

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) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability.
 - (ii) At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
 - (iii) The specific due date excludes the addition of grace days to arrive at the due date.
 - (iv) Any amount spent for replacement of worn out part of a machine is capital expenditure.
 - (v) Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.
 - (vi) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. **(6 x 2 = 12 Marks)**
- (b) Briefly explain the following Concepts of Accounting:
- (i) Money Measurement Concept
 - (ii) Periodicity Concept. **(4 Marks)**
- (c) One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2022. 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)**

Answer

- (a) (i) **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.
- (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) **True:** Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.
- (iv) **False:** Amount spent for replacement of any worn-out part of a machine is revenue expense since it is part of its maintenance cost.
- (v) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.
- (vi) **False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle and/or Errors of Omission, which can be rectified without opening a suspense account.
- (b) Money Measurement concept: As per this 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 be only to 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.

Periodicity concept: According to this concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

(c) **Corrected Trial Balance of Mr. X as on 31st March, 2022**

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	
Purchases returns		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 (1.4.2021)	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.

Question 2

- (a) The Machinery Account of a Factory showed a balance of ₹ 95 Lakhs on 1st April, 2020. The Books of Accounts

Depreciation is written off of the Factory are closed on 31st March every year and @ 10% per annum under the Diminishing Balance Method. On 1st September, 2020 a new machine was acquired at a cost of ₹ 14 Lakhs and ₹ 44,600 was incurred on the same day as installation charges for erecting the machine. On 1st September, 2020 a machine which had cost ₹ 21,87,000 on 1st April, 2018 was sold for ₹ 3,75,000. Another machine which had cost ₹ 21,85,000 on 1st April, 2019 was scrapped on 1st September, 2020 and it realized nothing.

Prepare Machinery Account for the year ended 31st March, 2021. Allow the same rate of depreciation as in the past and calculate depreciation to the nearest multiple of a rupee. Also show all the necessary working notes. **(10 Marks)**

- (b) Zed Enterprises furnishes the following information for the year ended 31st March, 2021.

Particulars	Amount (₹)
Value of Stock as on 1 st April, 2020	28,00,000
Purchases during the year	1,38,40,000
Manufacturing Expenses during the year	28,00,000
Sales during the year	2,08,80,000

The following further information is also provided:

- (i) At the time of valuing stock on 31st March, 2020 a sum of ₹ 2,40,000 was written off for a particular item which was originally purchased for ₹ 8,00,000. This item was sold during the year ended 31st March, 2021 for ₹ 6,40,000.
- (ii) Except for the above transaction, the rate of gross profit during the year was 1/3rd on cost.

Ascertain the value of Stock as on 31st March, 2021.

(5 Marks)

- (c) From the following particulars, prepare a Bank Reconciliation Statement on 31st March 2021.

Particulars	Amount (₹)
Bank balance as per Pass Book	25,00,000
Bills discounted dishonored not recorded in Cash Book	12,50,000
Cheque received entered twice in Cash Book	25,000
Bank charges entered twice in Cash Book	5,000
Insurance premium paid directly by Bank under-standing instruction	1,50,000
Cheque issued but not presented to Bank for payment	12,50,000

<i>Cheque received, but not sent to Bank</i>	28,00,000
<i>Cheque deposited in Bank, but no entry passed in the Cash Book</i>	12,50,000
<i>Credit side of the Bank column cast short</i>	5,000

(5 Marks)

Answer**(a) Plant and Machinery Account for the year ended 31st March, 2021**

		₹			₹
01-04-20	To Balance b/d	95,00,000	01-09-20	By Bank (Sales)	3,75,000
01-09-20	To Bank (14,00,000 + 44,600)	14,44,600		By Depreciation (on sold machine)	73,811
				By Loss on sale	13,22,659
				By Loss on scrapping the machine	18,84,562
				By Depreciation (on Scrapped machinery)	81,938
				By Depreciation (Note iii)	6,60,471
				By Balance c/d	65,46,159
		109,44,600			109,44,600

Working Note:

(i)	Calculation of loss on sale of machine on 01-09-2020	₹
	Cost on 1-4-2018	21,87,000
	Less: Depreciation @ 10% on ₹ 21,87,000	(2,18,700)
	W.D.V. on 31-03-2019	19,68,300
	Less: Depreciation @ 10% on ₹ 19,68,300	(1,96,830)
	W.D.V. on 31-03-2020	17,71,470
	Less: Depreciation @ 10% on ₹ 17,71,470 for 5 months	(73,811)
		16,97,659
	Less: Sale proceeds on 01-09-2020	(3,75,000)
	Loss	13,22,659

