PAPER – 1: ACCOUNTING

*Question No. **1** is compulsory.*

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

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

Working Notes should form part of the answer.

Question 1

(a) State with reasons, whether the following statements are True or False:

(i) Nominal Accounts are balanced at the end of the Accounting Year.

(ii) Overhaul Expenses of a second-hand machinery purchased are Revenue Expenditure.

(iii) Valuation of inventory at cost or net realizable value is based on Principle of Conservatism.

(iv) A Promissory Note can be made payable to the Bearer.

(v) The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.

(vi) Legal heirs of a deceased partner are entitled to his capital account balance only. ***(6 x 2=12 Marks)***

(b) Differentiate between Book-keeping and Accounting. ***(4 Marks)***

(c) Pass the necessary journal entries to rectify the following errors, using a Suspense Account:

(i) Goods of the value of ₹ 500 returned by Mr. A were entered in the Sales Day Book and posted there from to the credit of his account;

(ii) ₹ 250 entered in the Sales Returns Book, has been posted to the debit of Mr. R, who returned the goods;

(iii) A sale of ₹ 700 made to Mr. Q was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. S as ₹ 70;

(iv) *The total of "Discount allowed" Column in the Cash Book for September amounting to ₹ 350 was not posted.* ***(4 Marks)***

Answer

(a) **1.** **False:** Nominal Accounts are not balanced. The balances at the end are transferred to Trading/ Profit & Loss A/c.

2. **False:** Overhaul expenses are incurred to put second-hand machinery in working condition to derive endurable long-term advantage. So, it should be capitalized.

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

4. **False:** A promissory note should not be made payable to the bearer. The payee must be to a certain person.

5. **False:** It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.

6. **False:** Legal heirs of a deceased partner are entitled to all the dues of deceased partner.

(b) The difference between Book keeping and Accounting are as follows:

S.N.	Book-keeping	Accounting
1.	It is a process concerned with recording of transactions.	It is a process concerned with summarising of the recorded transactions.
2.	It constitutes as a base for accounting.	It is considered as a language of the business.
3.	Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book-keeping records.

4.	Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
5.	There is no sub-field of book keeping.	It has several sub-fields like financial accounting, management accounting etc.
6.	Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

(c) **Journal**

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales A/c	Dr.		500	
	Sales Returns A/c	Dr.		500	
	To Suspense A/c				1,000
	(Being the value of goods returned by Mr. A wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense A/c	Dr.		500	
	To Mr. R				500
	(Being wrong debit to Mr. R for goods returned by him, now rectified)				
(3)	Mr. Q	Dr.		700	
	To Mr. S				70
	To Suspense A/c				630
	(Being omission of debit to Mr. Q and wrong credit to Mr. S for sale of ₹ 700, now rectified)				

(4)	Discount A/c To Suspense A/c (Being the total of Discount allowed during September not posted from the Cash Book; error now rectified)	Dr.		350	 350

Question 2

(a) *The cash book of Hari showed a debit balance of ₹ 1,36,800 as on 31.12.2023 which was in disagreement with balance as per pass book. Following discrepancies were noticed:*

(i) *Dividend of ₹ 18,000 was deposited in the bank of which Hari had no information*

(ii) *Cheque was issued to Suresh of ₹ 14,780 on 18.12.2023 which was recorded in cash book as ₹ 14,870.*

(iii) *Cheques totalling of ₹ 55,000 were deposited into bank on 30.12.2023 which were not cleared until 31.12.2023.*

(iv) *Mediclaim premium of ₹ 14,160 was paid as per the standing instruction of Hari which was not recorded in cash book.*

(v) *Goods amounting ₹ 1,60,000 were sold to Ajay in November 2023. He deposited cheque on 15.12.2023 after deducting 4% cash discount. This entry was missed while preparing cash book.*

(vi) *Bank charges for issue of cheque book ₹ 150 was skipped while preparing cash book.*

(vii) *Hari received a UPI of ₹ 1,000 on 29.12.2023 for sale of scrap which was not entered in cash book.*

(viii) *Cheques amounting to ₹ 1,80,000 were issued during the month but cheques of ₹ 1,44,000 were only presented during the month for payment.*

