7,600 | 20,000 | Opening Balance | 22,000 | |
| | | | Addition | 10,500 | |
| | | | Less: Depreciation | (2,500) | 30,000 |
| | | | Investments (8% Bonds) | | 1,00,000 |
| | | | Cash in hand | | 8,750 |
| | | | Cash at Bank | | 53,400 |
| | | | Subscription Receivable | | 20,600 |
| | | | Interest accrued on Bonds | | 2,000 |
| | | 3,33,200 | | | 3,33,200 |

Alternatively, the capitalised portion of entrance fee of ₹ 30,000 may be shown separately in the liability side.

Working Notes:

1. Balance Sheet as on 31st March, 2023

| Liabilities | ₹ | ₹ | Assets | ₹ |
|----------------------------------|--------|--------|------------------|----------|
| Outstanding expenses: | | | Furniture | 65,500 |
| Salaries | 10,200 | | Library Books | 22,000 |
| Rent & Electricity | 6,500 | 16,700 | Sports Equipment | 41,500 |
| Subscription received in advance | | 7,000 | Investments | 1,00,000 |

| | | | |
|------------------------------------|----------|----------------------------|----------|
| Capital Fund (Balancing figure) | 2,66,700 | Cash in hand | 5,200 |
| | | Cash at Bank | 35,500 |
| | | Subscription receivable | 18,700 |
| | | Interest accrued | 2,000 |
| | 2,90,400 | | 2,90,400 |

2.

| (i) | Expenses | Salaries (₹) | Rent & Electricity (₹) |
|-------|--|-----------------|------------------------------|
| | Paid during the year | 1,55,000 | 69,750 |
| | Add: Outstanding on 31.3.2024 | 12,400 | 7,600 |
| | | 1,67,400 | 77,350 |
| | Less: Outstanding on 31.3.2023 | (10,200) | (6,500) |
| | Expenditure for the year | 1,57,200 | 70,850 |
| (ii) | Depreciation: | | |
| | (a) Furniture @10% on ₹ 65,500 | | 6,550 |
| | (b) Sports Equipment @ 15% on ₹ 70,000 | | 10,500 |
| | (c) Library books | 32,500 | |
| | Revalued at | <u>(30,000)</u> | <u>2,500</u> |
| | | | <u>19,550</u> |
| (iii) | Subscription: | | |
| | Received as per receipt and payment A/c | | 2,95,000 |
| | Add: Receivable on 31.3.2024 | | 20,600 |
| | Add: Prepaid as on 31.3.2023 | | <u>7,000</u> |
| | | | 3,22,600 |
| | Less: Receivable on 31.3.2023 | | (18,700) |
| | Less: Prepaid as on 31.3.2024 | | <u>(8,400)</u> |
| | | | <u>2,95,500</u> |
| iv | Entrance Fees: | | |
| | Received as per receipt and payment A/c | | 50,000 |
| | Less: Capitalized | | <u>(30,000)</u> |
| | Charged to Income & Expenditure | | 20,000 |

(b)

Realisation Account

| <i>riur</i> | Amount (₹) | Amount (₹) | <i>riur</i> | Amount (₹) | Amount (₹) |
|-------------------|---------------|---------------|---------------------------------|---------------|---------------|
| To Sundry Assets: | | | By Creditors | | 1,24,000 |
| Debtors | 1,56,000 | | By Employee s Provident Fund | | 60,000 |
| Stock | 55,800 | | | | |
| Furniture | 1,05,000 | | By Bank A/c: | | |
| Plant & | 1,88,000 | | Land and | 5,25,000 | |

| | | | | | |
|--------------------------------------|----------|-----------|--------------------------|----------|-----------|
| Machinery Land and Building | 4,85,000 | 9,89,800 | Building Debtors | 1,47,000 | |
| To Bank-Creditors: (W.No.1) | | 95,000 | Stock | 60,000 | |
| To Bank A/c o/s bill for repairs | | 3,500 | Machinery | 1,70,000 | |
| To Bank A/c (expenses) | | 18,700 | Unrecorded Investment | 30,000 | 9,32,000 |
| To Bank (Employee provident Fund) | | 60,000 | By P s Capital A/C | | 75,000 |
| To Profit transferred to: | | | | | |
| P s Capital A/c | 12,000 | | | | |
| Q s Capital A/c | 8,000 | | | | |
| R s Capital A/c | 4,000 | 24,000 | | | |
| | | 11,91,000 | | | 11,91,000 |

Partner s Capital Accounts

| Particulars | P (₹) | Q (₹) | R (₹) | Particulars | P (₹) | Q (₹) | R (₹) |
|-----------------------|----------|----------|----------|--------------------------|----------|----------|----------|
| To Realisation A/c | 75,000 | | | By Bal. b/d | 3,55,000 | 2,20,000 | 1,25,000 |
| Furniture | | | | | | | |
| To Bank | 3,67,000 | 2,78,000 | 1,54,000 | By Gen. Reserve | 75,000 | 50,000 | 25,000 |
| | | | | By Realisation Profit | 12,000 | 8,000 | 4,000 |
| | 4,42,000 | 2,78,000 | 1,54,000 | | 4,42,000 | 2,78,000 | 1,54,000 |

Bank Account

| Particulars | ₹ | Particulars | ₹ |
|---|----------|---|----------|
| To Balance b/d | 44,200 | By Realisation A/c: (Liabilities Paid) | 1,77,200 |
| To Realisation A/c (Assets realized) | 9,32,000 | By P s Capital A/c | 3,67,000 |
| | | By Q s Capital A/c | 2,78,000 |
| | | By R s Capital A/c | 1,54,000 |
| | 9,76,200 | | 9,76,200 |

Working Note 1:

Payment to Trade Creditors:

| Particulars | Amount (₹) |
|--|------------|
| Trade creditors as per Balance sheet | 1,24,000 |
| Less: Furniture (Book Value ₹25,000 accepted at ₹ 24,000) | 24,000 |
| | 1,00,000 |

| | |
|--------------------------|--------|
| Less: Discount @ 5% | 5,000 |
| Amount Paid to Creditors | 95,000 |

4. (a) **Revaluation Account**

| Particulars | ₹ | Particulars | ₹ |
|--|--------|-----------------|--------|
| To Machinery A/c | 14,300 | By Building A/c | 50,000 |
| To Furniture A/c | 5,000 | By Investments | 800 |
| To Provision for Doubtful Debts | 8,200 | | |
| To Inventories | 900 | | |
| To Partner s capital A/c: (Profit on revaluation) | | | |
| Anu (5/8) 14,000 | | | |
| Manu (3/8) 8,400 | 22,400 | | |
| | 50,800 | | 50,800 |