(ii) Calculation of loss on scrapped machine		
Cost on 1-4-2019		21,85,000
Less: Depreciation @ 10% on ₹ 21,85,000		(2,18,500)
W.D.V. on 31-3-2020		19,66,500
Less: Depreciation @ 10% on ₹19,66,500 for 5 months		(81,938)
Loss		18,84,562
(iii) Depreciation		
Balance of machinery account on 1-4-2020		95,00,000
Less: W.D.V of machinery sold	17,71,470	
W.D.V. of machinery scrapped	19,66,500	(37,37,970)
Balance of other machinery after sale and scrap on 1-4-2020		57,62,030
Depreciation @ 10% on ₹ 57,62,030 for 12 months		5,76,203
Depreciation @ 10% on ₹ 14,44,600 for 7 months		84,268
		6,60,471

Note: The figures are rounded off to nearest rupee.

(b) **Statement of Valuation of Stock as on 31st March, 2021**

		₹
Value of stock as on 1st April, 2020		28,00,000
Add: Purchases during the year		1,38,40,000
Add: Manufacturing expenses during the above period		28,00,000
		1,94,40,000
Less: Cost of sales during the period:		
Sales	2,08,80,000	
Less: Gross profit	51,40,000	1,57,40,000
Value of stock as on 31.3.2021		37,00,000

Working Note:

	₹
Calculation of gross profit:	
Gross profit on normal sales $25/100 \times (2,08,80,000 - 6,40,000)$	50,60,000
Gross profit on the particular (abnormal) item $6,40,000 - (8,00,000 - 2,40,000)$	80,000
	51,40,000

The value of closing stock on 31st March, 2021 may, alternatively, be found out by preparing Trading Account for the year ended 31st March, 2021.

Alternatively the solution can be presented in the following manner:

Dr Trading account for the year ended 31 st March, 2021				Cr			
	Normal	Abnormal	Total		Normal	Abnormal	Total
To Opening Stock	22,40,000	5,60,000	28,00,000	By Sales	2,02,40,000	6,40,000	2,08,80,000
To Purchases	13,8,40,000	0	1,38,40,000	By Closing Stock	37,00,000	0	37,00,000
To Manufacturing Expenses	28,00,000	0	28,00,000				
To Gross Profit (Working Note)*	50,60,000	80,000	51,40,000				
Total	2,39,40,000	6,40,000	2,45,80,000		2,39,40,000	6,40,000	2,45,80,000

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

	₹	₹
Bank balance as per Pass book		25,00,000
Add: Bills dishonoured not recorded in the cash book	12,50,000	
Cheque received entered twice in the cash book	25,000	
Insurance premium paid directly not recorded in the cash book	1,50,000	
Cheque received but not sent to the bank	28,00,000	
Credit side of the bank column cast short	5,000	42,30,000
		67,30,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	12,50,000	
Bank charges recorded twice in the cash book	5,000	
Cheque issued but not presented to the bank	12,50,000	(25,05,000)
Bank balance as per Cash book		42,25,000

Question 3

- (a) M of Mumbai sent on consignment, goods valued ₹ 4,00,000 to A of Agra on 1st March, 2020. He incurred the expenditure of ₹48,000 on freight and insurance. M's accounting year closes on 31st December. A was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. A took delivery of the consignment by incurring expenses of ₹ 12,000 for the goods consigned.

On 31/12/2020, A informed on phone that he had sold all the goods for ₹ 6,00,000 by incurring selling expenses of ₹ 8,000. He further informed that only ₹ 5,92,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale.

On 5/1/2021, M received the cheque for the amount due from A and incurred bank charges of ₹1,040 for collecting the cheque. The amount was credited by the bank on 9/1/2021.

Write up the consignment account finding out the profit/loss on the consignment and A's account in the books of M. **(10 Marks)**

- (b) P sends out goods on approval to few customers and includes the same in the Sales Account. On 31.3.2021, the Trade receivables balance stood at ₹ 3,00,000 which included ₹ 21,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price and were sent to Mr. A ₹12,000 and Mr. B ₹9,000.