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

(b) *Harry draws a bill on Sejal for ₹ 60,000 on 01.01.2023 for 3 months. Sejal accepts the bill and sends it back to Harry to get it discounted for ₹ 56,000.*

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

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

Answer

(a) Bank Reconciliation Statement of Mr. Hari as on 31st Dec., 2023

Particulars		**Details** ₹	**Amount** ₹
Balance as per the Cash Book			1,36,800
Add:	Cheques issued but not presented for payment	36,000	
	Dividends directly collected by bank but not yet entered in the Cash Book	18,000	
	Cheque recorded with wrong amount in the Cash Book	90	
	Cheque directly deposited but not recorded in the cash book	1,53,600	
	Amount received from slae of scrap not recorded in cash book	1,000	2,08,690
			3,45,490
Less:	Cheques deposited but not cleared till 31st dec	55,000	
	Mediclaim paid by the bank directly not yet recorded in the Cash Book	14,160	
	Bank charges not recorded in cash book	150	(69,310)
	Balance as per the Pass Book		2,76,180

Alternatively, the question can also be solved by preparing adjusted cash book. In that case the solution will be:

Cash Book (Bank Column)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,36,800	By Bank charges	150
To Amount received from sale of scrap	1,000	By Mediclaim	14,160
To dividends collected by bank	18,000	By balance c/d	2,95,180
To cheques recorded with wrong amount	90		
To cheque directly deposited not recorded	1,53,600		
	3,09,490		3,09,490

Bank Reconciliation Statement of Mr. Hari as on 31st Dec., 2023

Particulars	₹
Balance as per the Cash Book (corrected)	2,95,180
Add: Cheques issued but not yet presented	36,000
Less: Cheques deposited but not cleared	(55,000)
Balance as per the Pass Book	2,76,180

(b) **In the books of Sejal**

Journal Entries

Date	Particulars	DR. (in ₹)	CR. (in ₹)
1/1/2023	Harry Dr.	60,000	
	To Bills payable A/c		60,000
	(Being bill of exchange accepted and sent to Mr. Harry)		

1/1/2023	Bank A/c	Dr.	14,000	
	Discount charges A/c	Dr.	1,000	
	To Harry			15,000
	(Being the amount received from Harry on account of the bills receivable)			
4/4/2023	Bills receivable A/c	Dr.	80,000	
	To Harry			80,000
	(Being the bills accepted by Harry)			
4/4/2023	Bank A/c	Dr.	74,600	
	Discount charges A/c	Dr.	5,400	
	To Bills receivable A/c			80,000
	(Being Harry acceptance discounted with bank)			
4/4/2023	Bills payable A/c	Dr.	60,000	
	To Bank A/c			60,000
	(Being the amount met on the due date)			
4/4/2023	Harry	Dr.	15,000	
	To Bank A/c			10,950
	To Discount A/c			4,050
	{(5,400/80,000) x 60,000}			
	(Being the amount paid and the discount debited to Harry)			
7/7/2023	Harry	Dr.	80,000	
	To Bank A/c			80,000
	(Being Harry's acceptance discounted with bank dishonoured due to Harry's bankruptcy)			

7/7/2023	Bank A/c Dr. Bad debts A/c Dr. To Harry (The amount received from Harry and the balance being written off as debt)	24,000 36,000	 60,000

Harry 's A/c

Particulars	₹	Particulars	₹
To Bills Payable A/c	60,000	By Bank A/c	14,000
To Bank A/c	10,950	By Discount A/c	1,000
To Discount A/c	4,050	By Bills Receivable	80,000
To Bank A/c	80,000	By Bank A/c	24,000
		By Bad Debts	36,000
	1,55,000		1,55,000

Question 3

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

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

Purchases	*21,35,000*		
Bills Receivable	*72,000*		
Return Inwards	*93,000*		
Drawings	*70,000*		
Advertisements	*60,000*		
Factory Rent	*8,000*		
Insurance	*63,000*		
General Expenses	*10,000*		
Bad debts	*25,000*		
Discount allowed	*65,000*		
	58,93,000		*58,93,000*

Additional Information to be considered:

(i) *Closing Stock on March 31st 2024 is ₹ 5,20,000.*

(ii) *During the year, Plant and Machinery was purchased for ₹ 3,00,000 but it was debited to Purchase Account.*

(iii) *3 months factory rent is due but not paid ₹ 3,000.*

(iv) *Provide depreciation at 5% per annum on furniture and 10% on plant and machinery and motor van.*

(v) *Further bad debts ₹ 7,000.*

(vi) *Provision for doubtful debts to be increased to ₹ 30,000 at year- end.*

(vii) *Provision for discount on Debtors to be made at 2%.* ***(10 Marks)***

(b) *The following is the Balance Sheet of Krish and Bala, sharing profit and loss in the ratio 3: 2*

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Capital Accounts:			*Land & Buildings*	*28,000*
Krish	*25,000*			
Bala	*15,000*	*40,000*		
General Reserve		*30,000*	*Plant & Machinery*	*15,000*

Workmen's Compensation Reserve	*10,000*	*Stock*	*10,000*
Creditors	*10,000*	*Debtors 25,000 Less: Provision for Doubtful debts 4,000*	*21,000*
Employee's Provident Fund	*8,000*	*Bank*	*20,000*
		Advertisement Expenditure	*4,000*
	98,000		*98,000*

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

(1) Value of land and buildings to be increased by ₹ 5,000.

(2) Value of stock to be increased by ₹ 3,500.

(3) Provision of doubtful debts to be increased by ₹ 1,500.

(4) Liabilities of workmen's compensation reserve was determined to be ₹ 8,000.

(5) Sobha was to bring in cash of ₹ 25,000 as her capital.

(6) Sobha brought in her share of goodwill ₹ 12,000 in cash.

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

Answer

(a) Trading Account for the year ended 31st March, 2024

Particulars	Details	Amount ₹	Particulars	Details	Amount ₹
To opening Stock		4,80,000	By Sales	48,00,000	
To Purchases	21,35,000		*Less*: Returns Inwards	93,000	47,07,000
Less: Plant and Machinery	3,00,000		By Closing Stock		5,20,000

included in purchases					
Less: Returns Outward	55,000	17,80,000			
To wages		15,00,000			
To Factory rent	8,000				
Add: outstanding	3,000	11,000			
To Gross Profit c/d		14,56,000			
		52,27,000			52,27,000

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

Particular	Amount ₹	Particular	Amount ₹
To Salaries	1,40,000	By Gross profit b/d	14,56,000
To Advertisements	60,000	By Discount Received	
To Insurance	63,000		37,000
To General expenses	10,000		
To Discount Allowed	65,000		
To provision for doubtful debts (W.N.1)	37,000		
To Provision for discount on debtors (W.N.2)	8,400		
To Depreciation (W.N. 3)	93,300		
To Net Profit transferred to Capital a/c	10,16,300		
	14,93,000		14,93,000

Balance Sheet as at 31st March, 2024

Liabilities	Details	Amount ₹	Assets	Details	Amount ₹
Capital	4,000,00		Plant and Machinery	5,00,000	
			Add: Additions	3,00,000	
Add: Net Profit	10,16,300		*Less*: Dep. (W.N.3)	(80,000)	7,20,000
Less: Drawings	(70,000)	13,46,300			

			Office furniture	26,000	
Bills Payable		56,000	*Less*: Dep. (W.N. 3)	(1,300)	24,700
Sundry Creditors		5,20,000			
Outstanding Factory rent		3,000	Motor Vans	1,20,000	
			Less: Dep. (W.N. 3)	(12,000)	1,08,000
			Bills receivables		72,000
			Stock in Trade		5,20,000
			Sundry Debtors	4,57,000	
			Less: Further Bad debts	(7,000)	
			Less: Provision for doubtful debts	(30,000)	
			Less: Provision for discount on debtors (W.N. 2)	(8,400)	4,11,600
			Cash at hand		4,000
			Cash in bank		65,000
		19,25,300			19,25,300

Working Notes :

(1) Provision for Bad and Doubtful Debts Account

Particulars	₹	Particulars	₹
To Bad-debts (as per Trial Balance)	25,000	By Balance b/d (as per Trial Balance)	25,000
To Sundry debtors (further bad-debts)	7,000	By P&L A/c (Balancing figure)	37,000
To Balance c/d i.e. provision required at year end	30,000		
	62,000		62,000

