

PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

1. State with reasons, whether the following statements are true or false:
 - (i) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.
 - (ii) The rationale behind the opening of a suspense account is to tally the trial balance.
 - (iii) Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.
 - (iv) A partnership firm can acquire fixed assets in the name of the firm.
 - (v) Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.
 - (vi) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - (vii) The debit notes issued are used to prepare Sales Return Book.
 - (viii) Bills receivable and bills payable books are type of subsidiary books.
 - (ix) The results and position disclosed by final accounts are not exact.

Theoretical Framework

2.
 - (a) Explain Cash and Mercantile system of accounting.
 - (b) State the advantages of setting Accounting Standards.

Journal Entries

3.
 - (a) M/s Shyam Textiles & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:
 - (i) A purchase of ₹ 4,700 from M/s Timber & Co. was recorded in the accounts of M/s Ginger & Co. as ₹ 7,400. Day Book entry has also been passed incorrectly.
 - (ii) A sale of ₹ 9,500 to M/s Aman Bros. was recorded in M/s Manan Bros account as ₹ 5,900. Day Book entry has also been incorrectly passed.
 - (iii) Discount allowed ₹ 230 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 320, because discount allowed of ₹ 90 to M/s Aman Bros. has been omitted.
 - (iv) A cheque of ₹ 6,400 drawn by M/s Aman Bros. has been dishonoured, but wrongly debited to M/s Manan Bros.

How will the above errors impact trial balance?

Capital or Revenue Expenditure

(b) Classify each of the following transactions into capital or revenue transactions:

- Legal fees on the acquisition of land.
- Complete repaint of existing building.
- Repainting of a delivery van.
- Providing drainage for a new piece of water-extraction equipment.
- Carriage costs on a replacement part for a piece of machinery.

Cash Book

4. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2021		₹
June 1	Received ₹ 1,00,000 for petty cash	
" 2	Paid taxi fare	2,000
" 3	Paid cartage	10,000
" 4	Paid for courier	2,000
" 5	Paid wages	2,400
" 5	Paid for stationery	1,600
" 6	Paid for the repairs to machinery	6,000
" 6	Auto fare	400
" 7	cartage	1,600
" 7	Paid for courier	2,800
" 8	Cartage	12,000
" 9	Stationery	8,000
" 10	Sundry expenses	20,000

Rectification of Errors

- (b) Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.
- (i) Sale of furniture credited to Sales Account.
 - (ii) Machinery sold on credit to Mohan recorded in Journal Properly but omitted to be posted.
 - (iii) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

- (iv) Purchase worth ₹ 4,500 from Mr. X not recorded in subsidiary books.
- (v) Credit sale wrongly passed through the Purchase Book.

Bank Reconciliation Statement

5. On 31st March, 2021 the pass-book of a trader showed a credit balance of ₹ 15,65,000 but the passbook balance was different for the following reasons from the cash book balance:

Cheques issued to 'X' for ₹ 60,000 and to 'Y' for ₹ 3,84,000 were not yet presented for payment.

Bank charged ₹ 350 for bank charges and 'Z' directly deposited ₹ 1,816 into the bank account, which were not entered in the cash book.

Two cheques-one from 'A' for ₹ 5,15,000 and another from 'B' for ₹ 12,500 were collected in the first week of April, 2021 although they were banked on 25.03.2021.

Interest allowed by bank ₹ 4,500.

Prepare a bank reconciliation statement as on 31st March, 2021.

Valuation of Inventories

6. Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

- (i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was ₹ 2,40,000.
- (ii) On 30th September, stock sheet showed the following discrepancies:
 - (a) A page total of ₹ 15,000 had been carried to summary sheet as ₹ 16,000.
 - (b) The total of a page had been undercast by ₹ 600.
- (iii) Invoice of purchases entered in the Purchase Book during the quarter from October, 2020 to March, 2021 totaled ₹ 2,10,000. Out of this ₹ 9,000 related to goods received prior to 30th September, 2020. Invoices entered in April, 2021 relating to goods received in March, 2021 totaled ₹ 12,000.
- (iv) Sales invoiced to customers totaled ₹ 2,70,000 from September, 2020 to March, 2021. Of this ₹ 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled ₹ 12,000.