Mr. A sent intimation of acceptance on 30th April and Mr. B returned the goods on 10th April, 2021.

Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March, 2021. Also show the entries to be made during April, 2021. Value of closing inventories as on 31st March, 2021 was ₹ 1,80,000. **(5 Marks)**

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

- (i) The following particulars are sent by Mr. A to Mr. K:

Date	Particulars	Amount (₹)
15/7/2021	Balance due from Mr. K	6,000
20/8/2021	Sold goods to Mr. K	10,000
25/8/2021	Goods returned by Mr. K	1,600
15/9/2021	Cheque paid by Mr. K	6,400
20/10/2021	Cash received from Mr. K	4,000

Prepare an Account Current as sent by Mr. A to Mr. K as on 31st October, 2021 by means of product method charging interest @ 8% per annum. Round off the amounts to the nearest rupee. **(5 Marks)**

- (ii) Mr. X 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
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The business earned profits of ₹ 2,40,000, ₹ 2,16,000 and ₹ 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ₹ 36,000 in the year 2020.

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)**

Answer

(a)

**In the books of Mr. M
Consignment to Agra Account**

2020		₹	2020		₹
March 1	To Goods sent on consignment A/c	4,00,000	Dec. 31	By A's A/cs	6,00,000
	To Cash A/c (freight and insurance)	48,000			
Dec. 31	To A's A/c:				
	Clearance expenses	12,000			
	Selling expenses	8,000			
	Commission				
	@ 5% on ₹ 6,00,000 =	30,000			
	Del-credere commission @ 3% on ₹ 6,00,000 =	<u>18,000</u>			
		68,000			
Dec. 31	To Provision for expenses (bank charges)	1,040			
	To Profit and loss A/c (profit on consignment)	82,960			
		6,00,000			6,00,000

A's Account

2020		₹	2020		₹
Dec. 31	To Consignment A/c	6,00,000	Dec. 31	By Consignment A/c-	
				Clearance expenses	12,000
				Selling expenses	8,000
				Commission	30,000
				Del-credere commission	<u>18,000</u>
					68,000
				By Balance c/d	5,32,000
		6,00,000			6,00,000

(b)

In the Books of P
Journal Entries

Date	Particulars	L.F.	₹	₹
2021 Mar, 31	Sales A/c Dr. To Trade receivables A/c* (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval) *To Mr. A ₹ 12,000 and To Mr. B ₹ 9,000 can be given		21,000	21,000
Mar,31	Inventories with Customers on Sale or Return A/c Dr. To Trading A/c (Being the adjustment for cost of goods lying with customers awaiting approval)		16,800	16,800
April,30	Trade receivables A/c or Mr. A A/c Dr. To Sales A/c (Being goods costing ₹ 9,600 sent to Mr. A on sale or return basis has been accepted by him)		12,000	12,000

Balance Sheet of P as on 31st March, 2021 (Extracts)

Assets	₹	₹
Trade receivables (₹3,00,000 - ₹ 21,000)		2,79,000
Inventories-in-trade	1,80,000	
Add: Inventories with customers on Sale or Return 100/125 x ₹ 21,000 = ₹ 16,800	16,800	1,96,800
		4,75,800

(c) (i)

K in Account Current with A

(Interest to 31st October 2021, @ 8% p.a.)

Date 2021	Particulars	Amount ₹	Days	Products	Date 2021	Particulars	Amount ₹	Days	Products
15.7.21	To Balance b/d	6,000	109	6,54,000	25.8.21	By Sales Returns	1,600	67	1,07,200
20.8.21	To Sales A/c	10,000	72	7,20,000	15.9.21	By Bank A/c	6,400	46	2,94,400

31.10.21	To Interest A/c	203	-	-	20.10.21	By Cash A/c	4,000	11	44,000
					31.10.21	By Balance of products	-	-	9,28,400
						By Balance c/d	4,203	-	-
		16,203		13,74,000			16,203		13,74,000

Calculation of interest:

$$\text{Interest} = \frac{9,28,400}{365} \times \frac{8}{100} = ₹ 203$$

OR

(ii) **Computation of Goodwill of Mr. X**

Average maintainable profits:		₹
Trading profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		7,56,000
Less: Loss during	2020	(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 = (36,000)
(1,35,000)