(2) Provision for discount on debtors

Debtors as per Trial Balance	₹4,57,000

Less: Further bad-debts	(7,000)
Less: New provision for Doubtful Debts	(30,000)
Debtors before provision for discount	4,20,000
Provision for discount on debtors @2%	₹ 8,400

(3) Depreciation

Plant and Machinery @ 10% on 8,00,000 (5,00,000 + 3,00,000*)	80,000
Motor Van @ 10% on 1,20,000	12,000
Office Furniture @ 5% on 26,000	1,300
Total	₹ 93,300

*Purchase of a plant and machinery during the year for ₹ 3,00,000 which was wrongly debited to purchase now added to Plant and Machinery.

(b) **Revaluation A/c**

Liabilities		₹	Assets	₹
To Provision for Doubtful Debts		1,500	By Land and Building	5,000
To Profit on revaluation			By stock	3,500
Krish	4,200			
Bala	2,800	7,000		
		8,500		8,500

Partners' Capital A/c

Particulars	Krish	Bala	Sobha	Particulars	Krish	Bala	Sobha
To Krish and Bala's capital A/c–			12,000	By balance b/d	25,000	15,000	
To Advertisement expenses	2,400	1,600		By Bank- (Capital + GW)			37,000
				By Sobha's Capital A/c	7,200	4,800	
To Balance c/d	53,200	33,800	25,000	By General Reserve	18,000	12,000	

				By Workman comp. Reserve	1,200	800	
				By Revaluation A/c	4,200	2,800	
	55,600	35,400	37,000		55,600	35,400	37,000

Balance Sheet of the Firm (after admission of Sobha)

Liabilities		₹	Assets		₹
Capital Accounts:			Land and Building		33,000
Krish	53,200		Plant & Machinery		15, 000
Bala	33,800		Stock		13,500
Sobha	25,000	1,12,000	Debtors	25,000	
Employees provident fund		8,000	*Less*: Provision for Doubtful Debts	5,500	19,500
workman compensation Reserve		8,000			
Creditors		10,000	Bank (W.N.2)		57,000
		1,38,000			1,38,000

Working Note:

(1) Calculation of Sacrificing ratio

Partner	Old Share		New Share		Difference
Krish	3/5	–	3/6	=	3/30
Bala	2/5	–	2/6	=	2/30
Sobha		–	1/6		

(2) Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	20,000	By Balance c/d	57,000
To Sobha's capital A/c	37,000		
	57,000		57,000

It may be noted that Advertisement expenses are not permitted to be deferred. It must be written off when incurred, as they do not result in acquisition or creation of an intangible or recognizable asset. That is why it is routed through partner's capital account.

Question 4

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

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

Z retired on the above date on the following terms:

(1) *Goodwill of the firm was valued at ₹ 60,000.*

(2) *Value of patents was to be reduced by 20% and that of machinery to 90%.*

(3) *Provision for doubtful debts was to be raised to 10%.*

(4) *Liability on account of Provident fund was only ₹ 6,000.*

(5) *Liability for workmen compensation to the extent of ₹ 6,000 is to be created.*

(6) *Z took over the investment at market value.*

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

You are required the following:

(i) *Show entries for the treatment of goodwill,*

(ii) *Prepare Revaluation Account,*

(iii) *Partner Capital Account, &*

(iv) *Balance Sheet.* **(10 Marks)**

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

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

Information:

(1) Subscriptions in Arrear for 2023 ₹ 1,200, subscription in advance for 2024 ₹ 550.

(2) Insurance Premium outstanding ₹ 80, Miscellaneous Expenses prepaid ₹ 90.

(3) 50% of Donation is to be capitalized.

(4) Entrance fee are to be treated as Revenue Income.

(5) 8% Interest has accrued on Investments for 5 months.

