

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. 1 is compulsory.

Attempt any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Question 1

- (a) State with reasons, whether the following statements are true or false:
- (i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.
 - (ii) Re-issue of forfeited shares is allotment of shares but not a sale.
 - (iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
 - (iv) There are two ways of preparing an account current.
 - (v) When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.
 - (vi) Interest coverage ratio indicates the firm's ability to pay off current interest and installments. **(6 statements x 2 Marks = 12 Marks)**
- (b) Differentiate between provision and contingent liability, **(4 Marks)**
- (c) Give journal entries (narrations not required) to rectify the following:
- (i) Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300.
 - (ii) A Sales Return of ₹ 5,000 to Jyothy was not entered in the financial accounts though it was duly taken in the stock book.
 - (iii) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.
 - (iv) An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account. **(4 Marks)**

Answer

- (a) (i) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

- (ii) **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.
- (iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iv) **False:** There are three ways of preparing an Account Current: (i) With help of interest table; (ii) By means of products and (iii) By means of products of balances.
- (v) **True:** When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.
- (vi) **False:** Interest coverage ratio is computed as Earnings before interest and taxes divided by Interest. This indicates the firm's ability to meet only the interest and other fixed-charges obligations and not instalments.

(b) Difference between Provision and Contingent liability

	<i>Provision</i>	<i>Contingent liability</i>
(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 that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

(c) Journal Entries

	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Subham A/c	Dr.	300	
	Furniture A/c	Dr.	2,700	
	To Nigam A/c			3,000
(ii)	Sales Returns A/c	Dr.	5,000	
	To Jyothy A/c			5,000
(iii)	Sales A/c	Dr.	75,000	
	To P & L A/c (Gain on sale of investments)			15,000
	To Investments A/c			60,000
(iv)	Drawings A/c	Dr.	10,000	
	To Trade Expenses A/c			10,000

Question 2

- (a) Shri Ganpath of Nagpur consigns 500 cases of goods costing ₹ 1,500 each to Rawat of Jaipur. Shri Ganpath pays the following expenses in connection with the consignment:

Particulars	₹
Carriage	15,000
Freight	45,000
Loading Charges	15,000

Shri Rawat sells 350 cases at ₹ 2,100 per case and incurs the following expenses:

Clearing charges	18,000
Warehousing and Storage charges	25,000
Packing and selling expenses	7,000

It is found that 50 cases were lost in transit and another 50 cases were in transit. Shri Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Shri Ganpath. **(10 Marks)**

- (b) Mr. Alok owes Mr. Chirag ₹ 650 on 1st January 2018. From January to March, the following further transactions took place between Alok and Chirag

January 15	Alok buys goods	₹ 1,200
February 10	Alok buys goods	₹ 850
March 7	Alok received Cash loan	₹ 1,500

Alok pays the whole amount on 31st March, 2018 together with interest @ 6% per annum. Calculate the interest by average due date method. **(5 Marks)**

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

(i) Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017.

December 2nd - Sent goods to customers on sale or return basis at cost plus 25% - ₹ 80,000

December 10th - Goods returned by customers ₹ 35,000

December 17th - Received letters from customers for approval ₹ 35,000

December 23rd - Goods with customers awaiting approval ₹ 15,000

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2017.

OR

(ii) From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st March, 2018 by means of products method charging interest @ 5% per annum:

Date	Particulars	Amount (₹)
2018 January 1	Balance due from Bhuvanesh	1,800
January 10	Sold goods to Bhuvanesh	1,500
January 15	Bhuvanesh returned goods	650
February 12	Bhuvanesh paid by cheque	1,000
February 20	Bhuvanesh accepted a bill drawn by Avinash for one month	1,500
March 11	Sold goods to Bhuvanesh	720
March 14	Received cash from Bhuvanesh	800

(5 Marks)

Answer

(a)

In the books of Shri Ganpath

Consignment to Rawat of Jaipur Account

Particulars	₹	Particulars	₹
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
		By Goods lost in Transit 50 cases @ ₹ 1,650 each*	82,500

To Bank (Expenses: 15,000+45,000+15,000)	75,000	By Consignment Inventories:	
To Rawat (Expenses: 18,000+25,000+7,000)	50,000	In hand 50 @ ₹ 1,695 each	84,750
To Rawat (Commission)	73,500	By Consignment Inventories:	
To Profit on Consignment ts/f to Profit & Loss A/c	36,250	In transit 50 @ ₹ 1,650 each**	
			<u>82,500</u>
	9,84,750		9,84,750

*Considered as abnormal loss.