Partner s Capital Accounts

| Particulars | Anu (₹) | Manu (₹) | Ranu (₹) | Particulars | Anu (₹) | Manu (₹) | Ranu (₹) |
|-------------|----------|----------|----------|--------------------------|----------|----------|----------|
| To Bal c/d. | 3,20,250 | 2,74,150 | 1,00,000 | By Bal. b/d | 2,80,000 | 2,50,000 | |
| | | | | By Profit on revaluation | 14,000 | 8,400 | |
| | | | | By Bank (Capital) | - | - | 1,00,000 |
| | | | | By Bank (Goodwill) | 26,250 | 15,750 | - |
| | 3,20,250 | 2,74,150 | 1,00,000 | | 3,20,250 | 2,74,150 | 1,00,000 |

Balance Sheet (after admission of Ranu) as on 1st April, 2024

| Liabilities | ₹ | ₹ | Assets | ₹ |
|-------------------------|-----------------|-----------|------------------|-----------|
| Capital accounts: | | | Building | 4,30,000 |
| Anu | 3,20,250 | | Machinery | 1,28,700 |
| Manu | 2,74,150 | | Furniture | 80,000 |
| Ranu | <u>1,00,000</u> | 6,94,400 | Trade Receivable | 1,55,800 |
| Long term loan | | 2,00,000 | Inventories | 47,500 |
| Trade Payable | | 1,19,500 | Investments | 16,000 |
| Outstanding liabilities | | 16,200 | Cash and Bank | 1,72,100 |
| | | 10,30,100 | | 10,30,100 |

Working Notes:

1. Calculation of Goodwill:

$$\text{Average profit} = \frac{87,000+1,06,000+1,22,000}{3} = ₹ 1,05,000$$

Two years purchase of average profits = $1,05,000 \times 2 = ₹ 2,10,000$

Goodwill to be brought in by Ranu = $₹ 2,10,000 \times 2/10 = ₹ 42,000$

2. Calculation of Sacrificing Ratio = Old- New Ratio

$$\text{Anu} = 5/8 - 5/10 = 5/40$$

$$\text{Manu} = 3/8 - 3/10 = 3/40$$

Goodwill brought in by Ranu shared (at the profit sacrificing ratio) by:

| | ₹ |
|-----------------------|--------|
| Anu (₹ 42,000 x 5/8) | 26,250 |
| Manu (₹ 42,000 x 3/8) | 15,750 |
| | 42,000 |

3. Bank balance after admission of Ranu:

Bank Account

| Particulars | ₹ | Particulars | ₹ |
|-----------------------|----------|----------------|----------|
| To bal. b/d | 30,100 | By Balance c/d | 1,72,100 |
| To Anu s Capital A/c | 26,250 | | |
| To Manu s Capital A/c | 15,750 | | |
| To Ranu s capital A/c | 1,00,000 | | |
| | 1,72,100 | | 1,72,100 |

Alternatively, goodwill can also be calculated on the basis of weighted average profit, since the profit of the firm is on increasing trend.

(b) In the books of Harshit Traders

Trading and Profit and Loss Account for the year ended 31st March, 2024

| Particulars | Amount (₹) | Amount (₹) | | Amount (₹) | Amount (₹) |
|--|------------------|------------|----------------------------|------------------|------------|
| To Opening Stock | | 1,70,800 | By Sales | | |
| To Purchases | | | Cash | 10,22,400 | |
| Cash | 9,48,400 | | Credit (W.N. 1) | <u>86,89,600</u> | 97,12,000 |
| Credit (W.N. 2) | <u>76,10,400</u> | 85,58,800 | By Closing stock (bal fig) | | 2,31,600 |
| To Gross profit c/d (12.5% of 97,12,000) | | 12,14,000 | | | |
| | | 99,43,600 | | | 99,43,600 |

| | | | | | |
|--|------------------------|------------------|---------------------------|--|------------------|
| To Rent & taxes | | 2,51,600 | By Gross profit b/d | | 12,14,000 |
| To Salaries (W.N. 3) | | 4,18,600 | By Discount received | | 35,000 |
| To Sundry expenses | | 1,38,400 | By Interest on investment | | 3,600 |
| To Discount allowed | | 62,500 | | | |
| To Depreciation (10% on (1,10,000 & 73,500)) | 11,000 <u>7,350</u> | 18,350 | | | |
| To Net Profit (b.f.) | | 3,63,150 | | | |
| | | <u>12,52,600</u> | | | <u>12,52,600</u> |

Balance Sheet as at 31st March, 2024

| Liabilities | | Amount | Assets | | Amount |
|-------------------------------|-------------------|-----------------|-----------------------------|----------|-----------------|
| Capital | | | Motor vehicle | 1,10,000 | |
| Opening balance | 6,05,000 | | Less: Depreciation (11,000) | | 99,000 |
| Less: Drawings | <u>(2,40,000)</u> | | Furniture & Fittings | 73,500 | |
| | 3,65,000 | | Less: Depreciation (7,350) | | 66,150 |
| Add: Net profit for the years | <u>3,63,150</u> | 7,28,150 | Closing Stock | | 2,31,600 |
| Trade creditors | | 1,05,600 | Trade receivable | | 2,20,500 |
| Outstanding salary | | 14,800 | 6% Investment | | 60,000 |
| | | | Cash in hand & at bank | | 1,71,300 |
| | | <u>8,48,550</u> | | | <u>8,48,550</u> |

Working Notes:

1. Trade Debtors Account

| | ₹ | | ₹ |
|-----------------------------|------------------|---------------------|------------------|
| To Balance b/d | 1,45,400 | By Cash/Bank | 85,52,000 |
| To Credit sales (Bal. fig.) | 86,89,600 | By Discount allowed | 62,500 |
| | | By Balance c/d | 2,20,500 |
| | <u>88,35,000</u> | | <u>88,35,000</u> |

2. Trade Creditors Account

| | ₹ | | ₹ |
|----------------------|-----------|---------------------|-----------|
| To Cash/Bank | 75,45,000 | By Balance b/d | 75,200 |
| To Discount received | 35,000 | By Purchases credit | 76,10,400 |
| To Balance c/d | 1,05,600 | | |
| | 76,85,600 | | 76,85,600 |

3. Computation of salary to be charged to Profit & Loss A/c

| | ₹ |
|--|----------|
| Salary expenses paid (as per cash book) | 4,12,800 |
| Less: Outstanding expenses as on 31.3.2023 | (9,000) |
| | 4,03,800 |
| Add: Outstanding expenses as on 31.3.2024 | 14,800 |
| | 4,18,600 |

5. (a) Statement of Valuation of Inventory as on 31st March, 2024

| Particulars | Amount (₹) | Amount (₹) |
|---|-----------------|------------|
| Value of stock as on 10th April, 2024 | | 4,50,000 |
| Add: Cost of sales during the period from 31 st March, 2024 to 10 th April, 2024: | | |
| Sales (₹ 1,10,000-₹ 10,000) | 1,00,000 | |
| Less: Gross profit (25% on cost i.e. 20% on sales) | <u>(20,000)</u> | 80,000 |
| | | 5,30,000 |
| Less: Purchases during the period from 31 st March, 2024 to 10th April, 2024 (85,000-2,500) | 82,500 | |
| Unsold stock out of goods received on consignment basis (40% of ₹ 15,000) | 6,000 | |
| Loss on revaluation of slow-moving inventories (14,850-9,500) | <u>5,350</u> | (93,850) |
| | | 4,36,150 |

