

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) As per concept of conservatism the accountant should provide for all possible losses but should not anticipate income.
- (ii) Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure.
- (iii) Under or over - casting of a subsidiary book is an example of error of commission.
- (iv) If Del-credere commission is paid to consignee, the loss of bad debts is to be borne by the consignor.
- (v) Perpetual debentures are payable at the time of liquidation of the company.
- (vi) Overhead is defined as the total cost of direct material, direct wages and direct expenses.

(6 x 2 = 12 Marks)

(b) Briefly explain the following terms:

- (i) Materiality
- (ii) Conservatism
- (iii) Extraordinary item
- (iv) Floating Charge

(4 x 1 = 12 Marks)

(c) Enter the following transactions in Sales Book of Gurgaon Engineers, Gurgaon for January 2022:

2022 January	
5	Sold to Praneet Electricals 10 pieces of microwaves@ ₹8,500/- each less trade discount 15%
10	Sold to Ajanta plaza 8 pieces of Mixer grinders@ ₹ 12,500/- each less trade discount 10%.

20	<i>Sold to Naveen traders, 15 pieces of juicers@ ₹ 5,500/- each less trade discount 5%</i>
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(4 Marks)**Answer**

- (a) (i) **True:** Conservatism states that the accountant should not anticipate any future income, however they should provide for all possible losses.
- (ii) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense and hence it is to be capitalised. Such expenses are amortised over a period of time.
- (iii) **True:** If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission." Thus, under or over casting of subsidiary books is an example of error of commission.
- (iv) **False:** To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.
- (v) **True:** Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.
- (vi) **False:** Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages and expenses cannot be directly linked to unit produced.
- (b) (i) Materiality refers to all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.
- (ii) Conservatism states that the accountant should not anticipate any future income however they should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.
- (iii) Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
- (iv) Floating charge is a general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

(c) In the Books of Gurgaon Engineers

Sales Book

Date	Particulars	Gross Amount (₹)	Trade Discount (₹)	Net Price (₹)
2022				
Jan. 5	Praneet Electricals 10 pieces of Microwaves @ ₹ 8,500 each			
	Less: 15% discount	85,000	12,750	72,250
10	Ajanta Plaza 8 pieces of Mixer Grinders @ ₹ 12,500 each,			
	Less: 10% trade discount	1,00,000	10,000	90,000
20	Naveen Traders 15 pieces of Juicers @ ₹ 5,500 each,			
	Less: 5% trade discount	<u>82,500</u>	<u>4,125</u>	<u>78,375</u>
		2,67,500	26,875	2,40,625

Question 2

(a) The following balances appear in the books of Dheeraj Enterprises:

	₹
Machinery account as on 01.04.2021	12,00,000
Provision for depreciation account as on 01.04.2021	4,65,000

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹ 2,00,000 was sold for ₹ 1,10,000 and on the same date another Machinery was purchased for ₹ 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

(10 Marks)

(b) From the following information prepare a Bank Reconciliation Statement as on 31st March 2022 for A Ltd.

	₹
Bank overdraft as per cash book as 31st March, 2022	15,50,750

1.	Cheques deposited on 15 th February, 2022 credited on 5 th April, 2022	12,50,000
2.	Interest debited by bank on 31 st March, 2022 but not entered in Cash Book	1,75,500
3.	Cheques issued before 31 st March, 2022 but not yet presented	7,75,000
4.	On 10 th March, 2022 bank credited to A Ltd. in error	1,50,000
5.	Draft deposited in bank but not credited till 31 st March, 2022	12,75,000
6.	Bills for collection credited by bank but no advice received by the company	9,45,000
7.	Bank charges charged by bank but not entered in cash book	2,85,000
8.	Transport subsidy received from the state government directly by the bank not advised to the company	17,50,000

(5 Marks)

(c) The Profit and Loss account of Ram showed a net profit of ₹ 5,75,000 after considering the closing stock of ₹ 2,55,000 on 31st March 2022. Subsequently the following information was obtained from scrutiny of the books.