- (v) During the final quarter, credit notes at invoiced value of ₹ 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

Concept and Accounting of Depreciation

7. The M/s Nishant Transport purchased 10 Buses at ₹ 15,00,000 each on 1st April 2017. On October 1st, 2019, one of the Buses is involved in an accident and is completely destroyed and ₹ 7,00,000 is received from the insurance in full settlement. On the same date, another truck is purchased by the company for the sum of ₹ 18,00,000. The company write off 10% on the original cost per annum. The company observe the calendar year as its financial year.

You are required to prepare the buses account for two year ending 31 Dec, 2020.

Bills of Exchange

8. Prepare Journal entries for the following transactions in David's books.
- (i) David's acceptance to Samuel for ₹ 5,000 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 100 for interest.
 - (ii) Samantha's acceptance for ₹ 8,000 which was endorsed by David to Flex was dishonoured. Flex paid ₹ 50 noting charges. Bill withdrawn against cheque.
 - (iii) Simon retires a bill for ₹ 2,000 drawn on him by David for ₹ 20 discount.
 - (iv) David's acceptance to Ralph for ₹ 20,000 discharged by Ralph's Kent's acceptance to David for a similar amount.

Consignment

9. Shikha of Delhi consigned to Reema of Mumbai, goods to be sold at invoice price which represents 125% of cost. Reema is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Shikha were ₹ 45,000. The account sales received by Shikha shows that Reema has effected sales amounting to ₹ 4,50,000 in respect of 75% of the consignment. Her selling expenses to be reimbursed were ₹ 36,000. 10% of consignment goods of the value of ₹ 56,250 were destroyed in fire at the Mumbai godown. Reema remitted the balance in favour of Shika.

You are required to prepare consignment account in the books of Shikha along with the necessary calculations.

Sales of goods on approval or return basis

10. On 31st December, 2020 goods sold at a sale price of ₹ 6,000 were lying with customer, Sapna to whom these goods were sold on 'sale or return basis' were recorded as actual

sales. Since no consent has been received from Sapna, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Average Due Date

11. Calculate average due date from the following information:

Date of bill	Term	Amount (₹)
1 st March, 2021	2 months	20,000
10 th March, 2021	3 months	15,000
5 th April, 2021	2 months	10,000
23 rd April, 2021	1 months	18,750
10 th May, 2021	2 months	25,000

Account current

12. Mr. P owed ₹ 12,000 on 1st January, 2021 to Mr. Q. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2021 Mr. Q sold goods to Mr. P	6,690
29 January, 2021 Mr. Q bought goods from Mr. P	3,600
10 February, 2021 Mr. P paid cash to Mr. Q	3,000
13 March, 2021 Mr. P accepted a bill drawn by Mr. Q for one month	6,000

They agree to settle their complete accounts by one single payment on 15th March, 2021.

Prepare Mr. P in Account Current with Mr. Q and ascertain the amount to be paid. Ignore days of grace.

Final accounts and Rectification of entries

13. The following are the balances as at 31st March, 2021 extracted from the books of Mr. Satender.

	₹		₹
Plant and Machinery	78,200	Bad debts recovered	1800
Furniture and Fittings	41,000	Salaries	90,200
Bank Overdraft	3,20,000	Salaries payable	9,800
Capital Account	2,60,000	Prepaid rent	1,200

Drawings	32,000	Rent	17,200
Purchases	6,40,000	Carriage inward	4,500
Opening Stock	1,29,000	Carriage outward	5,400
Wages	48,660	Sales	8,61,200
Provision for doubtful debts	12,800	Advertisement Expenses	13,400
Provision for Discount on debtors	5,500	Printing and Stationery	5,000
Sundry Debtors	4,80,000	Cash in hand	5,800
Sundry Creditors	1,90,000	Cash at bank	12,500
Bad debts	4,400	Office Expenses	40,640
		Interest paid on loan	12,000

Additional Information:

1. Purchases include sales return of ₹ 10,300 and sales include purchases return of ₹ 6,900.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 14,000 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 1,800 were included in wages account.
4. Free samples distributed out of purchases for publicity costing ₹ 3,300.
5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date. Also show the rectification entries.

Partnership Accounts

Profit and Loss Appropriation Account

14. (a) X, Y and Z entered into partnership on 1.1.2020 to share profits and losses in the ratio of 5:3:2. X personally guaranteed that Z's share of profit after charging interest on capitals at 6 % p.a. would not be less than ₹ 15,000 in any year. Capitals of X, Y and Z were ₹ 1,60,000, ₹ 1,00,000 and ₹ 80,000 respectively.