ALTERNATE PRESENTATION

Statement of Valuation of Inventory as on 31st March, 2024

| Particulars | Amount (₹) | Amount (₹) |
|---|------------|------------|
| Value of stock as on 10th April, 2024 | | 4,50,000 |
| Add: Cost of sales during the period from 31 st March, 2024 to 10 th April, 2024: | | |
| Sales | 1,10,000 | |

| | | |
|---|-----------------|-----------------|
| Less: Gross profit (25% on cost i.e. 20% on sales) | <u>(22,000)</u> | 88,000 |
| Purchase Returns | | 2,500 |
| | | <u>5,40,500</u> |
| Less: Purchases during the period from 31 st March, 2024 to 10th April, 2024 | 85,000 | |
| Sales Returns | 8,000 | |
| Unsold stock out of goods received on consignment basis (40% of ₹ 15,000) | 6,000 | |
| Loss on revaluation of slow-moving inventories (14,850-9,500) | <u>5,350</u> | (1,04,350) |
| | | <u>4,36,150</u> |

(b) (i) **In the Books of Mr. Prakash**
Manufacturing Account for the year ended on March 31,2024

| Particulars | ₹ | Amount ₹ | Particulars | Amount₹ |
|-----------------------------------|------------|-------------|------------------------------------|-----------|
| To Opening W.I.P. | | 6,25,000 | By Closing W-I-P | 7,15,000 |
| To Raw Material Consumed: | | | By Sale of Scrap | 36,000 |
| Opening inventory | 5,85,000 | | By Trading A/c- | 31,82,000 |
| Purchases | 18,74,000 | | Cost of finished goods transferred | |
| | 24,59,000 | | | |
| Less: Returns | (95,000) | | | |
| | 23,64,000 | | | |
| Less: Closing inventory | (4,70,000) | 18,94,000 | | |
| To Direct Wages | | 3,97,000 | | |
| To Manufacturing Overhead: | | | | |
| Power and Electricity | 1,76,000 | | | |
| Indirect Wages | 82,000 | | | |
| Indirect Materials | 1,88,000 | | | |
| Repairs & Maintenance | 2,65,000 | | | |
| Depreciation on Factory Shed | 1,44,000 | | | |
| Depreciation on Plant & Machinery | 1,62,000 | 10,17,000 | | |
| | | 39,33,000 | | 39,33,000 |

OR

(ii) Bank Reconciliation Statement as on 31st March, 2024

| Particulars | Details ₹ | Amount ₹ |
|--|--------------|-------------|
| Overdraft as per Cash Book | | 24,000 |
| <i>Add:</i> Cash received from Exe entered in bank column of cash book | 3,150 | |
| Cheque deposited but collected less as per bank statement | 50 | |
| Noting charges not recorded in cash book | 60 | |
| Cheque deposited but collected by bank on 5 th April | 4,800 | 8,060 |
| | | 32,060 |
| <i>Less:</i> Cheque deposited but not recorded in Cash Book | (4,000) | |
| Debit side of bank column casted short | (1,000) | |
| Bills for collection credited in the bank not yet entered in the cash book | (4,200) | |
| Bank Charges recorded twice | (40) | |
| Cheque issued but not presented | (3,000) | (12,240) |
| Overdraft as per bank Pass book | | 19,820 |

Alternatively, the above question can also be solved using adjusted cash book.

(c) Journal Entries in the books of Happy Ltd.

| Date | Particulars | Debit ₹ | Credit ₹ |
|-----------|---|--------------|------------------|
| 1-4-2024 | Equity share final call A/c To Equity share capital A/c (Being final calls of ₹ 6 per share on 40,000 equity shares due as per Board's Resolution dated .) | Dr. 2,40,000 | 2,40,000 |
| 30-4-2024 | Bank A/c To Equity share final call A/c (Being final call money on 40,000 equity shares received) | Dr. 2,40,000 | 2,40,000 |
| 1-5-2024 | Equity Share Capital Account To Calls-in-Arrears A/c To Forfeited Shares A/c (Bring forfeiture of 10,000 Shares due to Non-Payment of Final Call of 2 per share) | 1,00,000 | 20,000 80,000 |
| 1-5-2024 | Bank A/c To Securities Premium A/c | Dr. 1,10,000 | 10,000 |

| | | | | |
|----------|---|-----|----------|----------|
| 1-5-2024 | To Equity Share Capital A/c (Being re-issue of 10,000 forfeited shares at ₹ 11 each) | | | 1,00,000 |
| | Forfeited Shares A/c | Dr. | 80,000 | |
| | To Capital Reserve A/c (Being the profit on re-issue transferred to Capital Reserve) | | | 80,000 |
| | Capital Reserve | Dr. | 1,40,000 | |
| | Securities Premium A/c | Dr. | 1,10,000 | |
| 1-5-2024 | Capital Redemption Reserve A/c | Dr. | 1,60,000 | |
| | General Reserve A/c | Dr. | 1,20,000 | |
| | Profit and Loss A/c (b.f.) | Dr. | 1,20,000 | |
| | To Bonus to shareholders A/c (Being making provision for bonus issue of one share for every two shares held) | | | 6,50,000 |
| | Bonus to shareholders A/c | Dr. | 6,50,000 | |
| | To Equity share capital A/c (Being issue of bonus shares @ ₹ 10 per share) | | | 6,50,000 |

Working Notes:

| | |
|--|------------------|
| 1. Number of Bonus shares to be issued- (1,30,000 shares / 2) X 1 = 65,000 shares | ₹ |
| 2. The authorised capital should be increased as per details given below: | |
| Existing issued Equity share capital (9,00,000 +4,00,000) | 13,00,000 |
| Add: Issue of bonus shares to equity shareholders | <u>6,50,000</u> |
| Total | <u>19,50,000</u> |

6. (a) Journal Entries In the books of Mac Ltd.