- (i) Purchases for the year included ₹ 10,500 paid for electrical fittings of the shop.
- (ii) Ram gave goods worth of ₹ 25,000 as free samples for which no entry was made.
- (iii) Invoices for goods amounting to ₹ 1,85,000 have been entered on 29th March 2022 but were not included in the stock.
- (iv) Sales amounting to ₹ 2,05,000 were dispatched on 27th March but were included in sales of April, 2022.
- (v) Goods costing ₹ 55,000 were sent on sale or return basis in March, 2022 at a margin of profit of 33½ % on cost. Approval was given in April, 2022 but these were considered as sales in March, 2022.

Calculate. the value of stock as on 31st March, 2022 and the adjusted net profit for the year ended on that date.

(5 Marks)**Answer**

(a) Dr. Machinery Account (at original Cost)			Cr.		
Date	Particulars	₹	Date	Particulars	₹
01.04.2021	To Balance b/d	12,00,000	01.10.2021	By Disposed Machinery A/c	2,00,000
01.10.2021	To Bank A/c	4,80,000	31.03.2022	By Balance c/d	14,80,000
		16,80,000			16,80,000

Dr. Provision for Depreciation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.10.2021	To Disposed Machinery A/c	61,490	01.04.2021	By Balance b/d	4,65,000
31.03.2022	To Balance c/d	4,93,720	1.10.2021	By Depreciation	7,290
			31.03.2022	By Depreciation A/c	82,920
		5,55,210			5,55,210

Dr. Disposed Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.10.2021	To Machinery A/c	2,00,000	01.10.2021	By Provision for Depreciation A/c	61,490
				By Bank A/c	1,10,000
				By Profit and Loss A/c	28,510
		2,00,000			2,00,000

Working Notes:

1. Calculation of Profit/Loss on Sale of Machinery

Particulars				₹
A.	Original Cost			2,00,000
B.	Less: Depreciation @ 10% WDV p.a. for 3½ years			
	Year	Cost/WDV	Depreciation@10%	
	1	2,00,000	20,000	
	2.	1,80,000	18,000	
	3	1,62,000	16,200	
	4	1,45,800	<u>7,290</u> (6 Months)	61,490
C.	Book Value as on date of Sale (A – B)			1,38,510
D.	Less: Sale proceeds			1,10,000
E.	Loss on Sale (C – D)			28,510

2. **WDV of Remaining Machine**

Cost of Machinery on 01.04.2021	12,00,000	
Less: Cost of machinery sold	<u>2,00,000</u>	
	10,00,000	
Less: Depreciation		
Provision for depreciation	4,65,000	
Less: Depn. on machinery sold	<u>54,200</u>	<u>4,10,800</u>
WDV of remaining machine		<u>5,89,200</u>

3. **Calculation of Depreciation for Current Year on Machines**

Particulars	₹
A. On WDV of Old Machines of ₹ 5,89,200 for 1 year (10% WDV)	58,920
B. On New Machine of ₹ 4,80,000 for ½ year	24,000
	82,920
C. Depreciation on machinery sold (Rs.1,45,800@10% for 6 months)	<u>7,290</u>
	<u>90,210</u>

(b)

M/s. A Ltd.

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Details ₹	Amount ₹
Overdraft as per Cash Book		15,50,750
Add: Cheque deposited but not credited	12,50,000	
Interest charged by the bank	1,75,500	
Draft deposited in bank but not yet credited	12,75,000	
Bank Charges not entered in cash book	2,85,000	29,85,500
		45,36,250
Less: Cheque issued but not yet presented	(7,75,000)	
Transport subsidy not yet recorded in the Cash Book	(17,50,000)	
Bills for collection credited in the bank not yet entered in the cash book	(9,45,000)	
Wrong credit by the bank	(1,50,000)	(36,20,000)
Overdraft as per bank statement		9,16,250

Alternatively, the above solution can also be done through Adjusted Cash Book.