Profits for the year ending 31.12.2020 before providing for interest on partners capital was ₹ 79,500.

You are required to prepare the Profit and Loss Appropriation Account.

Calculation of goodwill

- (b) Amar, Akbar and Anthony are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2020 was as follows:

Balance Sheet of M/s Amar, Akbar, Anthony

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	10,00,000
Amar	1,70,000	Inventory	2,00,000
Akbar	6,30,000	Trade receivables	1,00,000
Anthony	4,50,000	Bank	10,000
Trade payables	<u>60,000</u>		<u> </u>
	<u>13,10,000</u>		<u>13,10,000</u>

The partnership earned profit ₹ 4,00,000 in 2020 and the partners withdrew ₹ 3,00,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 3 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Death of Partner

15. The following is the Balance Sheet of M/s. TMR as at 31st March, 2021 they share profit equally:

Balance Sheet as at 31st March, 2021

Liabilities		₹	Assets		₹
Capital	Tina	24,600	Machinery		30,000
	Meena	24,600	Furniture		16,800
	Rita	27,000	Fixture		12,600
General Reserve		9,000	Cash		9,000
Trade payables		14,100	Inventories		5,700
			Trade receivables	27,000	
			Less: Provision for	<u>1800</u>	25,200
			Doubtful debts		
		<u>99,300</u>			<u>99,300</u>

Rita died on 5th April, 2021 and the following agreement was to be put into effect.

- (a) Assets were to be revalued: Machinery to ₹ 35,100; Furniture to ₹ 13,800; Inventory to ₹ 4,500.
- (b) Goodwill was valued at ₹ 18,000 and was to be credited with his share, without using a Goodwill Account.
- (c) ₹ 6,000 was to be paid away to the executors of the dead partner on 8th April, 2021.
- (d) After death of Rita, Tina and Meena share profit equally.

Prepare Revaluation Account and Capital Accounts of the partners and also show Journal Entry for Goodwill adjustment.

Financial Statements of Not for Profit Organizations

16. The Receipts and Payments account of Peppapig Club prepared on 31st March, 2021 is as follows:

Receipts and Payments Account

Receipts	₹	Amount ₹	Payments	Amount ₹
To Balance b/d		900	By Expenses (including Payment for sports material ₹ 5,400)	12,600
To Annual Income from Subscription	9,180		By Loss on Sale of Furniture (cost price ₹ 900)	360
To Add: Outstanding of last year received this year	<u>360</u>		By Balance c/d	1,80,900
	9,540			
Less: Prepaid of last year	<u>180</u>	9,360		
To Other fees		3,600		
To Donation for Building		<u>1,80,000</u>		
		<u>1,93,860</u>		<u>1,93,860</u>

Additional information:

Peppapig club had balances as on 1.4.2020 : -

Furniture ₹ 3,600; Investment at 5% ₹ 54,000;

Sports material ₹ 13,320;

Balance as on 31.3.2021 : Subscription Receivable ₹ 540;

Subscription received in advance ₹ 180;

Stock of sports material ₹ 3,600.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2021 and Balance Sheet on that date.

Issue of Shares

17. On 1st April, 2020, States Ltd. issued 1,80,000 shares of ₹ 10 each payable as follows:

₹ 2 on application, ₹ 3 on allotment, ₹ 2 on First call 1st October, 2020; and ₹ 3 on Final call 1st February, 2021.

By 20th May, 1,50,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2021.

Forfeiture of Shares

18. Mr. Samphat who was the holder of 12,000 preference shares of ₹ 100 each, on which ₹ 60 per share has been called up could not pay his dues on Allotment and First call each at ₹ 20 per share. The Directors forfeited the above shares and reissued 10,000 of such shares to Mr. Sushil at ₹ 50 per share paid-up as ₹60 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

Issue of Debentures

19. Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 20 % discount; and (iii) Debentures are issued at 20% premium.
20. Write short notes on any three of the following:
- (i) Double entry system.
 - (ii) Journal.
 - (iii) Importance of bank reconciliation to an industrial unit.
 - (iv) Bill of exchange and the various parties to it.