| | | Amount (₹) | Amount (₹) |
|--|-----|---------------|---------------|
| 10% Preference Share Final Call A/c | Dr. | 20,00,000 | |
| To 10% Preference Share Capital A/c (Being final call made on preference shares @ ₹ 25 each to make them fully paid up) | | | 20,00,000 |
| Bank A/c | Dr. | 20,00,000 | |
| To 10% Preference Share Final Call A/c | | | 20,00,000 |

| | | | |
|---|------------|-----------------------|-----------------------|
| (Being receipt of final call money on preference shares) | | | |
| Bank A/c To Equity Share Application A/c (Being receipt of application money on 60,000 equity shares @ ₹ 25 per share) | Dr. | 15,00,000 | 15,00,000 |
| Equity Share Application A/c To Equity Share Capital A/c (Being capitalisation of application money received) | Dr. | 15,00,000 | 15,00,000 |
| Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Being allotment money due on 60,000 equity shares @ ₹ 45 per share including a premium of ₹ 10 per share) | Dr. | 27,00,000 | 21,00,000 6,00,000 |
| Bank A/c To Equity Share Allotment A/c (Being receipt of allotment money on equity shares) | Dr. | 27,00,000 | 27,00,000 |
| General Reserve A/c To Capital Redemption Reserve A/c (Being transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 80,00,000 - 15,00,000 21,00,000) | Dr. | 44,00,000 | 44,00,000 |
| 10% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable to preference shareholders on redemption at 5% premium) | Dr. Dr. | 80,00,000 4,00,000 | 84,00,000 |
| Preference Shareholders A/c To Bank A/c (Being amount paid to preference shareholders) | Dr. | 84,00,000 | 84,00,000 |
| General Reserve A/c To Premium on Redemption of Preference shares A/c (Being writing off premium on redemption of preference shares) | Dr. | 4,00,000 | 4,00,000 |

- (b) The use of subsidiary books affords the undermentioned 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 class of transaction 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.

ANSWERS OF MODEL TEST PAPER 10

FOUNDATION COURSE

PAPER 1: ACCOUNTING

1. (a)
- 1. False:** The rule of nominal accounts states that all expenses and losses are recorded on debit side.
 - 2. False:** Overhaul expenses are incurred to put second-hand machinery in working condition to derive enduring long-term advantage. So, it should be capitalized.
 - 3. 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 realisable value whichever is less, therefore is based on principle of conservatism.
 - 4. False:** A promissory note should not be made payable to the bearer. The payee must be to a certain person.
 - 5. False:** It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.
 - 6. False:** Legal heirs of a deceased partner are entitled to all the dues of deceased partner.

(b) The difference between Book keeping and Accounting are as follows:

| S. No. | Book-keeping | Accounting |
|--------|--|---|
| 1. | It is a process concerned with recording of transactions. | It is a process concerned with summarising of the recorded transactions. |
| 2. | It constitutes as a base for accounting. | It is considered as a language of the business. |
| 3. | Financial statements do not form part of this process. | Financial statements are prepared in this process on the basis of book-keeping records. |
| 4. | Managerial decisions cannot be taken with the help of these records. | Management takes decisions on the basis of these records. |
| 5. | There is no sub-field of book keeping. | It has several sub-fields like financial accounting, management accounting etc. |
| 6. | Financial position of the business cannot be ascertained through book-keeping records. | Financial position of the business is ascertained on the basis of the accounting reports. |

(c)

Journal

| | Particulars | L.F. | Dr. ₹ | Cr. ₹ |
|-----|---|------|------------|-----------|
| (1) | Sales A/c Dr. Sales Returns A/c Dr. To Suspense A/c (Being the value of goods returned by Mr. A wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified) | | 500 500 | 1,000 |
| (2) | Suspense A/c Dr. To Mr. R (Being wrong debit to Mr. R for goods returned by him, now rectified) | | 500 | 500 |
| (3) | Mr. Q Dr. To Mr. S To Suspense A/c (Being omission of debit to Mr. Q and wrong credit to Mr. S for sale of ₹ 700, now rectified) | | 700 | 70 630 |
| (4) | Discount A/c Dr. To Suspense A/c (Being the total of Discount allowed during September not posted from the Cash Book; error now rectified) | | 350 | 350 |

2. (a) Bank Reconciliation Statement of Mr. Hari as on 31st Dec., 2023

| Particulars | Details ₹ | Amount ₹ |
|---|--------------|-------------|
| Balance as per the Cash Book | | 1,36,800 |
| <i>Add:</i> Cheques issued but not presented for payment | 36,000 | |
| Dividends directly collected by bank but not yet entered in the Cash Book | 18,000 | |
| Cheque recorded with wrong amount in the Cash Book | 90 | |
| Cheque directly deposited but not recorded in the cash book | 1,53,600 | |
| Amount received from slae of scrap not recorded in cash book | 1,000 | 2,08,690 |
| | | 3,45,490 |
| <i>Less:</i> Cheques deposited but not cleared till 31 st dec | 55,000 | |
| Medicclaim paid by the bank directly not yet recorded in the Cash Book | 14,160 | |

| | | |
|--|-----|----------|
| Bank charges not recorded in cash book | 150 | (69,310) |
| Balance as per the Pass Book | | 2,76,180 |

Alternatively, the question can also be solved by preparing adjusted cash book as shown below:

Cash Book (Bank Column)

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---------------|-----------------|---------------|
| To Balance b/d | 1,36,800 | By Bank charges | 150 |
| To Amount received from sale of scrap | 1,000 | By Mediclaim | 14,160 |
| To dividends collected by bank | 18,000 | By balance c/d | 2,95,180 |
| To cheques recorded with wrong amount | 90 | | |
| To cheque directly deposited not recorded | 1,53,600 | | |
| | 3,09,490 | | 3,09,490 |

Bank Reconciliation Statement of Mr. Hari as on 31st Dec., 2023

| Particulars | ₹ |
|---|----------|
| Balance as per the Cash Book (corrected) | 2,95,180 |
| Add: Cheques issued but not yet presented | 36,000 |
| Less: Cheques deposited but not cleared | (55,000) |
| Balance as per the Pass Book | 2,76,180 |

(b)

In the books of Sejal

Journal Entries

| Date | Particulars | DR. (in ₹) | CR. (in ₹) |
|----------|---|-----------------|---------------|
| 1/1/2023 | Harry Dr. To Bills payable A/c (Being bill of exchange accepted and sent to Mr. Harry) | 60,000 | 60,000 |
| 1/1/2023 | Bank A/c Dr. Discount charges A/c Dr. To Harry (Being the amount received from Harry on account of the bills receivable) | 14,000 1,000 | 15,000 |
| 4/4/2023 | Bills receivable A/c Dr. To Harry | 80,000 | 80,000 |

| | | | | |
|----------|---|--|--|--------|
| | (Being the bills accepted by Harry) | | | |
| 4/4/2023 | Bank A/c Dr. 74,600 Discount charges A/c Dr. 5,400 To Bills receivable A/c (Being Harry acceptance discounted with bank) | | | 80,000 |
| 4/4/2023 | Bills payable A/c Dr. 60,000 To Bank A/c (Being the amount met on the due date) | | | 60,000 |
| 4/4/2023 | Harry Dr. 15,000 To Bank A/c 10,950 To Discount A/c 4,050 {(5,400/80,000) x 60,000} (Being the amount paid and the discount debited to Harry) | | | |
| 7/7/2023 | Harry Dr. 80,000 To Bank A/c 80,000 (Being Harry's acceptance discounted with bank dishonoured due to Harry's bankruptcy) | | | |
| 7/7/2023 | Bank A/c Dr. 24,000 Bad debts A/c Dr. 36,000 To Harry 60,000 (The amount received from Harry and the balance being written off as debt) | | | |