Cash Book (Bank Column)

Particulars	Amount ₹	Particulars	Amount ₹
To Bill Receivable	9,45,000	By Balance b/d	15,50,750
To Transport subsidy received	17,50,000	By Interest debited by Bank	1,75,500
		By Bank Charges	2,85,000
		By Balance c/d	6,83,750
	26,95,000		26,95,000

M/s. A Ltd.

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Details ₹	Amount ₹
Balance as per Cash Book		6,83,750
Add : Cheque issued but not yet presented	7,75,000	
Wrong credit by the bank	1,50,000	9,25,000
		16,08,750
Less: Cheque deposited but not credited	(12,50,000)	
Draft deposited in bank but not yet credited	(12,75,000)	(25,25,000)
Overdraft as per bank statement		(9,16,250)

(c)

Profit and Loss Adjustment Account

Particulars	₹	Particulars	₹
To Advertisement (samples)	25,000	By Net profit	5,75,000
To Sales (goods approved in April to be taken as April sales: (55,000 + 18,333))	73,333	By Electric fittings	10,500
To Adjusted net profit	9,57,167	By Samples	25,000
		By Stock (purchases of March not included in stock)	1,85,000
		By Sales (goods sold in March wrongly taken as April sales)	2,05,000

		By Stock (goods sent on approval basis not included in stock)	55,000
	10,55,500		10,55,500

Calculation of value of inventory on 31st March, 2022

	₹
Stock on 31st March, 2022 (given)	2,55,000
Add: Purchases of March, 2022 not included in the stock	1,85,000
Goods lying with customers on approval basis	55,000
Value of inventory as on 31.03.2022	4,95,000

Note: Figures are rounded off to the nearest Rupee.

Question 3

- (a) Akbar & Sons of Surat consigned 500 toys to Amar & Sons of Ahmadabad at a cost of ₹ 800 each. Consignor paid freight ₹ 8,000 and insurance ₹ 2,500. During transit, 30 toys were totally damaged. Amar & Sons took delivery of remaining toys and paid ₹ 14,100 as local taxes. Amar & Sons sent a bank draft to Akbar & Sons for ₹ 80,000 as advance payment and later sent an account sale showing that 400 toys had been sold at ₹ 1,500 each. Amar & Sons incurred expenses on godown rent amounting to ₹ 3,500. Amar & Sons was entitled to commission of 6%. One of the credit customers could not pay for 10 toys and nothing was recovered from insurers due to a defect in the policy.

You are required to prepare Consignment Account and* Amar & Sons Account in the books of Akbar & Sons. **(10 Marks)**

* It was wrongly printed as "of" in place of "and" in the question paper.

- (b) Journalise the following transactions in the books of Karthik:
- Karthik accepted a bill of Balu for ₹ 3,500 discharged by a cash payment of ₹ 1,500 and a new bill for the balance plus ₹ 75 for interest.
 - Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid ₹ 50 as noting charges. Bill was withdrawn against cheque.
 - Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.
 - Karthik's acceptance to Prem for ₹ 6,500 discharged by Prem. Ashok's acceptance to Karthik for a similar amount. **(5 Marks)**
- (c) Attempt any ONE of the following two sub-parts i.e. either (i) or (ii):
- Seeta and Geeta are two partners in the firm, have drawn the following amounts from the firm during the year ended 31st March 2023:

Date	Amount	Drawn By
01.04.2022	53,000	Seeta
14.09.2022	20,000	Geeta
20.11.2022	35,000	Seeta
16.01.2023	25,000	Seeta
31.03.2023	22,000	Geeta

Interest is charged @12% p.a. on all drawings. Calculate interest chargeable from each partner by using average due date system.