SUGGESTED ANSWERS

1. (i) **False:** Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.
 - (ii) **False:** The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.
 - (iii) **True:** In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.
 - (iv) **False:** A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.
 - (v) **False:** It shall be disclosed as a current liability in the opening balance sheet.
 - (vi) **True:** The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.
 - (vii) **False:** The debit notes issued are used to prepare purchases return book.
 - (viii) **True:** Yes, they are types of subsidiary books which is alternate to the journals.
 - (ix) **True:** They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.
2. (a) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created /impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

- (b) The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are: Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

3. (a) **Journal Proper of Shyam Textiles & Co.**

Rectification Entries

	Particulars	Dr.	Cr.
		Amount	Amount
		₹	₹
(i)	M/s Ginger & Co. A/c To M/s Timber & Co. A/c To Purchases A/c (Rectification of purchase entry for ₹ 4,700 dated....as ₹ 7,400 in M/s Ginger & Co A/c in place of M/s. Timber & Co.'s A/c).	7,400	4,700 2,700
(ii)	M/s Aman Bros. A/c To Sales A/c To M/s Manan Bros. A/c (Rectification of sale entry for ₹ 9,500 datedas ₹ 5,900 in M/s Manan Bros A/c in place of M/s Aman Bros. A/c).	9,500	5,900 3,600
(iii)	Discount Allowed A/c To Commission A/c To M/s Aman Bros. A/c (Rectification of wrong posting of discount in commission account and omission of discount transaction dated....).	320	230 90
(iv)	M/s Aman Bros. A/c To Manan Bros A/c (Wrong posting for the dishonoured cheque dated.... is being rectified).	6,400	6,400

Since all the errors are two-sided in nature, Trial Balance will tally even if the rectifications are not done.

- (b) -- Legal fees on acquisition of land: capital
 -- Complete repaint: revenue
 -- Repainting van: revenue.
 -- Drainage for new equipment: capital.
 -- Carriage costs on replacement part: revenue.

4. (a) **PETTY CASH BOOK**

Receipts ₹	Date 2021	V. No.	Particulars	Total ₹	Con- veyance ₹	Cartage ₹	Statio- nery ₹	Courier ₹	Wages ₹	Sundries ₹
1,00,000	June 1		To Cash							
	2	1	By Conveyance	2,000	2,000					
	3	2	By Cartage	10,000		10,000				
	4	3	By Courier	2,000				2,000		
	5	4	By Wages	2,400					2,400	
	5	5	By Stationery	1,600			1,600			
	6	6	By Repairs to machine	6,000						6,000
	6	7	By Conveyance	400	400					
	7	8	By Cartage	1,600		1,600				
	7	9	By Courier	2,800				2,800		
	8	10	By Cartage	12,000		12,000				
	9	11	By Stationery	8,000			8,000			
	10	12	By Sundry Expenses	20,000						20,000
				68,800	2,400	23,600	9,600	4,800	2400	26,000
			By Balance c/d	31,200						
1,00,000				1,00,000						
31,200			To Balance b/d							
68,800	11		To Cash							

- (b) (i) Error of Principle.
 (ii) Error of Omission.
 (iii) Error of Commission.
 (iv) Error of Omission.
 (v) Error of Commission

5. (i) **Bank Reconciliation Statement as on 31st March, 2021**

Particulars	Details ₹	₹	Amount ₹
Credit balance as per the pass book			15,65,000
Add: Cheques deposited into bank but not yet collected	A: 5,15,000		
	B: 12,500	5,27,500	
Bank charges debited by the bank		350	5,27,850
Less: Cheques issued but not presented for payment	X: 60,000		20,92,850
	Y: 3,84,000	4,44,000	
Direct deposit of cash in bank by Z		1,816	
Interest allowed by the bank		4,500	(4,50,316)
Debit balance as per the cash book			16,42,534

6. **Valuation of Physical Stock as at March 31, 2021**

		₹
Stock at cost on 30.09.2020		2,40,000
Add: (1) Undercasting of a page total	600	
(2) Goods purchased and delivered during September March, 2021		
₹ (2,10,000 – 9,000 + 12,000)	2,13,000	
(3) Cost of sales return ₹ (3,000 – 600)	<u>2,400</u>	<u>2,16,000</u>
		4,56,000
Less: (1) Overcasting of a page total ₹ (16,000 – 15,000)	1,000	
(2) Goods sold and dispatched during January – March, 2021		
₹ (2,70,000 – 15,000 + 12,000)	2,67,000	
Less: Profit margin $\left(2,67,000 \times \frac{25}{125}\right)$	<u>53,400</u>	
	<u>2,13,600</u>	<u>2,14,600</u>
Value of stock as on 31st March, 2021		<u>2,41,400</u>

Note: In the above solution, transfer of ownership is assumed to take place at the time of delivery of goods. If it is assumed that transfer of ownership takes place on the date of invoice, then ₹ 1,20,000 goods delivered in March, 2021 for which invoice was received in April, 2021, would be treated as purchases of the accounting year 2020-2021 and thus excluded. Similarly, goods dispatched in March, 2021 but invoiced in April, 2021 would be excluded and treated as sale of the year 2020-2021.