** The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value.

Rawat's Account

Particulars	₹	Particulars	₹
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c(Expenses)	50,000
		By Consignment A/c(Commission)	73,500
		By Balance c/d	<u>6,11,500</u>
	<u>7,35,000</u>		7,35,000

Working Notes:

- Consignor's expenses on 500 cases amounts to ₹ 75,000; it comes to ₹ 150 per case. The cost of cases lost will be computed at ₹ 1,650 per case.
- Rawat has incurred ₹ 18,000 on clearing 400 cases, i.e., ₹ 45 per case; while valuing closing inventories with the agent ₹ 45 per case has been added to cases in hand with the agent.
- It has been assumed that balance of ₹ 6,11,500 is not yet paid.

(b) Calculation of average due date

Alok pays the whole amount on 31st March, 2018 together with interest at 6% per annum.

Due Date	Amount	No. of days from Jan. 1	Product
2018	₹		
Jan. 1	650	0	0
Jan. 15	1,200	14	16,800
Feb. 10	850	40	34,000
March 7	<u>1,500</u>	65	<u>97,500</u>
	<u>4,200</u>		<u>1,48,300</u>

Average due date = Base date + days equal to $\frac{\text{Sum of Products}}{\text{Sum of the amounts}}$

$$= \text{Jan. 1} + \left[\frac{1,48,300}{4,200} \right]$$

$$= \text{Jan. 1} + 35.31 \text{ days}$$

$$= \text{Feb. 6}$$

Interest therefore has been calculated on ₹ 4,200 from 6th Feb. to 31st March, i.e., for 54 days.

$$4,200 \times 6\% \times 54/365 = ₹ 37.28$$

(c) (i) In the books of Mr. Badhri

Journal Entries

Date	Particulars		L.F.	Dr. (in ₹)	Cr. (in ₹)
2017					
Dec. 2	Trade receivables A/c To Sales A/c (Being the goods sent to customers on sale or return basis)	Dr.		80,000	80,000
Dec. 10	Return Inward A/c (Note 1) To Trade receivables A/c (Being the goods returned by customers to whom goods were sent on sale or return basis)	Dr.		35,000	35,000
Dec. 23	Sales A/c To Trade receivables A/c (Being the cancellation of original entry of sale in respect of goods on sale or return basis)	Dr.		15,000	15,000
Dec. 31	Inventories with customers on Sale or Return A/c To Trading A/c (Note 3) (Being the adjustment for cost of goods lying with customers awaiting approval)	Dr.		12,000	12,000

Note:

- (1) Alternatively, Sales account or Sales returns can be debited in place of Return Inwards account.
- (2) No entry is required for receiving letter of approval from customer.
- (3) Cost of goods with customers = ₹ 15,000 x 100/125 = ₹ 12,000
- (4) It has been considered that the transaction values are at involve price (including profit margin).

(ii)

Bhuvanesh

**in Account Current with Avinash
for the period ending on 31st March 2018**

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2018		₹			2018		₹		
Jan.1	To Balance b/d	1,800	90*	1,62,000	Jan.15	By Sales Returns	650	75	48,750
Jan. 10	To Sales A/c	1,500	80	1,20,000	Feb. 12	By Bank A/c	1,000	47	47,000
March, 11	To Sales A/c	720	20	14,400	Feb. 20	By B/R A/c (due date: March 23)	1,500	8	12,000
March, 31	To Interest A/c	24			March, 14	By Cash A/c	800	17	13,600
					March, 31	By Balance of products			1,75,050
						By Balance c/d	94		
		4,044		2,96,400			4,044		2,96,400

***Calculation of interest**

$$\text{Interest} = (1,75,050 \times 5\%) / 365 = ₹ 24$$

*Opening day considered in calculation of no. of days.