For calculation of average due date consider 1st April, 2022 as base date and 1 year = 365 days. **(5 Marks)**

- (ii) Meera Enterprises sold goods on 'sales or return basis' to few customers. All such transactions are booked as actual sales. On 31st March 2022 the trade receivable balance stood at ₹1,10,000 which included ₹10,000 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 to Mr. Arun.

Mr. Arun sent intimation of acceptance for ₹6,000 goods on 15th April 2022 and balance goods returned.

Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March, 2022. Also show the entries to be made during April, 2022. Value of closing inventories as on 31st March, 2022 was ₹70,000. **(5 Marks)**

Answer

(a)

In the books of Akbar & Sons

Dr.		Consignment to Amar & Sons Account		Cr	
Particulars	₹	Particulars	₹		
To Goods sent on Consignment A/c (500 x ₹ 800)	4,00,000	By Amar & Sons - sale Proceeds (400 x ₹ 1,500)	6,00,000		
To Bank(expenses)		By Abnormal loss Ac (W.N. 1)	24,630		
Freight 8,000					
Insurance <u>2,500</u>	10,500				
To Amar & Sons-expenses		By Inventories on consignment (W.N. 2)	59,570		
Local taxes 14,100					
Godown rent 3,500					
Commission (6%) 36,000					
Bad debt (10x1,500) <u>15,000</u>	68,600				

To P&L Account-transfer of profit	2,05,100		
	6,84,200		6,84,200

Dr. **Amar & Sons account**

Particulars	₹	Particulars	
To Consignment to Amar & Sons A/c	6,00,000	By bank (bank draft as advance)	80,000
		By consignment to Amar & Sons	
		Local taxes	14,100
		Godown rent	3,500
		Commission (6%)	36,000
		Bad debt (10 x 1,500)	<u>15,000</u>
			68,600
		By balance amount remitted	4,51,400
	6,00,000		6,00,000

Working Notes:

(1) Computation of the abnormal loss- 30 toys ₹

a. Cost of 30 toys	30 x 800	24,000
b. Freight charges- 30 toys	8000/500 x 30	480
c. Insurance- 30 toys	2500/500 x 30	<u>150</u>
Abnormal loss		<u>24,630</u>

(2) Computation of the Closing stock- (500-30-400) ₹

a. Cost of 70 toys	70 x 800	56,000
b. Freight charges- 70 toys	8,000/500 x 70	1,120
c. Insurance- 70 toys	2,500/500 x 70	350
d. Local tax-70 toys	14,100/470 x 70	<u>2,100</u>
Closing stock		<u>59,570</u>

Note: The answer given above is after considering the typo error in the question paper. Hence, the consignee Account i.e. Amar & Sons Account forms part of the solution.

(b)

Books of Karthik

Journal Entries

		₹	₹
(i)	Bills Payable Account Dr.	3,500	

(ii)	Interest Account	Dr.	75	
	To Cash A/c			1,500
	To Bills Payable Account			2,075
	(Bills Payable to Balu discharged by cash payment of ₹1,500 and a new bill for ₹ 2,075 including ₹ 75 as interest)			
(ii)	(a) Gopal Account	Dr.	4,550	
	To Mohan Account			4,550
	(Gopal's acceptance for ₹ 4,500 endorsed to Mohan dishonoured, ₹ 50 paid by Mohan as noting charges)			
(ii)	(b) Mohan Account	Dr.	4,550	
	To Bank Account			4,550
	(Payment to Mohan on withdrawal of bill earlier received from Mr. Gopal)			
(iii)	Bank Account	Dr.	2,475	
	Discount Account	Dr.	25	
	To Bills Receivable Account			2,500
	(Payment received from Doshi against his acceptance for ₹ 2,500. Allowed him a discount of ₹25)			
(iv)	Bills Payable Account	Dr.	6,500	
	To Bills Receivable Account			6,500
	(Bills Receivable from Ashok endorsed to Prem in settlement of bills payable issued to him earlier)			