7.

Buses A/c

Date	Particulars	Amount	Date	Particulars	Amount
2019			2019		
Jan-01	To balance b/d	1,23,75,000	Oct-01	By bank A/c	7,00,000
Oct-01	To Bank A/c	18,00,000	Oct-01	By Depreciation on lost assets	1,12,500
			Oct-01	By Profit & Loss A/c (Loss on settlement of Bus)	4,25,000
			Dec-31	By Depreciation A/c	13,95,000
			Dec-31	By balance c/d	1,15,42,500
		<u>1,41,75,000</u>			<u>1,41,75,000</u>
2020			2020		
Jan-01	To balance b/d	1,15,42,500	Dec-31	By Depreciation A/c	15,30,000
			Dec-31	By balance c/d	1,00,12,500
		<u>1,15,42,500</u>			<u>1,15,42,500</u>

Working Note:

1. To find out loss/Profit on settlement of Bus	₹
Original cost as on 1.4.2017	15,00,000
Less: Depreciation for 2017	1,12,500
	<u>13,87,500</u>
Less: Depreciation for 2018	1,50,000
	<u>12,37,500</u>
Less: Depreciation for 2019 (9 months)	1,12,500
	<u>11,25,000</u>
Less: Amount received from Insurance company	7,00,000
Loss on Settlement of Bus	<u>4,25,000</u>

			Dr. ₹	Cr. ₹
(i)	Bills Payable Account Interest Account To Cash A/c To Bills Payable Account (Bills Payable to Samuel discharged by cash payment of ₹ 1,000 and a new bill for ₹4,100 including ₹ 100 as interest)	Dr. Dr.	5,000 100	1,000 4,100
(ii)	(a) Samantha To Flex (Samantha's acceptance for ₹ 8050 endorsed to Flex dishonoured, ₹ 20 paid by Flex as noting charges)	Dr.	8,050	8,050
	(b) Flex To Bank Account (Payment to Flex on withdrawal of bill earlier received from Mr. Samantha)	Dr.	8,050	8,050
(iii)	Bank Account Discount Account To Bills Receivable Account (Payment received from Simon against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 20)	Dr. Dr.	1,980 20	2,000
(iv)	Bills Payable Account To Bills Receivable Account (Bills Receivable from Kent endorsed to Ralph in settlement of bills payable issued to him earlier)	Dr.	20,000	20,000

Particulars	₹	Particulars	₹
To Goods sent on Consignment A/c	5,62,500	By Goods sent on Consignment A/c (loading)	1,12,500
To Cash A/c	45,000	By Abnormal Loss	49,500
To Reema(Expenses)	36,000	By Reema(Sales)	4,50,000

To Reema(Commission)	49,219	By Inventories on Consignment A/c	91,125
To Inventories Reserve A/c	16,875	By General Profit & Loss A/c	6,469
	7,09,594		7,09,594

Working Notes:

1. Calculation of value of goods sent on consignment:

Abnormal Loss at Invoice price = ₹ 56,250

Abnormal Loss as a percentage of total consignment = 10%.

Hence the value of goods sent on consignment = ₹ 56,250 X 100/ 10 = ₹ 5,62,500

Loading of goods sent on consignment = ₹ 5,62,500 X 25/125 = ₹ 1,12,500

2. Calculation of abnormal loss (10%):

Abnormal Loss at Invoice price = ₹ 56,250.