Harry's A/c

| Particulars | ₹ | Particulars | ₹ |
|----------------------|----------|---------------------|----------|
| To Bills Payable A/c | 60,000 | By Bank A/c | 14,000 |
| To Bank A/c | 10,950 | By Discount A/c | 1,000 |
| To Discount A/c | 4,050 | By Bills Receivable | 80,000 |
| To Bank A/c | 80,000 | By Bank A/c | 24,000 |
| | | By Bad Debts | 36,000 |
| | 1,55,000 | | 1,55,000 |

3. (a) **Trading Account for the year ended 31st March, 2024**

| Particulars | Details | Amount ₹ | Particulars | Details | Amount ₹ |
|--|-----------|-------------|--------------------------|---------------|-------------|
| To opening Stock | | 4,80,000 | By Sales | 48,00,000 | |
| To Purchases | 21,35,000 | | Less: Returns Inwards | <u>93,000</u> | 47,07,000 |
| Less: Plant and Machinery included in purchases | 3,00,000 | | By Closing Stock | | 5,20,000 |
| Less: Returns Outward | 55,000 | 17,80,000 | | | |
| To wages | | 15,00,000 | | | |
| To Factory rent | 8,000 | | | | |
| Add: outstanding | 3,000 | 11,000 | | | |
| To Gross Profit c/d | | 14,56,000 | | | |
| | | 52,27,000 | | | 52,27,000 |

Profit and Loss Account for the year ended 31st March, 2024

| Particular | Amount ₹ | Particular | Amount ₹ |
|---|-------------|----------------------|-------------|
| To Salaries | 1,40,000 | By Gross profit b/d | 14,56,000 |
| To Advertisements | 60,000 | By Discount Received | 37,000 |
| To Insurance | 63,000 | | |
| To General expenses | 10,000 | | |
| To Discount Allowed | 65,000 | | |
| To provision for doubtful debts (W.N.1) | 37,000 | | |
| To Provision for discount on debtors (W.N.2) | 8,400 | | |
| To Depreciation (W.N. 3) | 93,300 | | |
| To Net Profit transferred to Capital a/c | 10,16,300 | | |
| | 14,93,000 | | 14,93,000 |

Balance Sheet as at 31st March, 2024

| Liabilities | Details | Amount ₹ | Assets | Details | Amount ₹ |
|---------------------|-----------|-------------|---------------------|----------|-------------|
| Capital | 4,00,00 | | Plant and Machinery | 5,00,000 | |
| Add: Net Profit | 10,16,300 | | Add: Additions | 3,00,000 | |
| Less: Drawings | (70,000) | 13,46,300 | Less: Dep. (W.N.3) | (80,000) | 7,20,000 |
| Bills Payable | | 56,000 | Office furniture | 26,000 | |
| Sundry Creditors | | 5,20,000 | Less: Dep. (W.N. 3) | (1,300) | 24,700 |

| | | | | |
|-----------------------------|-----------|--|----------|-----------|
| Outstanding Factory rent | 3,000 | Motor Vans | 1,20,000 | |
| | | Less: Dep. (W.N. 3) | (12,000) | 1,08,000 |
| | | Bills receivables | | 72,000 |
| | | Stock in Trade | | 5,20,000 |
| | | Sundry Debtors | 4,57,000 | |
| | | Less: Further Bad debts | (7,000) | |
| | | Less: Provision for doubtful debts | (30,000) | |
| | | Less: Provision for discount on debtors (W.N. 2) | (8,400) | 4,11,600 |
| | | Cash at hand | | 4,000 |
| | | Cash in bank | | 65,000 |
| | 19,25,300 | | | 19,25,300 |

Working Notes :

(1) Provision for Bad and Doubtful Debts Account

| Particulars | ₹ | Particulars | ₹ |
|--|---------------|---------------------------------------|---------------|
| To Bad-debts (as per Trial Balance) | 25,000 | By Balance b/d (as per Trial Balance) | 25,000 |
| To Sundry debtors (further bad-debts) | 7,000 | By P&L A/c (Balancing figure) | 37,000 |
| To Balance c/d i.e. provision required at year end | <u>30,000</u> | | |
| | 62,000 | | <u>62,000</u> |

(2) Provision for discount on debtors

| | |
|--|-----------------|
| Debtors as per Trial Balance | ₹4,57,000 |
| Less: Further bad-debts | (7,000) |
| Less: New provision for Doubtful Debts | <u>(30,000)</u> |
| Debtors before provision for discount | <u>4,20,000</u> |
| Provision for discount on debtors @2% | <u>₹ 8,400</u> |

(3) Depreciation

| | |
|--|-----------------|
| Plant and Machinery @ 10% on 8,00,000 (5,00,000 + 3,00,000*) | 80,000 |
| Motor Van @ 10% on 1,20,000 | 12,000 |
| Office Furniture @ 5% on 26,000 | 1,300 |
| Total | <u>₹ 93,300</u> |

*Purchase of a plant and machinery during the year for ₹ 3,00,000 which was wrongly debited to purchase now added to Plant and Machinery.

(b)

Revaluation A/c

| Liabilities | | ₹ | Assets | | ₹ |
|---------------------------------|--------------|-------|----------------------|--|-------|
| To Provision for Doubtful Debts | | 1,500 | By Land and Building | | 5,000 |
| To Profit on revaluation | | | By stock | | 3,500 |
| Krish | 4,200 | | | | |
| Bala | <u>2,800</u> | 7,000 | | | |
| | | 8,500 | | | 8,500 |

Partners Capital A/c

| Particulars | Krish | Bala | Sobha | Particulars | Krish | Bala | Sobha |
|---------------------------------|--------|--------|--------|----------------------------|--------|--------|--------|
| To Krish and Bala's capital A/c | | | 12,000 | By balance b/d | 25,000 | 15,000 | |
| To Balance c/d | 53,200 | 33,800 | 25,000 | By Bank- (Capital + GW) | | | 37,000 |
| | | | | By Sobha's Capital A/c | 7,200 | 4,800 | |
| | | | | By General Reserve | 15,600 | 10,400 | |
| | | | | By Workman comp. Reserve | 1,200 | 800 | |
| | | | | By Revaluation A/c | 4,200 | 2,800 | |
| | 53,200 | 35,400 | 37,000 | | 53,200 | 33,800 | 37,000 |

Balance Sheet of the Firm (after admission of Sobha)

| Liabilities | | ₹ | Assets | | ₹ |
|------------------------------|---------------|----------|------------------------------|--------------|----------|
| Capital Accounts: | | | Land and Building | | 33,000 |
| Krish | 53,200 | | Plant & Machinery | | 15,000 |
| Bala | 33,800 | | Stock | | 13,500 |
| Sobha | <u>25,000</u> | 1,12,000 | Debtors | 25,000 | |
| Employees provident fund | | 8,000 | Less: Provision for Doubtful | | |
| workman compensation Reserve | | 8,000 | Debts | <u>5,500</u> | 19,500 |
| Creditors | | 10,000 | Bank (W.N.2) | | 57,000 |
| | | 1,38,000 | | | 1,38,000 |