(c) (i) **Calculation of Interest chargeable from Partners****Taking 1st April,2022 as Base Date**

	Dates	Amount (₹)	Days from 1 st April,2022	Products (₹)
Seeta	1.4.2022	53,000	0	0
	20.11.2022	35,000	233	81,55,000
	16.1.2023	25,000	290	72,50,000
		1,13,000		1,54,05,000

Average Due Date = $\frac{1,54,05,000}{1,13,000}$ days from 1st April. i.e. 136 days = 15th Aug, 2022

Interest is chargeable for Seeta from 15th Aug to March 31 i.e. 228 days

₹ 1,13,000 x 12% x 228/365 = ₹ 8,470.35* (may be rounded off to Rs.8,470)

	Dates	(₹)	Days from 1st April, 2022	Products (₹)
Geeta	14.9.2022	20,000	166	33,20,000
	31.3.2023	22,000	364	80,08,000
		42,000		1,13,28,000

Average Due Date = $\frac{1,13,28,000}{42,000}$ days from 1st April = 270 days.

= 27th Dec.

Interest is chargeable for Geeta from 27th December to 31st March i.e. for 94 days.

₹ 42,000 x $\frac{12}{100} \times \frac{94}{365}$ = ₹ 1,298

*Alternatively, 137 days can also be taken while calculating interest of Seeta. In that case, Interest chargeable from Seeta for 227 days i.e. from 16th August to 31st March will be ₹ 8,433.2.

OR

(ii)

In the Books of Meera Enterprises

Journal Entries

Date	Particulars	L.F.	₹	₹
2022 March 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)		10,000	10,000
March 31	Inventories with Customers on Sale or Return A/c Dr. To Trading A/c (Note) (Being the adjustment for cost of goods lying with customers awaiting approval)		8,000	8,000

April,30	Trade receivables A/c Dr. To Sales A/c (Being goods sent to Mr. Arun on sale or return basis has been accepted by him)	6,000	6,000
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Balance Sheet of Meera Enterprises as on 31st March, 2022 (Extracts)

Liabilities	₹	Assets	₹	₹
		Trade receivables (₹1,10,000 - ₹ 10,000)		1,00,000
		Inventories-in-trade	70,000	
		Add: Inventories with customers on Sale or Return	8,000	78,000
				1,78,000

Note:

Cost of goods lying with customers = $100/125 \times ₹ 10,000 = ₹ 8,000$

Question 4

- (a) Following is the Receipts and Payments account of Pune Medical Aid Society for the year ended 31-12-2022.

Receipts and Payments Account for the year ended 31-12-2022

Receipts	Amount ₹	Payments	Amount ₹
To Opening cash in hand	12,000	By Medicine supply	35,000
To Subscription	65,000	By Honorarium to Doctors	15,000
To Donations	25,000	By Salaries	36,000
To Interest on Investment (10%)	10,000	By Sundry expenses.	950
To Charity show collection	16,500	By Purchase of Medical equipment	25,000
		By Charity show expenses	2,750
		By Closing Cash in hand	13,800
	<u>1,28,500</u>		<u>1,28,500</u>

The following is the additional information provided.

	01-01-2022	31-12-2022
	Amount ₹	Amount ₹
Subscription due	2,500	3,100
Subscription received in advance	1,800	1,400
Stock of medicine	12,500	17,250
Amount due for medicine supply	12,000	16,500
Value of equipment	21,500	37,200
Value of building	65,000	61,750

You are required to prepare Income and Expenditure account, and Balance sheet as on 31-12-2022. **(15 Marks)**

- (b) X and Y were partners in a firm, sharing profit and losses in the ratio of 3: 2. They admit Z 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, 2022 were 1,80,00,000.

Calculate share of profit for each partner when:

(i) Guarantee is given by firm

(ii) Guarantee is given by X* and Y* equally.

(5 Marks)

* It was wrongly printed as A and B in the question paper.