Average Profits (₹ 7,20,000 / 4) 1,80,000

Super Profit 45,000

Goodwill at 6 year's purchase of Super Profit = 2,70,000

Question 4

- (a) The following is the Receipts and Payments Account of Mumbai Club for the year ended March 31, 2021:

Receipt and Payment Account of Mumbai Club

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand	20,000	Ground man's Fee	75,000
Balance at Bank as per Pass Book:		Purchase of Equipment's	1,55,000
Saving Account	1,93,000	Rent of Ground	25,000
Current Account	60,000	Club night expenses	38,000
Bank Interest	5,000	Printing and Office Expenses	30,000
Donations and Subscriptions	2,50,000	Repairs to Equipment	50,000
Entrance fees	18,000	Honorarium to Secretary (2019-20)	40,000
Contribution to Club night	10,000	Balance at Bank as per Pass Book:	
Sale of Equipment	8,000	Saving Account	2,04,000
Bar Room receipts	20,000	Current Account	20,000
Proceeds from club night	<u>78,000</u>	Cash in hand	<u>25,000</u>
	6,62,000		6,62,000

You are given the following additional information (All figures are in ₹)

	01.04.20	31.03.21
Subscription due	15,000	10,000
Amount due for printing etc.	10,000	8,000
Cheques unrepresented being payment for repairs	30,000	25,000
Interest not yet entered in the Pass book	-	2,000
Estimated value of machinery and equipment	80,000	1,75,000

For the year ended March 31, 2021, the honorarium to the Secretary is to be increased by a total of ₹ 20,000 and Ground man is to receive a bonus of ₹ 20,000. Prepare the Income and Expenditure Account for period ended 31st March, 2021 and the Balance Sheet as at that date.
(10 Marks)

- (b) X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

Z retired from business on 1st April, 2021 on the following terms:

- Building to be appreciated by 25%.
- X and Y to bring in additional capital of ₹ 5,00,000 each.
- Machinery to be depreciated by 10%.
- Stock is revalued at ₹ 3,72,250.
- Provision for Doubtful Debts to be created at 4%.
- Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.
- Goodwill was not to be raised in the Books of Accounts.
- Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill. **(10 Marks)**

Answer

- (a) **Income and Expenditure Account of Mumbai Club**
for the year ending 31st March, 2021

Expenditure		₹	Income	₹
To Groundsman's fee		75,000	By Donations and Subscription (W.N.2)	2,45,000
To Rent of Ground		25,000		
To Club night' Expenses	38,000		By Receipts from bar room	20,000
Less: Contribution	(10,000)	28,000*		

To Printing & Office Expenses (W.N. 3)	28,000	By Proceeds of club night	78,000*
To Repairs to Equipment (W.N.4)	45,000	By Interest (5,000+2,000)	7,000
To Depreciation on Machinery (W.N. 5)	52,000		
To Honorarium to Secretary	60,000		
To Bonus to Groundsman	20,000		
To Excess of Income over Expenditure	17,000		
	3,50,000		3,50,000

* Alternatively, the profits from club night can be shown as the net amount of ₹ 50,000 (₹ 78,000 - ₹ 28,000) on the credit side of Income and Expenditure Account.

Balance Sheet of Mumbai Club as on 31st March, 2021

Liabilities		₹	Assets	₹
Outstanding Expenses:				
Groundsman Bonus		20,000	Cash in hand	25,000
Printing		8,000	Cash in Saving A/c	2,04,000
Honorarium (40,000+20,000)		60,000	Subscription Receivable	10,000
Bank Overdraft (25,000-20,000)		5,000	Interest Due	2,000
Capital Fund: Opening	2,88,000		Machinery & Equipment's	1,75,000
Add: Surplus for the year	17,000			
Add: Entrance Fees	18,000	3,23,000		
		4,16,000		4,16,000

Balance Sheet as on 1st April, 2020

Liabilities	₹	Assets	₹
Outstanding Expenses		Cash in hand	20,000
Printing	10,000	Cash in Saving A/c	1,93,000

Honorarium to Secretary	40,000	Cash in Current A/c	30,000
Capital Fund (Balancing Figure)	2,88,000	Subscription Receivable	15,000
		Machinery & Equipment's	80,000
	3,38,000		3,38,000