Working Note:**(1) Calculation of Sacrificing ratio**

| Partner | Old Share | | New Share | | Difference |
|---------|-----------|--|-----------|---|------------|
| Krish | 3/5 | | 3/6 | = | 3/30 |
| Bala | 2/5 | | 2/6 | = | 2/30 |
| Sobha | | | 1/6 | | |

(2) Bank A/c

| Particulars | ₹ | Particulars | ₹ |
|------------------------|--------|----------------|--------|
| To balance b/d | 20,000 | By Balance c/d | 57,000 |
| To Sobha s capital A/c | 37,000 | | |
| | 57,000 | | 57,000 |

4. (a) (i) Entries for the treatment of goodwill

Total goodwill of firm is ₹ 60,000

Z s share (1/6 x ₹ 60,000) = ₹ 10,000

(a) X s Capital A/c Dr. 6,000

Y s Capital A/c Dr. 4,000

Z s Capital A/c Dr. 2,000

To Goodwill A/c 12,000

(Being existing goodwill written off)

(b) X s Capital A/c Dr. 6,000

Y s Capital A/c Dr. 4,000

To Z s Capital A/c 10,000

(Being Z s share of goodwill credited to him and debited to gaining partners in gaining ratio)

(ii) Revaluation Account

| | ₹ | | ₹ |
|--------------------------------|--------|---|--------|
| To Patents A/c | 6,000 | By employee provident fund A/c | 6,000 |
| To Machinery A/c | 6,000 | By Investments A/c | 2,600 |
| To Provision for Bad Debts A/c | 1,000 | By Revaluation Loss Partners Capital A/cs | 10,400 |
| To workmen s compensation* | 6,000 | X 5,200 | |
| | | Y 3,467 | |
| | | Z 1,733 | |
| | 19,000 | | 19,000 |

(iii) Partners Capital Account

| | | X (₹) | Y (₹) | Z (₹) | | X (₹) | Y (₹) | Z (₹) |
|----------------------|--|-------|-------|--------|--------------------------------|--------|--------|--------|
| To Goodwill | | 6,000 | 4,000 | 2,000 | By Balance b/d | 78,000 | 42,000 | 31,000 |
| To Revaluation A/c | | 5,200 | 3,467 | 1,733 | By Investment Fluctuation Fund | 3,000 | 2,000 | 1,000 |
| To Investments | | | | 27,600 | | | | |
| To Z s Capital A/c | | 6,000 | 4,000 | | By X s Capital A/c | | | 6,000 |
| To Bank A/c | | | | 5,334 | By Y s Capital A/c | | | 4,000 |
| To Z s Loan A/c | | | | 2,667 | | | | |
| To Bills Payable A/c | | | | 2,666 | | | | |

| | | | | | | | |
|----|-------------|--------|--------|--------|--|--------|--------|
| To | Balance c/d | 63,800 | 32,533 | | | | |
| | | 81,000 | 44,000 | 42,000 | | 81,000 | 44,000 |

(iv) **Balance Sheet as on 1st April, 2024**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|-------------------------|--------|----------|-------------------------------|---------|----------|
| Capital accounts: | | | Patent | | 24,000 |
| X | 63,800 | | Machinery | | 54,000 |
| Y | 32,533 | 96,333 | Closing stock | | 30,650 |
| Z's loan account | | 2,666 | Sundry debtors | 50,000 | |
| Trade creditors | | 31,000 | Less: Provision for bad debts | (5,000) | 45,000 |
| Bills payable | | 2,667 | Cash and bank balances | | 3,016 |
| Workman compensation | | 18,000 | | | |
| Employee Provident Fund | | 6,000 | | | |
| | | 1,56,666 | | | 1,56,666 |

Working Notes:

1. Gaining ratio of existing partners:

$$X \frac{3}{5} - \frac{3}{6} = \frac{3}{30}$$

$$Y \frac{2}{5} - \frac{2}{6} = \frac{2}{30}$$

(b) (a) **Delhi Club**

Income and Expenditure Account for the year ending 31st December, 2023

| Expenditure | ₹ | Income | ₹ |
|--------------------------------------|--------|---|--------|
| To Salary | 3,000 | By Subscription (W.N. -ii) | 10,650 |
| To Repairs expenses | 500 | By Donations (50%) | 3,500 |
| To Miscellaneous expenses | 410 | By Interest on investments* (100 + 200) | 300 |
| To Insurance premium | 380 | By Entrance fees | 1,500 |
| To Paper, Ink etc | 250 | By Interest received from Bank | 400 |
| To Excess of Income over expenditure | 12,810 | By Sale of old newspaper | 250 |
| | | By Sale of drama tickets | 1,250 |
| | | Less: expenses | 500 |
| | 17,350 | | 750 |
| | | | 17,350 |

(b) **Balance Sheet of Delhi Club as at 31st December, 2023**

| Liabilities | ₹ | Assets | ₹ |
|---------------------------------|--------|-------------------|--------|
| Capital Fund: | | Furniture | 7,000 |
| Opening balance (W.N.1) | 43,100 | Investment | 6,000 |
| Add: Excess of income. over exp | 12,810 | Billiards table** | 30,000 |
| Add: Donations | 3,500 | Cash in hand | 4,500 |
| | 59,410 | | |

| | | | |
|---|--------|----------------------------------|--------|
| Insurance Premium payable | 80 | Cash at Bank | 11,050 |
| Subscription received in advance for 2024 | 550 | Prepaid Expenses- Misc exp | 90 |
| | | Subscription Receivable | 1,200 |
| | | Interest accrued on investments* | 200 |
| | 60,040 | | 60,040 |

Working Notes:

1. Calculation of capital fund

Balance Sheet of Delhi Club as at 31st December, 2022

| Liabilities | ₹ | Assets | ₹ |
|---------------------------------|--------|-----------------|--------|
| Capital Fund (Balancing figure) | 43,100 | Billiards table | 30,000 |
| Creditors for Billiard table | 10,000 | Cash in hand | 8,100 |
| | | Cash at Bank | 15,000 |
| | 53,100 | | 53,100 |

2. Calculation of amount of subscription shown in Income and expenditure account

| | ₹ |
|---|--------|
| Subscription received in cash during 2023 | 10,000 |
| Add: Outstanding of 2023 | 1,200 |
| | 11,200 |
| Less: Advance of 2024 | (550) |
| | 10,650 |

Alternatively, this working of calculation of amount of subscription can also be presented in the form of ledger A/c.