Answer

- (a) **Income and Expenditure Account of Pune Medical Aid Society**
for the year ended 31st December, 2022

Expenditure		₹	Income		₹
To Medicine consumed		34,750	By Subscription		66,000
To Honorarium to doctors		15,000	By Donation		25,000
To Salaries		36,000	By Interest on investments		10,000
To Sundry expenses		950	By Profit on charity show:		
To Depreciation on Equipment	9,300		Show collections	16,500	
Building	3,250	12,550	Less: Show expenses	(2,750)	13,750

To Surplus-excess of Income over Expenditure		15,500		
		1,14,750		1,14,750

Balance Sheet of Pune Medical Aid Society as on 31st December, 2022

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Building	65,000	
Opening balance	1,99,700		Less: Depreciation	(3,250)	61,750
Add: Surplus	15,500	2,15,200	Equipment	21,500	
Subscription received in advance		1,400	Add: Purchase	25,000	
Amount due for medicine supply		16,500		46,500	
			Less: Depreciation	(9,300)	37,200
			Stock of medicine		17,250
			Investments		1,00,000
			Subscription receivable		3,100
			Cash in hand		13,800
		2,33,100			2,33,100

Working Notes:

1.

Subscription for the year ended 31st December, 2022:		₹
Subscription received during the year		65,000
Less: Subscription receivable on 1.1.2022	2,500	
Less: Subscription received in advance on 31.12.2022	1,400	(3,900)
		61,100
Add: Subscription receivable on 31.12.2022	3,100	
Add: Subscription received in advance on 1.1.2022	1,800	4,900
		66,000

2. Purchase of medicine:	
Payment for medicine supply	35,000
Less: Amounts due for medicine supply on 1.1.2022	(12,000)
	23,000
Add: Amounts due for medicine supply on 31.12.2022	16,500
	39,500
3. Medicine consumed:	
Stock of medicine on 1.1.2022	12,500
Add: Purchase of medicine during the year	39,500
	52,000
Less: Stock of medicine on 31.12.2022	(17,250)
	34,750
4. Depreciation on equipment:	
Value of equipment on 1.1.2022	21,500
Add: Purchase of equipment during the year	25,000
	46,500
Less: Value of equipment on 31.12.2022	(37,200)
Depreciation on equipment for the year	9,300

Balance Sheet of Pune Aid Society as on 1st January, 2022

Liabilities	₹	Assets	₹
Capital fund (balancing figure)	1,99,700	Building	65,000
Subscription received in advance	1,800	Equipment	21,500
Amount due for medicine supply	12,000	Stock of medicine	12,500
		Investments	1,00,000
		(₹ 10,000 x 100/10)	
		Subscription receivable	2,500
		Cash in hand	12,000
	2,13,500		2,13,500

(b) (i)

If Guarantee is given by firm

**Profit and Loss Appropriation Account for the year ending
on 31st March, 2022**

Particulars	₹	Particulars	₹
To X'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 Y's Capital A/c (2/5 of ₹ 1,30,00,000)	52,00,000		
To Z'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 X and Y equally

**Profit and Loss Appropriation Account for the year ending
on 31st March, 2022**

Particulars		₹	Particulars	₹
To X'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 Z (1/2 of 20,00,000)	<u>(10,00,000)</u>	80,00,000		
To Y's Capital A/c (2/6 of ₹ 1,80,00,000)	60,00,000			
Less: Deficiency borne for Z (1/2 of 20,00,000)	<u>(10,00,000)</u>	50,00,000		
To Z's Capital A/c (1/6 of ₹ 1,80,00,000) Add: Deficiency	30,00,000			

Recovery from X	10,00,000		
Add: Deficiency Recovery from Y	<u>10,00,000</u>	50,00,000	
		1,80,00,000	1,80,00,000