Calculation of Donations and Subscriptions

₹

Donations and Subscriptions as per Receipt and Payments A/c	2,50,000
Add: Outstanding as on 31.03.21	10,000
Less: Outstanding as on 01.04.20	15,000
	2,45,000

Printing and Office Expenses

₹

Printing and Office Expenses as per Receipt and Payments A/c	30,000
Add: Outstanding as on 31.03.21	8,000
Less: Outstanding as on 01.04.20	10,000
	28,000

Repairs to Equipment

₹

Repairs as per Receipt and Payments A/c	50,000
Add: Outstanding as on 31.03.21	25,000
Less: Outstanding as on 01.04.20	30,000
	45,000

Depreciation on Machinery and equipment

₹

Balance as on 01.04.20	80,000
Add: Purchases during the year	1,55,000
Less: Sale of Equipment	8,000
Less: Balance as on 31.03.21	1,75,000
	52,000

(b)

In The Books of X, Y and Z

Revaluation A/c

Particulars	₹	Particulars	₹
To Provision for Doubtful Debts	13,000	By Building	62,500

Partners' Capital A/c

Bank A/c

Valuation of Goodwill:

$$\text{Z's share} = (3/6)\text{th} = ₹ 7,20,000 \times 1/2 = ₹ 3,60,000$$

Journal entry for adjustment of goodwill

To Z's capital A/c	3,60,000
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(Being Goodwill adjusted through Partners Capital account as per gaining ratio)

Question 5

The following is the trial balance of Mr. B for the year ended 31st March, 2021:

Particulars	Dr.	Particulars	Cr.
Opening Stock:		Sundry Creditors	1,75,000
Raw Material	5,25,000	Purchase Return	17,500
Finished Goods	2,62,500	Capital	3,50,000
Purchase of Raw Material	17,50,000	Bills Payable	84,000
Land & Building	3,50,000	Long Term Loan	7,00,000
Loose Tools	1,05,000	Provision for bad	
Plant and Machinery	1,05,000	and doubtful debts	7,000
Investments	87,500	Sales	29,75,000
Cash in Hand	70,000	Bank Overdraft	80,500
Cash at Bank	17,500		
Furniture and Fixtures	52,500		
Bills Receivables	52,500		
Sundry Debtors	1,40,000		
Drawings	70,000		
Salaries	70,000		
Coal and Fuel	52,500		
Factory rent and rates	70,000		
General Expenses	14,000		
Advertisement	17,500		
Sales Return	35,000		
Bad Debts	14,000		
Direct Wages (Factory)	2,80,000		
Power	1,05,000		
Interest paid	24,500		
Discount allowed	10,500		
Carriage inwards	52,500		
Carriage outwards	24,500		
Commission paid	17,500		
Dividend paid	<u>14,000</u>		
	43,89,000		<u>43,89,000</u>

Additional Information:

- (i) Stock of finished goods at the end of the year was ₹ 3,50,000.
- (ii) A provision for doubtful debts is to be created @ 5% on Sundry Debtors. Provide Depreciation on building 3,500 and Plant and Machinery 10,500.
- (iii) Accrued commission is 43,750. Interest has accrued on investment ₹ 52,500.
- (iv) Salary Outstanding is ₹ 7,000 and Prepaid Interest is ₹ 5,250.

You are required to prepare Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2021 and Balance Sheet as at that date. **(20 Marks)**

Answer

In the books of Mr. B

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Opening Stock of Raw Materials		5,25,000	By Cost of Manufactured goods transferred to Trading A/c	28,28,000
To Purchase	17,50,000			
Less: Purchase Return	17,500	17,32,500		
To Carriage Inwards		52,500		
To Direct Wages		2,80,000		
To Power		1,05,000		
To Coal and fuel		52,500		
To Factory Rent and Rates		70,000		
To Depreciation on Machinery		10,500		
		28,28,000		28,28,000

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars		₹
To Opening Stock of finished goods	2,62,500	By Sales	29,75,000	
To Cost of goods transferred from Manufacturing A/c	28,28,000	Less: Sales Return	35,000	29,40,000
To Gross Profit c/d	1,99,500	By Closing Stock		3,50,000
	32,90,000			32,90,000