Question 3

The following are the balances extracted from the books of Shri Raghuram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai:

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400

<i>Purchases</i>	12,00,000	
<i>Purchase Returns</i>		18,000
<i>Sales</i>		15,00,000
<i>Sales Returns</i>	24,000	
<i>Freight Inwards</i>	62,000	
<i>Carriage Outwards</i>	8,500	
<i>Rent of Godown</i>	55,000	
<i>Rates and Taxes</i>	24,000	
<i>Salaries</i>	72,000	
<i>Discount allowed</i>	7,500	
<i>Discount received</i>		12,000
<i>Drawings</i>	20,000	
<i>Printing and Stationery</i>	6,000	
<i>Insurance premium</i>	48,000	
<i>Electricity charges</i>	14,000	
<i>General expenses</i>	11,000	
<i>Bank charges</i>	3,800	
<i>Bad debts</i>	12,200	
<i>Repairs the Motor vehicle</i>	13,000	
<i>Interest on loan</i>	4,400	
<i>Provision for Bad-debts</i>		10,000
<i>Loan from Mr. Rajan</i>		60,000
<i>Sundry creditors</i>		62,000
<i>Motor vehicles</i>	1,00,000	
<i>Land and Buildings</i>	5,00,000	
<i>Office equipment</i>	2,00,000	
<i>Furniture and Fixtures</i>	50,000	
<i>Stock as on 31.03.2017</i>	3,20,000	
<i>Sundry debtors</i>	2,80,000	
<i>Cash at Bank</i>	22,000	
<i>Cash in Hand</i>	16,000	
Total	<u>30,73,400</u>	<u>30,73,400</u>

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following:

- Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.
- Value of stock at the close of the year was ₹ 4,10,000.
- One month rent for godown is outstanding.
- Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017
- Reserve for bad debts is to be maintained at 5% of Sundry debtors.
- Insurance premium includes ₹ 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018.

(20 Marks)

Answer

M/s Raghuram & Associates

Trading Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Opening Stock		3,20,000	By Sales	15,00,000	
To Purchases	12,00,000		Less: Sales Returns	(24,000)	14,76,000
Less: Purchase Returns	(18,000)	11,82,000	By Closing Stock		4,10,000
To Freight		62,000			
To Gross Profit c/d		<u>3,22,000</u>			
		<u>18,86,000</u>			<u>18,86,000</u>

M/s Raghuram & Associates

Profit and Loss Account for the year ended 31st March 2018

Particulars	Details	Amount	Particulars	Details	Amount
		₹			₹
To Salaries		72,000	By Gross profit b/d		3,22,000
To Rent for Godown	55,000		By Discount received		12,000
Add: Outstanding	<u>5,000</u>	60,000			
To Provision for Doubtful Debts (W.N.4)		16,200			

To Rent and Taxes		24,000		
To Discount Allowed		7,500		
To Carriage outwards		8,500		
To Printing and stationery		6,000		
To Electricity charges		14,000		
To Insurance premium (W.N. 1)		4,800		
To Depreciation (W.N. 2)		80,000		
To General expenses		11,000		
To Bank Charges		3,800		
To Interest on loan	4,400			
Add: Outstanding (W.N. 3)	<u>100</u>	4,500		
To Motor car expenses (Repairs)		13,000		
To Net Profit transferred to Capital A/c		<u>8,700</u>		
		<u>3,34,000</u>		<u>3,34,000</u>

Balance Sheet of M/s Raghuram & Associates

as at 31st March 2018

Liabilities	Details	Amount	Assets	Details	Amount
		₹			₹
Capital	14,11,400		Land & Building	5,00,000	
Add: Net Profit	8,700		Less: Depreciation	<u>(25,000)</u>	4,75,000
Less: Drawings	(20,000)		Motor Vehicles	1,00,000	
Less: proprietor's Insurance Premium	<u>(42,000)</u>	13,58,100	Less: Depreciation	<u>(20,000)</u>	80,000
Loan from Rajan	60,000		Office equipment	2,00,000	
Add: Outstanding Interest	<u>100</u>	60,100	Less: Depreciation	<u>(30,000)</u>	1,70,000
Sundry Creditors		62,000	Furniture & Fixture	50,000	
Outstanding rent		5,000	Less: Depreciation	<u>(5,000)</u>	45,000
			Stock in Trade		4,10,000
			Sundry Debtors	2,80,000	
			Less: Provision for doubtful debts	<u>(14,000)</u>	2,66,000
			Cash at hand		22,000

		Cash in bank	16,000
		Prepaid insurance (W.N. 1)	<u>1,200</u>
	<u>14,85,200</u>		<u>14,85,200</u>

Working Notes:

- (1) **Insurance premium** ₹
- Insurance premium as given in trial balance 48,000
- Less: Personal premium (42,000)
- Less: Prepaid for 3 months
- $\left(\frac{6,000}{15} \times 3 \right)$ (1,200)
- Transfer to Profit and Loss A/c 4,800
- (2) **Depreciation**
- Building @ 5% on 5,00,000 25,000
- Motor Vehicles @ 20% on 1,00,000 20,000
- Furniture & Fittings @ 10% on 50,000 5,000
- Office Equipment @ 15% on 2,00,000 30,000
- Total 80,000
- (3) **Interest on Loan**
- Interest on Loan ₹ 60,000 X 10% X 9/12 = 4,500
- Less: interest as per Trial Balance = (4,400)
- Amount (Outstanding) 100

(4) **Provision for bad debts A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To bad debts a/c	12,200	By balance b/d	10,000
To balance c/d (5% of 2,80,000)	14,000	By P&L A/c	16,200
	<u>26,200</u>		<u>26,200</u>

Question 4

(a) Piyush Limited is a company with an authorized share capital of ₹ 2,00,00,000 in equity shares of ₹ 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of ₹ 10 each at a price of ₹ 12 each, the arrangements for payment being:

- (i) ₹ 2 per share payable on application, to be received by 1st July, 2017;
- (ii) Allotment to be made on 10th July, 2017 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 30th April, 2018.

Applications were received for 4,20,000 shares and were dealt with as follows:

- (1) Applicants for 20,000 shares received allotment in full;
- (2) Applicants for 1,00,000 shares received an allotment of one share for every two 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 3,00,000 shares received an allotment of one share for every five 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 cash items) in the journal of Piyush limited. **(10 Marks)**

(b) A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:

Liabilities		₹	Assets		₹
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	<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>

B retired on 1st April, 2018 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) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000
- (v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:

Year	₹
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

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

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement. **(10 Marks)**

Answer

(a) Journal of Piyush Limited

Date 2017	Particulars		Dr. ₹	Cr. ₹
July 1	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 4,20,000 shares @ ₹ 2 per share)	Dr.	8,40,000	8,40,000
July 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 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares adjusted with	Dr.	8,40,000	2,60,000 4,00,000 1,80,000

April 30	allotment and on 90,000 shares refunded as per Board's Resolution No.....dated...)			
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium a/c (Being allotment money due on 1,30,000 shares @ ₹ 5 each including premium at ₹ 2 each as per Board's Resolution No....dated....)	Dr.	6,50,000	3,90,000 2,60,000
	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)	Dr.	2,50,000	2,50,000
	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,30,000 shares @ ₹ 5 per share as per Board's Resolution No.....dated....)	Dr.	6,50,000	6,50,000
	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,30,000 shares @ ₹ 5 each received)	Dr.	6,50,000	6,50,000

Working Note:**Calculation for Adjustment and Refund**

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (1x ₹ 2)	Amount Required on Application (2 x ₹ 2)	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)	20,000	20,000	40,000	40,000	Nil	Nil	1,00,000	1,00,000
(ii)	1,00,000	50,000	2,00,000	1,00,000	1,00,000	Nil	2,50,000	1,50,000
(iii)	3,00,000	60,000	6,00,000	1,20,000	3,00,000	1,80,000	3,00,000	Nil
TOTAL	4,20,000	1,30,000	8,40,000	2,60,000	4,00,000	1,80,000	6,50,000	2,50,000

(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:			
A 2,31,000			
B 1,54,000			
C <u>77,000</u>	<u>4,62,000</u>		
	<u>5,62,000</u>		<u>5,62,000</u>

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To B's capital A/c	90,000	–	30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B'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 reserve	2,31,000	1,54,000	77,000
				By A's capital A/c		90,000	
				By C'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 1.4.2018 (After B's retirement)

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building		15,00,000
A	11,21,000		Furniture		2,00,000
C	<u>5,07,000</u>	16,28,000	Office equipment		3,27,000
B'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

		JLP	1,50,000
		Cash at bank	<u>1,50,000</u>
	<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

	Share of goodwill (Old ratio)	Share of goodwill (New ratio)	Adjustment
A	1,80,000	2,70,000	90,000 (Dr.)
B	1,20,000	-	1,20,000 (Cr.)
C	60,000	90,000	30,000 (Dr.)