Question 5

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount ₹	Amount ₹
<i>Capital Accounts</i>		
A		2,25,000
B		1,12,500
C		1,35,000
<i>Current Account</i>		
A	36,000	
B	54,000	
C	54,000	
<i>Land and Building</i>	1,80,000	
<i>Furniture and Fixtures</i>	33,750	
<i>Stock</i>	2,81,250	
<i>Debtors</i>	45,000	
<i>Bank Account</i>	90,000	
<i>Profit for the year before charging interest</i>		2,34,000
<i>Creditors</i>		<u>67,500</u>
<i>Total</i>	<u>7,74,000</u>	<u>7,74,000</u>

Goodwill may be recorded separately, instead of through Revaluation Account. C died on 30th June, 2022. The Partnership deed provided that:

- Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.
- On the death of partner

- (i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10%p.a. and a fair remuneration for each of the partners.
- (ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and
- (c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:
- (i) Profit for three years, before charging partners' interest were:
- | | |
|------|----------|
| 2019 | 2,52,000 |
| 2020 | 2,83,500 |
| 2021 | 2,70,000 |
- (ii) The independent valuation on the date of death revealed:
- | | |
|------------------------|------------|
| Land and Building | ₹ 2,25,000 |
| Furniture and Fixtures | ₹ 22,500 |
- (iii) For valuation of goodwill a fair remuneration for each of the partners would be ₹ 56,250 per annum and that the capital employed in the business to be taken as ₹ 5,85,000 throughout.

It was agreed between the partners that:

- (1) Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.
- (2) The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.
- (3) A and B would share profits equally from the date of death of C.
- (4) Depreciation on revised value of assets would be ignored.

You are required to prepare:

- (A) Partners' Capital Account and Current Account; and
 (B) Balance Sheet of the firm as on 31st December, 2022.

Working should be done correct to the nearest rupee.

(20 Marks)

Answer

Partner's Capital Accounts

Particular	A	B	C	Particular	A	B	C
To C's capital A/c (goodwill) (W.N. 1)	11,475	22,950		By balance b/d	2,25,000	1,12,500	1,35,000

To C's current A/c			9,180	By A & B Capital			34,425
To C's executor A/c			1,60,245	A/c (goodwill)			
				(W.N. 1)			
To balance c/d	<u>2,13,525</u>	<u>89,550</u>					
	<u>2,25,000</u>	<u>1,12,500</u>	<u>1,69,425</u>		<u>2,25,000</u>	<u>1,12,500</u>	<u>1,69,425</u>

Partner's Current Accounts

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	36,000	54,000	54,000	By Interest on capital	27,000	13,500	8,100
To balance c/d	83,528	39,787		By Profit & Loss A/c	79,028	70,162	26,595
				(W.N. 3)			
				By Revaluation Profit	13,500	10,125	10,125
				(W.N. 4)			
				By C's Capital			<u>9,180</u>
	<u>1,19,528</u>	<u>93,787</u>	<u>54,000</u>		<u>1,19,528</u>	<u>93,787</u>	<u>54,000</u>

Balance sheet as on 31st December, 2022

Liabilities			₹	Assets			₹
Capital A/c	A		2,13,525	Land & building		1,80,000	
	B		89,550	Add : revaluation	<u>45,000</u>		2,25,000
Current A/c	A		83,528	Fixture & furniture	33,750		
	B		39,787	Less: revaluation	<u>11,250</u>		22,500
C's executor A/c			1,60,245	Stock			2,81,250
C's interest on executors Amount			9,615	Debtors			45,000
Creditors			<u>67,500</u>	Bank			<u>90,000</u>
			<u>6,63,750</u>				<u>6,63,750</u>

Working Notes:**1. Calculation of goodwill**

₹

Average profit of last 3 years up to 30.6.2022

2019 (6 months)	1,26,000
2020	2,83,500
2021	2,70,000
2022 (6 months)	<u>1,17,000</u>
	<u>7,96,500</u>
Years	3