Profit and Loss Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Carriage Outward		24,500	By Gross Profit b/d	1,99,500
To Discount Allowed		10,500	By Accrued Commission*	43,750
To Commission Paid		17,500	By Accrued Interest	52,500
To Dividend Paid		14,000		
To General Expenses		14,000		
To Advertisement		17,500		
To Salaries	70,000			
Add: Outstanding	7,000	77,000		
To Interest Paid	24,500			
Less: Prepaid	5,250	19,250		
To Provision for Bad & Doubtful Debts	7,000			
Add: Bad Debts	14,000			
Less: Old Provision for Doubtful Debts	7,000	14,000		
To Depreciation on Building		3,500		
To Net Profit c/d		84,000		
		2,95,750		2,95,750

*Alternatively Accrued Commission may be treated as Expenses, in that case total Commission will be ₹ 61,250 (₹17,500 + ₹43,750) and Net Loss will be ₹ 3,500.

Balance Sheet as on 31st March, 2021

Capital and Liabilities		₹	Assets		₹
Capital	3,50,000		Plant & Machinery	1,05,000	
Add: Net Profit**	84,000		Less: Depreciation	10,500	94,500
	4,34,000		Land & Building	3,50,000	
Less: Drawings	70,000	3,64,000	Less: Depreciation	3,500	3,46,500
Bills Payable		84,000	Furniture & Fixtures		52,500
Sundry Creditors		1,75,000	Investments		87,500
Salary Outstanding		7,000	Closing Stock		3,50,000
Long-Term Loans		7,00,000	Loose Tools		1,05,000
Bank Overdraft		80,500	Sundry Debtors	1,40,000	

			Less: Provision for Bad & Doubtful Debts	7,000	1,33,000
			Bills Receivable		52,500
			Accrued Commission		43,750
			Accrued Interest		52,500
			Prepaid Interest		5,250
			Cash in Hand		70,000
			Cash at Bank		17,500
		14,10,500			14,10,500

**If Accrued Commission is treated as expenses in that case Net Loss of ₹ 3,500 will be deducted from Capital Account and Closing Capital figure will be ₹ 2,76,500 and Accrued Commission ₹ 43,750 will appear under liability side of Balance Sheet.

Question 6

- (a) A 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. (Ignore dates).

(15 Marks)

- (b) What is petty cash book? Write its any two advantages.

(5 Marks)

Answer

(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
	Equity Share Application A/c Dr.		40,000	

2	To Equity Share Capital A/c (Transfer of application money on 20,000 shares to share capital)			40,000
	Equity Share Allotment A/c Dr.	80,000		
3	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)			60,000 20,000
	Bank A/c Dr.	80,000		
4	To Equity Share Allotment A/c (Allotment money received)			80,000
	Equity Share First Call A/c Dr.	40,000		
5	To Equity Share Capital A/c (Being first call made due on 20,000 shares at ₹ 2 per share)			40,000
	Bank A/c Dr.	46,000		
6	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)			40,000 6,000
	Equity Share Final Call A/c Dr.	60,000		
7	To Equity Share Capital A/c (Being final call made due on 20,000 shares at ₹ 3 each)			60,000
	Bank A/c Dr.	53,100		
	Calls in Advance A/c Dr.	6,000		
8	Calls in Arrears A/c Dr.	900		
	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)			60,000
	Interest on Calls in Advance A/c Dr.	240		
9	To Shareholders A/c			240

	(Being interest made due on calls in advance of ₹6,000 at the rate of 12% p.a.)			
10	Shareholders A/c Dr. To Bank A/c	240		240
	(Being payment of interest made to shareholder)			
11	Shareholders A/c Dr. To Interest on Calls in Arrears A/c	15		15
	(Being interest on calls in arrears made due at the rate of 10%)			
12	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c	615		600 15
	(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)			
13	Shareholders A/c Dr. To Interest on Calls in Arrears A/c	10		10
	(Being interest on calls in arrears made due at the rate of 10%)			
14	Bank A/c Dr. To Calls in Arrears A/c To Shareholders A/c	310		300 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 × 12% × 4 / 12 = ₹ 240

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

Interest on Calls in Arrears ₹ 300 × 10% × 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,

Note: For entry no 9&10, 11&12, 13&14 combined entry can also be passed.

- (b) • In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work.
- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
 - Later, on an analysis, the respective account may be debited.
 - Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

Advantages of Petty cash book are:

- (i) Saving of time of the chief cashier
- (ii) Saving in labour in writing up the cash book and posting into the ledger
- (iii) Control over small payments