Question 5

(a) You are provided with the following details:

Current ratio	2.5
Liquidity ratio	1.5
Net Working Capital	₹ 3,00,000
Stock Turnover Ratio	6 times
Ratio of Gross Profit on Sales	20%
Turnover to Fixed assets (net)	2 times
Average debt collection period	2 months
Fixed Assets to net worth	0.8
Reserve and Surplus to Capital	0.5

Draw up the Balance Sheet as at 31st March, 2018 of Zoom Ltd. with appropriate figures:

Zoom Ltd.**Balance Sheet as at 31st March, 2018**

Liabilities	₹	Assets	₹
Share Capital	?	Fixed Assets	?
Reserves and Surplus	?	Stock	?
Long-Term Borrowings	1,50,000	Debtors	?
Current Liabilities	<u>?</u>	Bank	<u>50,000</u>
Total	<u>11,00,000</u>		<u>11,00,000</u>

(10 Marks)

- (b) Calculate the Trade Receivables Turnover Ratio, the average collection period and Gross Profit Ratio from the following information:

Particulars	
Total revenue from operations	6,00,000
Cash revenue from operations	25% if Total revenue from operations
Trade Receivables as at 01.04.2017	60,000
Trade Receivables as at 31.03.2018	1,40,000
Cost of Revenue from Operations	4,20,000

(10 Marks)**Answer**

- (a) **Balance Sheet of Zoom Ltd. as at 31.3.2018**

Capital and Liabilities	₹	Assets	₹
Share Capital	5,00,000	Fixed assets	6,00,000
Reserves & Surplus	2,50,000	Stock	2,00,000
Long term borrowings	1,50,000	Debtors	2,50,000
Current liabilities	<u>2,00,000</u>	Bank	<u>50,000</u>
	<u>11,00,000</u>		<u>11,00,000</u>

Working Notes:

Assume Current Liabilities	1.0
Current Assets are	2.5
Therefore, Difference or working capital	1.5
Given, Working Capital	₹ 3,00,000

Current Assets = ₹ 3,00,000 x 2.5/1.5 =	₹ 5,00,000
Current Liabilities =	₹ 2,00,000
Given, Liquidity Ratio =	1.5
Liquid Assets ₹ 2,00,000 x 1.5 =	₹ 3,00,000
Therefore, Stock = (Current Assets – Liquid Assets) =	
₹ 5,00,000 - ₹ 3,00,000	
Stock = ₹ 2,00,000	
Cost of Sales (as stock turnover is 6) = ₹ 2,00,000 x 6 =	₹ 12,00,000
Sales (G.P. ratio 20%) = ₹ 12,00,000 + [20/80] x 12,00,000]	
Sales = 15,00,000*	
Fixed Assets = ₹ 12,00,000 / 2 = ₹ 6,00,000	
Debtors = ₹ 15,00,000/6 = ₹ 2,50,000**	
Net worth = ₹ 6,00,000 x 1/ 0.8 = ₹ 7,50,000	
Reserve and Surplus, 1/3 rd of net worth = ₹ 2,50,000	
Share Capital = ₹ 7,50,000 - ₹ 2,50,000 = ₹ 5,00,000	

**Alternatively, candidates may use fixed assets turnover ratio for computation of sales.*

***The balance of Debtors can be calculated as balancing figure in the balance sheet.*

(b) Trade Receivables Turnover Ratio = Net Credit Sales/ Average Trade receivables

$$\begin{aligned}\text{Trade Receivables Turnover Ratio} &= ₹ 4,50,000 / ₹ 1,00,000 \\ &= 4.5 \text{ times.}\end{aligned}$$

Average collection period

$$= \frac{\text{Average accounts receivable}}{\text{Average daily credit sale}}$$

$$\begin{aligned}\text{Average daily credit sales} &= 4,50,000/360^* = 1,250 \\ &= 1,00,000/1,250 \\ &= 80 \text{ days}\end{aligned}$$

Therefore, on an average, debtors take 80 days to pay.