(6) Billiards Table costing ₹ 30,000 were purchased during the last year and ₹ 20,000 were paid for it. ***(10 Marks)***

Answer

(a) (i) Entries for the treatment of goodwill

Total goodwill of firm is ₹ 60,000

Z's share (1/6 x ₹ 60,000) =₹ 10,000

(a) X's Capital A/c	Dr.	6,000	
Y's Capital A/c	Dr.	4,000	
Z's Capital A/c	Dr.	2,000	
To Goodwill A/c			12,000
(Being existing goodwill written off)			
(b) X's Capital A/c	Dr.	6,000	
Y's Capital A/c	Dr.	4,000	
To Z's Capital A/c			10,000
(Being Z's share of goodwill credited to him and debited to gaining partners in gaining ratio)			

(ii)

	₹		₹
To Patents A/c	6,000	By employee provident fund A/c	6,000
To Machinery A/c	6,000	By Investments A/c	2,600

To Provision for Bad Debts A/c	1,000	By Revaluation Loss	10,400
To workmen's compensation*	6,000	Partners' Capital A/cs –	
		X 5,200	
		Y 3,467	
		Z 1,733	
	19,000		19,000

(iii) **Partners' Capital Account**

		X (₹)	Y (₹)	Z (₹)			X (₹)	Y (₹)	Z (₹)
To	Goodwill	6,000	4,000	2,000	By	Balance b/d	78,000	42,000	31,000
To	Revaluation A/c	5,200	3,467	1,733	By	Investment Fluctuation Fund	3,000	2,000	1,000
To	Investments			27,600					
To	Z's Capital A/c	6,000	4,000		By	X's Capital A/c			6,000
To	Bank A/c			5,334	By	Y's Capital A/c			4,000
To	Z's Loan A/c			2,667					
To	Bills Payable A/c			2,666					
To	Balance c/d	63,800	32,533						
		81,000	44,000	42,000			81,000	44,000	42,000

(iv) **Balance Sheet as on 1st April, 2024**

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Patent		24,000
X	63,800		Machinery		54,000
Y	32,533	96,333	Closing stock		30,650
Z's loan account		2,666	Sundry debtors	50,000	
Trade creditors		31,000	*Less*: Provision for bad debts	(5,000)	45,000
Bills payable		2,667			
Workman compensation		18,000	Cash and bank balances		3,016
Employee Provident Fund		6,000			
		1,56,666			1,56,666

Working Notes:

1. Gaining ratio of existing partners:

X 3/5-3/6=3/30

Y 2/5-2/6=2/30

*It is assumed that Workmen's Compensation is treated as liability.

(b) (a) Delhi Club

Income and Expenditure Account for the year ending 31st December,2023

Expenditure	₹	Income		₹
To Salary	3,000	By Subscription (W.N. -ii)		10,650
To Repairs expenses	500	By Donations (50%)		3,500
To Miscellaneous expenses	410	By Interest on investments* (100 + 200)		300
To Insurance premium	380	By Entrance fees		1,500
To Paper, Ink etc	250	By Interest received from Bank		400
To Excess of Income over expenditure	12,810	By Sale of old newspaper		250
		By Sale of drama tickets	1,250	
		Less: expenses	500	750
	17,350			17,350

(b) Balance Sheet of Delhi Club as at 31st December, 2023

Liabilities		₹	Assets	₹
Capital Fund:			Furniture	7,000
Opening balance (W.N.1)	43,100		Investment	6,000
Add: Excess of income. over exp	12,810		Billiards table**	30,000
Add: Donations	3,500	59,410	Cash in hand	4,500
Insurance Premium payable		80	Cash at Bank	11,050
				90

Subscription received in advance for 2024	550	Prepaid Expenses-Misc exp	1,200
		Subscription Receivable	200
		Interest accrued on investments*	
	60,040		60,040

Working Notes:

1. Calculation of capital fund

Balance Sheet of Delhi Club as at 31st December, 2022

Liabilities	**₹**	**Assets**	**₹**
Capital Fund (Balancing figure)	43,100	Billiards table	30,000
Creditors for Billiard table	10,000	Cash in hand	8,100
		Cash at Bank	15,000
	53,100		53,100

2. Calculation of amount of subscription shown in Income and expenditure account

	₹
Subscription received in cash during 2023	10,000
Add: Outstanding of 2023	1,200
	11,200
Less: Advance of 2024	(550)
	10,650

Alternatively, this working of calculation of amount of subscription can also be presented in the form of ledger A/c.