Average profit	2,65,500
Less: 10% of capital employed	(58,500)
Less: remuneration of partners (56,250 x 3)	<u>(1,68,750)</u>
Average adjusted profit	38,250
Goodwill for 3 years	1,14,750
C's Share of Goodwill (3/10x 1,14,750)	34,425

2. Calculation of gaining ratio

Name of Partner	New ratio		Old ratio	Gaining Ratio
A	1/2	-	4/10	1/10
B	1/2	-	3/10	2/10

A's capital A/c	Dr.	11,475	
B's capital A/c	Dr	22,950	
To C's capital A/c			34,425

Profit & Loss Appropriation Account

Particulars	1.4.22 to 30.6.22	1.7.22 to 31.12.22	Particulars	1.4.22 to 30.6.22	1.7.22 to 31.12.22
To interest on capital (6 months):			By Net profit	1,17,000	1,17,000
A 2,25,000 x 6%	13,500	13,500			
B 1,12,500 x 6%	6,750	6,750			
C 1,35,000 x 6%	8,100	-			
To Interest on executor amount (1,60,245 x 6%)	-	9,615			
To partners current A/c:					
A	35,460	43,568			
B	26,595	43,567			
C	26,595	-			
	1,17,000	1,17,000		1,17,000	1,17,000

3. Calculation of Revaluation Profit

Revaluation Account			
Particulars	Amount	Particulars	Amount
To Furniture and Fixtures	11,250	By Land & building	45,000
To Profit A (4/10) = 13,500	33,750		
B (3/10) = 10,125			
C (3/10) = 10,125			
	<u>45,000</u>		<u>45,000</u>

Question 6

- (a) BP 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 BP Ltd, Open call in arrears account whenever required. (15 Marks)

- (b) What are the importance of Journal? (5 Marks)

Answer

- (a) Journal of BP Limited

Particulars		Dr. (₹)	Cr. (₹)
Bank A/c (Note 1 – Column 3)	Dr.	10,80,000	
To Equity Share Application A/c			10,80,000

(Being application money received on 3,60,000 shares @ ₹ 3 per share)		
Equity Share Application A/c Dr.	10,80,000	
To Equity Share Capital A/c		3,60,000
To Equity Share Allotment A/c (Note 1 Column 5)		4,40,000
To Bank A/c (Note 1 – Column 6)		2,80,000
(Being application money on 2,80,000 shares transferred to Equity Share Capital Account; on 1,60,000 shares adjusted with allotment and on 80,000 shares refunded as per Board's Resolution No.....dated...)		
Equity Share Allotment A/c Dr.	6,00,000	
To Equity Share Capital A/c		3,60,000
To Securities Premium a/c		2,40,000
(Being allotment money due on 1,20,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No.....dated....)		
Bank A/c (Note 1 – Column 8) Dr.	1,60,000	
To Equity Share Allotment A/c		1,60,000
(Being balance allotment money received)		
Equity Share First and Final Call A/c Dr.	4,80,000	
To Equity Share Capital A/c		4,80,000
(Being final call money due on 1,20,000 shares @ ₹ 4 per share as per Board's Resolution No.....dated....)		
Bank A/c Dr.	4,78,640	
Calls in Arrears A/c Dr.	1,360	
To Equity Share First and Final Call A/c		4,80,000
(Being final call money on 1,19,660 shares @ ₹4 each received)		
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 Being re-issue of 340 shares @ ₹13 each as per Board's Resolution No.....dated....)		1,020
Forfeited Shares A/c To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr 2,040	2,040

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) IMPORTANCE OF JOURNAL:

- Chronological Order:** As transactions are recorded on chronological order, one can get complete information about the business transactions on time basis.
- Narration:** Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry. One can know the correctness of the entry through these narrations.
- Basis of Posting:** Journal forms the basis for posting the entries in the ledger. This eases the accountant in their work and reduces the chances of error.