** 360 days considered.*

Gross Profit Ratio

$$\begin{aligned}&= \text{Gross Profit/Sales} \times 100 \\ &= (6,00,000 - 4,20,000) / 6,00,000 \times 100 = 30\%\end{aligned}$$

Working notes:**1. Credit sales = Total sales – Cash sales**

Cash Sales = 25% of ₹ 6,00,000 = ₹ 1,50,000

Credit Sales = ₹ 6,00,000 – ₹ 1,50,000 = ₹ 4,50,000

2. Average Trade Receivables = (Opening Trade Receivables + Closing Trade Receivables) / 2

= (₹ 60,000 + ₹ 1,40,000) / 2

= ₹ 1,00,000

Question 6

(a) The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following:

- (i) A Cheque of Rs,1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.
- (ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.
- (iii) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to ₹ 7,500 were collected on 7th April, 2018.
- (iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.
- (v) Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.
- (vi) A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.
- (vii) A Bill Receivable for ₹ 5,200 previously dishonoured (Discount ₹ 200) with the Bank had been dishonoured but advice was received on 1st April, 2018.
- (viii) A Bill for ₹ 10,000 was retired /paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.
- (ix) A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018.

(10 Marks)

(b) Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found.

- (i) Purchase account was undercast by ₹ 8,000.
- (ii) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.
- (iii) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.
- (iv) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.
- (v) Repairs to Machinery was debited to Machinery Account ₹ 1,800.
- (vi) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.

Suggest the necessary rectification entries.

(10 Marks)

Answer

(a) **Bank Reconciliation Statement**
as on 31st March, 2018

Particulars	₹
Bank balance (Debit i.e. overdraft) as per Bank Pass book	33,575
(i) No adjustment required as there would be no difference on 31.3.18	
(ii) Add: No entry in Cash book for interest collection by Bank	2,800
(iii) Less: Amount debited in cash book for pending cheques in collection but not credited in Pass Book	(7,500)
(iv) Add: Cheque credited in cash book but not debited in pass book	2,500
(v) Add: Reversal of wrong Credit	500
Less: Reversal of wrong debit	(300)
(vi) Less: Cheque of ₹ 1,0000 entered in cash book but omitted to be banked	(1,000)
(vii) Less: Discounted dishonored but no entry in Cash book	(5,200)
(viii) Add: Rebate on bill retired not entered in cash book	175
(viii) Add: Cheques deposited in bank not yet recorded in cash book	<u>2,400</u>
Balance (Cr. i.e. overdraft) as per Cash book	<u>27,950</u>

Note: A cheque of ₹ 1,080 credited in Pass Book on 28th March, 2018 and later debited in Pass Book on 1st April, 2018 has no effect on Bank Reconciliation statement as at 31st March, 2018.

(b) **Journal Entries in the books of Miss Daisy**

Date	Particulars		Dr. (₹)	Cr. (₹)
(i)	Profit & Loss Adjustment A/c To Suspense* A/c (Purchase Account under cast in the previous year; error now rectified)	Dr.	8,000	8,000
(ii)	Rahim's Account To Profit & Loss Adjustment A/c (Sales to Rahim omitted last year; now adjusted)	Dr.	2,500	2,500
(iii)	Anbu's Account To Asok's Account (Amount received from Asok wrongly posted to the account of Anbu; now rectified)	Dr.	1,200	1,200
(iv)	Profit & Loss Adjustment A/c To Suspense* A/c (Excess posting to sales account last year, ₹ 4,617, instead of ₹ 4,167 now adjusted)	Dr.	450	450
(v)	Profit & Loss Adjustment A/c To Machinery A/c (Repairs to machinery was wrongly debited to machinery account, now rectified)	Dr.	1,800	1,800
(vi)	Profit & Loss Adjustment A/c To Mr. Paul Account Credit purchase of goods from Mr. Paul sale last year, now rectified)	Dr.	6,000	6,000
(vii)	Daisy's Capital A/c To Profit and Loss Adjustment Account (Being balance in P & L Adjustment Account transferred to Daisy's Capital A/c – Refer W.N. 1)	Dr.	13,750	13,750
(viii)	Suspense A/c To Daisy's Capital A/c (Being balance of Suspense A/c transferred to Capital A/c– Refer W.N. 2)	Dr.	8,450	8,450

*Considering that the difference was posted to Suspense account.

Working Notes**1. Profit and Loss Adjustment Account**

	₹		₹
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c	13,750
To Machinery A/c	1,800	(Bal. Transfer)	
To Mr. Paul's A/c	6,000		
	<u>16,250</u>		<u>16,250</u>

2. Suspense Account

	₹		₹
To Daisy's Capital A/c	8,450	By P & L Adj. A/c	8,000
(Balance Transfer)		By P & L Adj. A/c	450
	<u>8,450</u>		<u>8,450</u>