* It may be interpreted that investments have been purchased during the year i.e. 5 months prior to the reporting date. Accordingly, total amount of interest accrued on such investment shall be ₹ 200 for the calendar year 2023. Out of which ₹ 100 has been received and remaining ₹ 100 (200-100) is yet to be received (accrued). In that case, Interest on Investments in

income and expenditure account shall be ₹ 200 and Accrued Interest in Balance Sheet under asset side shall be ₹ 100.

**Since in receipt and payment account ₹ 10,000 has been shown as payment for Billiard table, it can also be assumed that this amount is utilised for fresh purchase of billiard table. In that case, the amount of Billiard Table at assets side in Balance sheet will be ₹ 40,000 and unpaid amounts of billiard table shown at the liabilities side of balance sheet shall be ₹ 10,000.

Question 5

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

(i) Out of the goods sent on consignment, goods at cost worth ₹ 24,000 were unsold.

(ii) Purchase of ₹ 40,000 were made out of which goods worth ₹ 16,000 were delivered on 5th July, 2023

(iii) Sales were ₹ 1,36,000 which include goods worth ₹ 32,000 sent on approval. Half of these goods were returned before 30th June 2023, but no information is available regarding the remaining goods.

(iv) Goods are sold at cost plus 25%. However, Goods costing ₹ 24,000 had been sold for ₹ 12,000.

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

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

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

Date	***Amount***
01.04.2021	*₹ 1,50,000*
01.04.2023	*₹ 1,00,000*

On 01.04.2023 it was decided to change the method to straight line basis and charge depreciation assuming the expected life of all the computers

to be 8 years from 01.04.2023. Prepare Computers A/c for year ending 31.03.2024.

OR

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

Debtors as on 01.04.2023 ₹ 6,50,000

Debtors as on 31.03.2024 ₹ 8,50,000

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

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

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

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

Answer

(a) Statement of Valuation of Stock on 30th June, 2023

		₹
Value of stock as on 23rd June, 2023		4,80,000
Add: Unsold stock out of the goods sent on consignment	24,000	
Purchases during the period from 23rd June, 2023 to 30th June, 2023	24,000	
Goods in transit on 30th June, 2023	16,000	

Cost of goods sent on approval basis (80% of ₹ 16,000)	12,800	76,800
		5,56,800
Less: Cost of sales during the period from 23rd June, 2023 to 30th June, 2023 Sales (₹ 1,36,000 - ₹ 16,000)	1,20,000	
Less: Gross profit	9,600	1,10,400
Value of stock as on 30th June, 2023		4,46,400

Working Notes:

1. Calculation of normal sales:		
Actual sales		1,36,000
Less: Abnormal sales	12,000	
Return of goods sent on approval	16,000	(28,000)
		1,08,000
2. Calculation of gross profit:		
Gross profit or normal sales 20/100 x ₹ 1,08,000		21,600
Less: Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000)		(12,000)
Gross profit		9,600

Alternatively, the value of stock as on 30th June,2023 can also be calculated using trading Account. In that case the solution will be

Trading Account for the period from 23rd June to 30th June

Particulars		₹	Particulars	₹
To Opening Stock		4,80,000	By Sales including abnormal sales	1,20,000
To Purchase	40,000		By Closing stock as on June 30 (b/f)	3,93,600
Less: Goods In transit	16,000	24,000		
To Gross Profit (W.N.)		9,600		
		5,13,600		5,13,600

Statement of valuation of stock on 30th June 2023

Particulars	₹	₹
Value of stock as per Trading Account		3,93,600
Add: Unsold stock out of the Goods sent on consignment	24,000	
Goods in Transit	16,000	
Cost of goods sent on approval basis (80% of 16000)	12,800	52,800
Value of stock as on 30th June 2023		4,46,400

Working Notes:

1. Calculation of normal sales:		
Actual sales		1,36,000
Less: Abnormal sales	12,000	
Return of goods sent on approval	16,000	(28,000)
		1,08,000
2. Calculation of gross profit:		
Gross profit or normal sales 20/100 x ₹ 1,08,000		21,600
Less: Loss on sale of particular (abnormal) goods (₹ 24,000-₹ 12,000)		12,000
Gross profit		9,600