* It may be interpreted that investments have been purchased during the year i.e. 5 months prior to the reporting date. Accordingly, total amount of interest accrued on such investment shall be ₹ 200 for the calendar year 2023. Out of which ₹ 100 has been received and remaining ₹ 100 (200-100) is yet to be received (accrued). In that case, Interest on Investments in income and expenditure account shall be ₹ 200 and Accrued Interest in Balance Sheet under asset side shall be ₹ 100.

**Since in receipt and payment account ₹ 10,000 has been shown as payment for Billiard table, it can also be assumed that this amount is utilised for fresh purchase of billiard table. In that case, the amount of Billiard Table at assets side in Balance sheet will be ₹ 40,000 and unpaid amounts of billiard table shown at the liabilities side of balance sheet shall be ₹ 10,000.

5. (a) **Statement of Valuation of Stock on 30th June, 2023**

| | | ₹ |
|--|--------------|----------|
| Value of stock as on 23 rd June, 2023 | | 4,80,000 |
| <i>Add:</i> Unsold stock out of the goods sent on consignment | 24,000 | |
| Purchases during the period from 23 rd June, 2023 to 30 th June, 2023 | 24,000 | |
| Goods in transit on 30 th June, 2023 | 16,000 | |
| Cost of goods sent on approval basis (80% of ₹ 16,000) | 12,800 | 76,800 |
| | | 5,56,800 |
| <i>Less:</i> Cost of sales during the period from 23 rd June, 2023 to 30 th June, 2023 Sales (₹ 1,36,000 - ₹ 16,000) | 1,20,000 | |
| <i>Less:</i> Gross profit | <u>9,600</u> | 1,10,400 |
| Value of stock as on 30 th June, 2023 | | 4,46,400 |

Working Notes:

| | | |
|--|--------|----------|
| 1. Calculation of normal sales: | | |
| Actual sales | | 1,36,000 |
| <i>Less:</i> Abnormal sales | 12,000 | |
| Return of goods sent on approval | 16,000 | (28,000) |
| | | 1,08,000 |
| 2. Calculation of gross profit: | | |
| Gross profit or normal sales $20/100 \times ₹ 1,08,000$ | | 21,600 |
| <i>Less:</i> Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000) | | (12,000) |
| Gross profit | | 9,600 |

Alternatively, the value of stock as on 30th June, 2023 can also be calculated using trading Account. In that case the solution will be

Trading Account for the period from 23rd June to 30th June

| Particulars | ₹ | Particulars | ₹ |
|---|-----------------|--------------------------------------|-----------------|
| To Opening Stock | 4,80,000 | By Sales including abnormal sales | 1,20,000 |
| To Purchase 40,000 | | By Closing stock as on June 30 (b/f) | 3,93,600 |
| <i>Less:</i> Goods In transit <u>16,000</u> | 24,000 | | |
| To Gross Profit (W.N.) | 9,600 | | |
| | <u>5,13,600</u> | | <u>5,13,600</u> |

Statement of valuation of stock on 30th June 2023

| Particulars | ₹ | ₹ |
|---|---------------|-----------------|
| Value of stock as per Trading Account | | 3,93,600 |
| <i>Add:</i> Unsold stock out of the Goods sent on consignment | 24,000 | |
| Goods in Transit | 16,000 | |
| Cost of goods sent on approval basis (80% of 16000) | <u>12,800</u> | 52,800 |
| Value of stock as on 30 th June 2023 | | <u>4,46,400</u> |

Working Notes:

| | | |
|--|--------|-----------------|
| 1. Calculation of normal sales: | | |
| Actual sales | | 1,36,000 |
| <i>Less:</i> Abnormal sales | 12,000 | |
| Return of goods sent on approval | 16,000 | (28,000) |
| | | <u>1,08,000</u> |
| 2. Calculation of gross profit: | | |
| Gross profit or normal sales $20/100 \times ₹ 1,08,000$ | | 21,600 |
| <i>Less:</i> Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000) | | 12,000 |
| Gross profit | | <u>9,600</u> |

(b) (i) **Either**

Calculation of Depreciation

| | | Purchased on Jan. 1, 2020 (₹) | Purchased on Jan. 1, 2021 (₹) | Total WDV | Total Depreciation (₹) |
|--------|--------------------------|-------------------------------|-------------------------------|-----------|------------------------|
| 1-4-20 | Cost | 2,00,000 | | | |
| | Depreciation | (40,000) | | | 40,000 |
| | Written Down Value (WDV) | 1,60,000 | | 1,60,000 | |
| 1-4-21 | Cost | - | 1,50,000 | | |
| | Depreciation | (32,000) | (30,000) | | 62,000 |
| 1-4-22 | Written Down Value (WDV) | 1,28,000 | 1,20,000 | 2,48,000 | |
| | Depreciation | (25,600) | (24,000) | | 49,600 |
| 1-4-23 | Written Down Value (WDV) | 1,02,400 | 96,000 | 1,98,400 | |

Computers Account

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|--------|----------------|-----------------|---------|-------------------|-----------------|
| 1-4-23 | To Balance b/d | 1,98,400 | 31-3-24 | By Depreciation | 37,300 |
| 1-4-23 | To Bank | 1,00,000 | | (24,800 + 12,500) | |
| | | <u>2,98,400</u> | 31-3-24 | By Balance c/d | 2,61,100 |
| | | | | | <u>2,98,400</u> |
| 1-4-24 | To Balance b/d | 2,61,100 | | | |

(ii) Or

Debtors Account

| Particulars | Amount | Particulars | Amount |
|-----------------|-----------|------------------------|-----------|
| To Balance b/d | 6,50,000 | By Bank A/c | 7,32,000 |
| To Credit Sales | 12,80,000 | By Discount allowed | 12,800 |
| | | By Bills Receivable | 2,90,000 |
| | | By Bad Debts (Bal fig) | 45,200 |
| | | By Balance c/d | 8,50,000 |
| | 19,30,000 | | 19,30,000 |

(c)

In the Books of XYZ Ltd.