(b) (i) Either

Calculation of Depreciation

		Purchased on Jan. 1, 2020 (₹)	Purchased on Jan. 1, 2021 (₹)	Total WDV	Total Depreciation (₹)
1-4-20	Cost	2,00,000			
	Depreciation	(40,000)			40,000
	Written Down Value (WDV)	1,60,000		1,60,000	

1-4-21	Cost	-	1,50,000		
	Depreciation	(32,000)	(30,000)		62,000
1-4-22	Written Down Value (WDV)	1,28,000	1,20,000	2,48,000	
	Depreciation	(25,600)	(24,000)		49,600
1-4-23	Written Down Value (WDV)	1,02,400	96,000	1,98,400	

Computers Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1-4-23	To Balance b/d	1,98,400	31-3-24	By Depreciation (24,800+12,500)	37,300
1-4-23	To Bank	1,00,000			
			31-3-24	By Balance c/d	2,61,100
		2,98,400			2,98,400
1-4-24	To Balance b/d	2,61,100			

(ii) Or

Debtors Account

Particulars	Amount	Particulars	Amount
To Balance b/d	6,50,000	By Bank A/c	7,32,000
To Credit Sales	12,80,000	By Discount allowed	12,800
		By Bills Receivable	2,90,000
		By Bad Debts (Bal fig)	45,200
		By Balance c/d	8,50,000
	19,30,000		19,30,000

(c) **In the Books of XYZ Ltd.**

Journal Entries

		(₹)	(₹)
1-4-21	Bank A/c Dr.	5,70,000	
	Loss on Issue of Debentures A/c* (W.N. 1) Dr.	90,000	

	To 12% Debentures A/c To Premium on Redemption of Debentures A/c (For issue of debentures at discount and redeemable at premium)		6,00,000 60,000
1-4-21	Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being Debenture Redemption Reserve (DRR) created at 10%)	60,000	60,000
1-4-21	Debenture Redemption Reserve Investment Dr. To Bank A/c (Being DRR Investment created at 15%)	30,000	30,000
31-3-22	Profit & Loss A/c Dr. To Loss on issue of debentures (Being entire loss on issue of debentures written off)	90,000	90,000
31-3-22	Debenture Interest A/c** Dr. To Bank A/c (Being interest to debentures holder paid)	72,000	72,000
31-3-22	Debenture Redemption Reserve (DRR) Dr. To General Reserve (For DRR transferred to General reserve)	20,000	20,000
31-3-22	Bank A/c Dr. To Debenture Redemption Reserve Investment	30,000	30,000

	(Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)		
31-3-22	12% Debentures ** Dr. Premium on redemption of debentures A/c Dr. To Bank A/c (Being amount of redemption of 2000 debentures paid to debentures holders)	2,00,000 20,000	2,20,000
01-04-22	Debenture Redemption Reserve Investment Dr. To Bank A/c (Being DRR Investment created at 15%)	30,000	30,000
31-03-23	Debenture Interest A/c Dr. To Bank A/c (Being interest to debentures holder paid)	48,000	48,000
31-03-23	Debenture Redemption Reserve (DRR) Dr. To General Reserve (For DRR transferred to General reserve)	20,000	20,000
31-03-23	Bank A/c Dr. To Debenture Redemption Reserve Investment (Being encashment of Debenture Redemption Reserve Investment for redemption of debentures)	30,000	30,000
31-03-23	12% Debentures A/c Dr.	2,00,000	

	Premium on redemption of debentures A/c Dr. To Bank A/c (Being amount of redemption of debentures paid to debenture holders)	20,000	2,20,000
01-04-23	Debenture Redemption Reserve Investment Dr. To Bank A/c (Being DRR Investment created at 15%)	30,000	30,000
31-03-24	Debenture Interest A/c Dr. To Bank A/c (Being interest to debentures holder paid)	24,000	24,000
31-03-24	Debenture Redemption Reserve (DRR) Dr. To General Reserve (For DRR transferred to General reserve)	20,000	20,000
31-03-24	Bank A/c Dr. To Debenture Redemption Reserve Investment (being encashment of Debenture Redemption Reserve Investment for redemption of debentures)	30,000	30,000
31-03-24	12% Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Bank A/c (Being final redemption of remaining 2000 debentures paid)	2,00,000 20,000	2,20,000

Working Note:

1. Discount /Loss on issue of debentures

Discount on Issue of debentures= 6,000 x 100 x 5% = ₹ 30,000

Premium on redemption of debentures = 6,000 x 100 x 10% = 60,000

Total loss on issue of debentures = ₹ 30,000 + ₹ 60,000 = ₹ 90,000

*Alternatively, discount on issue and premium on redemption of debentures can also be shown separately. In that case, the entry will be

Bank A/c Dr. Discount on Issue of Debentures A/c (W.N.1) Dr. Loss on Issue of Debentures A/c (W.N.2) Dr. To 12% Debentures A/c To Premium on Redemption of Debentures A/c (For issue of debentures at discount and redeemable at premium)	5,70,000 30,000 60,000	 6,00,000 60,000

** The entries for interest on Debentures and Redemption of debentures can also be routed through debentures holders a/c.

In addition to above, the following entry every year to transfer debenture interest and Premium on redemption of Debentures A/c to Profit and Loss A/c can also be passed

Profit and Loss A/c Dr. To Debenture Interest A/c To Premium on Redemption of Debentures A/c

Question 6

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

(b) *Differentiate between Periodic Inventory System and Perpetual Inventory System.* ***(5 Marks)***

Answer

(a)

Particulars	Debit (₹)	Credit (₹)
Bank A/c Dr.	24,00,000	
To Equity Share Application A/c		24,00,000
(Being application money received for 8,00,000 shares @ ₹ 3 per share)		
Equity Share Application A/c Dr.	24,00,000	
To Equity Share Allotment A/c		6,00,000
To Equity Share Capital A/c		18,00,000
(Being excess application money adjusted against allotment and application money transferred to share capital on 6,00,000 shares at ₹ 3 each)		
Equity Share Allotment A/c Dr.	30,00,000	
To Equity Share Capital A/c		18,00,000
To Securities Premium A/c		12,00,000
(Being allotment money due, ₹ 5 per share including ₹ 3 towards share capital and ₹ 2 towards premium)		
Bank A/c Dr.	24,00,000	
To Equity Share Allotment A/c		24,00,000
(Being allotment money received after adjusting excess application money)		

Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money due @ ₹ 2 per share)	12,00,000	 12,00,000
Bank A/c Dr. Calls in arrear Dr. To Equity Share First Call A/c (Being first call money received, except on 1600 shares) **Or** Bank A/c Dr. To Equity Share First Call A/c (Being first call money received, except on 1600 shares)	11,96,800 3,200 11,96,800	 12,00,000 11,96,800
Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being final call money due @ ₹ 2 per share)	12,00,000	 12,00,000
Bank A/c Dr. Calls in arrear Dr. To Equity Share Final Call A/c (Being first call money received, except on 1600 shares) **Or** Bank A/c Dr. To Equity Share Final Call A/c (Being first call money received, except on 1600 shares)	11,96,800 3,200 11,96,800	 12,00,000 11,96,800
Equity Share Capital A/c Dr. To Call in Arrear	16,000	 6,400

To Share Forfeiture A/c		9,600
(Being forfeiture of 1600 shares of Harish for non-payment of calls money)		
Or		
Equity Share Capital A/c Dr.	16,000	
To Equity Share First Call A/c		3,200
To Equity Share Final Call A/c		3,200
To Share Forfeiture A/c		9,600
(Being forfeiture of 1600 shares of Harish for non-payment of calls money)		

Bank Account

Particulars	Debit (₹)		Credit (₹)
To Equity Share Application A/c	24,00,000	By Balance c/d	71,93,600
To Equity Share Allotment A/c	24,00,000		
To Equity Share First Call A/c	11,96,800		
To Equity Share Second Call A/c	11,96,800		
Total	71,93,600		71,93,600

(b) The difference between Periodic Inventory System and Perpetual Inventory System are as follows:

S. No.	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date.	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.

4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory.
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.