Journal Entries

| | | (₹) | (₹) |
|---------|--|--------------------|--------------------|
| 1-4-21 | Bank A/c Dr. Loss on Issue of Debentures A/c* Dr. (W.N. 1) To 12% Debentures A/c To Premium on Redemption of Debentures A/c (For issue of debentures at discount and redeemable at premium) | 5,70,000 90,000 | 6,00,000 60,000 |
| 1-4-21 | Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being Debenture Redemption Reserve (DRR) created at 10%) | 60,000 | 60,000 |
| 1-4-21 | Debenture Redemption Reserve Dr. Investment To Bank A/c (Being DRR Investment created at 15%) | 30,000 | 30,000 |
| 31-3-22 | Profit & Loss A/c Dr. To Loss on issue of debentures (Being entire loss on issue of debentures written off) | 90,000 | 90,000 |
| 31-3-22 | Debenture Interest A/c** Dr. To Bank A/c (Being interest to debentures holder paid) | 72,000 | 72,000 |
| 31-3-22 | Debenture Redemption Reserve Dr. (DRR) To General Reserve | 20,000 | 20,000 |

| | | | | |
|----------|---|--------------------|--|----------|
| | (For DRR transferred to General reserve) | | | |
| 31-3-22 | Bank A/c Dr. To Debenture Redemption Reserve Investment (Being encashment of Debenture Redemption Reserve Investment for redemption of debentures) | 30,000 | | 30,000 |
| 31-3-22 | 12% Debentures ** Dr. Premium on redemption of debentures A/c Dr. To Bank A/c (Being amount of redemption of 2000 debentures paid to debentures holders) | 2,00,000 20,000 | | 2,20,000 |
| 01-04-22 | Debenture Redemption Reserve Investment Dr. To Bank A/c (Being DRR Investment created at 15%) | 30,000 | | 30,000 |
| 31-03-23 | Debenture Interest A/c Dr. To Bank A/c (Being interest to debentures holder paid) | 48,000 | | 48,000 |
| 31-03-23 | Debenture Redemption Reserve (DRR) Dr. To General Reserve (For DRR transferred to General reserve) | 20,000 | | 20,000 |
| 31-03-23 | Bank A/c Dr. To Debenture Redemption Reserve Investment (Being encashment of Debenture Redemption Reserve Investment for redemption of debentures) | 30,000 | | 30,000 |
| 31-03-23 | 12% Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Bank A/c (Being amount of redemption of debentures paid to debenture holders) | 2,00,000 20,000 | | 2,20,000 |
| 01-04-23 | Debenture Redemption Reserve Investment Dr. To Bank A/c | 30,000 | | 30,000 |

| | | | | |
|----------|--|--------------------|--|----------|
| | (Being DRR Investment created at 15%) | | | |
| 31-03-24 | Debenture Interest A/c Dr. To Bank A/c | 24,000 | | 24,000 |
| | (Being interest to debentures holder paid) | | | |
| 31-03-24 | Debenture Redemption Reserve (DRR) Dr. To General Reserve | 20,000 | | 20,000 |
| | (For DRR transferred to General reserve) | | | |
| 31-03-24 | Bank A/c Dr. To Debenture Redemption Reserve Investment | 30,000 | | 30,000 |
| | (being encashment of Debenture Redemption Reserve Investment for redemption of debentures) | | | |
| 31-03-24 | 12% Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Bank A/c | 2,00,000 20,000 | | 2,20,000 |
| | (Being final redemption of remaining 2000 debentures paid) | | | |

Working Note:

1. Discount /Loss on issue of debentures

Discount on Issue of debentures = $6,000 \times 100 \times 5\% = ₹ 30,000$

Premium on redemption of debentures = $6,000 \times 100 \times 10\% = 60,000$

Total loss on issue of debentures = $₹ 30,000 + ₹ 60,000 = ₹ 90,000$

*Alternatively, discount on issue and premium on redemption of debentures can also be shown separately. In that case, the entry will be

| | | |
|---|----------|----------|
| Bank A/c Dr. | 5,70,000 | |
| Discount on Issue of Debentures A/c (W.N.1) Dr. | 30,000 | |
| Loss on Issue of Debentures A/c (W.N.2) Dr. | 60,000 | |
| To 12% Debentures A/c | | 6,00,000 |
| To Premium on Redemption of Debentures A/c | | 60,000 |
| (For issue of debentures at discount and redeemable at premium) | | |

** The entries for interest on Debentures and Redemption of debentures can also be routed through debentures holders a/c.

In addition to above, the following entry every year to transfer debenture interest and Premium on redemption of Debentures A/c to Profit and Loss A/c can also be passed

| | |
|--|-----|
| Profit and Loss A/c | Dr. |
| To Debenture Interest A/c | |
| To Premium on Redemption of Debentures A/c | |

6. (a)

| Particulars | Debit (₹) | Credit (₹) |
|---|--------------------|------------------------|
| Bank A/c Dr. To Equity Share Application A/c (Being application money received for 8,00,000 shares @ ₹ 3 per share) | 24,00,000 | 24,00,000 |
| Equity Share Application A/c Dr. To Equity Share Allotment A/c To Equity Share Capital A/c (Being excess application money adjusted against allotment and application money transferred to share capital on 6,00,000 shares at ₹ 3 each) | 24,00,000 | 6,00,000 18,00,000 |
| Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment money due, ₹ 5 per share including ₹ 3 towards share capital and ₹ 2 towards premium) | 30,00,000 | 18,00,000 12,00,000 |
| Bank A/c Dr. To Equity Share Allotment A/c (Being allotment money received after adjusting excess application money) | 24,00,000 | 24,00,000 |
| Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money due @ ₹ 2 per share) | 12,00,000 | 12,00,000 |
| Bank A/c Dr. Calls in arrear Dr. To Equity Share First Call A/c (Being first call money received, except on 1600 shares) | 11,96,800 3,200 | 12,00,000 |
| Or Bank A/c Dr. | 11,96,800 | |

| | | | |
|--|-----|-----------|-----------|
| To Equity Share First Call A/c (Being first call money received, except on 1600 shares) | | | 11,96,800 |
| Equity Share Final Call A/c | Dr. | 12,00,000 | |
| To Equity Share Capital A/c (Being final call money due @ ₹ 2 per share) | | | 12,00,000 |
| Bank A/c | Dr. | 11,96,800 | |
| Calls in arrear | Dr. | 3,200 | |
| To Equity Share Final Call A/c (Being first call money received, except on 1600 shares) | | | 12,00,000 |
| Or | | | |
| Bank A/c | Dr. | 11,96,800 | |
| To Equity Share Final Call A/c (Being first call money received, except on 1600 shares) | | | 11,96,800 |
| Equity Share Capital A/c | Dr. | 16,000 | |
| To Call in Arrear | | | 6,400 |
| To Share Forfeiture A/c | | | 9,600 |
| (Being forfeiture of 1600 shares of Harish for non-payment of calls money) | | | |
| Or | | | |
| Equity Share Capital A/c | Dr. | 16,000 | |
| To Equity Share First Call A/c | | | 3,200 |
| To Equity Share Final Call A/c | | | 3,200 |
| To Share Forfeiture A/c | | | 9,600 |
| (Being forfeiture of 1600 shares of Harish for non-payment of calls money) | | | |

Bank Account

| Particulars | Debit (₹) | | Credit (₹) |
|---------------------------------|-----------|----------------|------------|
| To Equity Share Application A/c | 24,00,000 | By Balance c/d | 71,93,600 |
| To Equity Share Allotment A/c | 24,00,000 | | |
| To Equity Share First Call A/c | 11,96,800 | | |
| To Equity Share Second Call A/c | 11,96,800 | | |
| Total | 71,93,600 | | 71,93,600 |

(b) The difference between Periodic Inventory System and Perpetual Inventory System are as follows:

| S. No. | 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. |