Abnormal Loss at cost = ₹ 56,250 X 100/125 = ₹ 45,000

Add: Proportionate expenses of Shikha (10 % of ₹ 45,000) = ₹ 4,500

₹ 49,500

3. **Calculation of closing Inventories (15%):**

Shikha's Basic Invoice price of consignment = ₹ 5,62,500

Shikha's expenses on consignment = ₹ 45,000

₹ 6,07,500

Value of closing Inventories = 15% of ₹ 6,07,500 = ₹ 91,125

Loading in closing Inventories = ₹ 1,12,500 x 15/100 = ₹ 16,875

Where ₹ 84,375 (15% of ₹ 5,62,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold= 75% of ₹ 5,62,500 = ₹ 4,21,875

Excess of selling price over invoice price = ₹ 28,125 (₹ 4,50,000 - ₹ 4,21,875)

Total commission = 10% of ₹ 4,21,875 + 25% of ₹ 28,125

= ₹ 42187.5 + ₹ 7,031.25 = ₹ 49218.75

10.

Journal Entries

Date 2020	Particulars		Dr. ₹	Cr. ₹
31 st Dec.	Sales A/c To Sapna's A/c (Being cancellation of entry for sale of goods, not yet approved)	Dr.	6,000	6,000
	Inventories with customers A/c (Refer W.N.) To Trading A/c (Being Inventories with customers recorded at market price)	Dr.	4,500	4,500

Working Note:

Calculation of cost and market price of Inventories with customer

Sale price of goods sent on approval ₹6,000

Less: Profit (6,000 x 20/120) ₹ 1,000Cost of goods ₹5,000

Market price = 5,000 - (5,000 x 10%) = ₹ 4,500.

11.

Calculation of Average Due Date**(Taking 4th May, 2021 as the base date)**

<i>Date of bill</i>	<i>Term</i>	<i>Due date</i>	<i>Amount</i> ₹	<i>No. of days from the base date i.e. May 4, 2021</i>	<i>Product</i> ₹
2021		2021			
1 st March	2 months	4 th May	20,000	0	0
10 th March	3 months	13 th June	15,000	40	6,00,000
5 th April	2 months	8 th June	10,000	35	3,50,000
23 rd April	1 month	26 th May	18,750	22	4,12,500
10 th May	2 months	13 th July	<u>25,000</u>	70	<u>17,50,000</u>
			<u>88,750</u>		<u>31,12,500</u>

Average due date = Base date + Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$$= 4^{\text{th}} \text{ May, 2021} + \frac{₹ 3,11,2500}{88,750} = 4^{\text{th}} \text{ May, 2021} + 35 \text{ days} = 8^{\text{th}} \text{ June, 2021}$$

12.

Mr. P in Account Current with Mr. Q
(Interest upto 15th March, 2021 @ 10% p.a.)

Dr.										Cr.	
Date		Particulars	Amount	Days	Product	Date		Particulars	Amount	Days	Product
2021						2021					
Jan. 01	To	Balance b/d	12,000	74	8,88,000	Jan. 29	By	Purchase account	3,600	45	1,62,000
Jan. 15	To	Sales account	6,690	59	3,94,710	Feb. 10	By	Cash account	3,000	33	99,000
Mar. 13	To	Red Ink product (₹ 6,000 × 29)			1,74,000	Mar. 13	By	Bills Receivable account	6,000		
Mar. 15	To	Interest account $\left(\frac{11,95,710 \times 10 \times 1}{100 \times 365} \right)$	328			Mar. 15	By	Balance of product			11,95,710
							By	Balance c/d (amount to be paid)	6,418		
			<u>19,018</u>		<u>14,56,710</u>				<u>19,018</u>		<u>14,56,710</u>

13.

Rectification Entries

	Particulars	Dr.	Cr.
		Amount	Amount
		₹	₹
(i)	Returns inward account Dr. Sales account Dr. To Purchases account To Returns outward account (Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified)	10,300 6,900	10,300 6,900
(ii)	Drawings account Dr. To Purchases account (Being goods withdrawn for own consumption included in purchases, now rectified)	14,000	14,000
(iii)	Plant and machinery account Dr. To Wages account (Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified)	1,800	1,800

(iv)	Advertisement expenses account Dr.	3,300	
	To Purchases account		3,300
	(Being free samples distributed for publicity out of purchases, now rectified)		

**Trading and Profit and Loss Account of Mr. Satendra
for the year ended 31st March, 2021**

Dr.			Cr.		
		Amount			Amount
	₹	₹		₹	₹
To Opening stock		1,29,000	By Sales	8,54,300	
To Purchases	6,12,400		Less: Sales return	<u>10,300</u>	8,44,000
Less: Purchases return	<u>6,900</u>	6,05,500	By Closing stock		
To Carriage inward		4,500			5,00,000
To Wages		46,860		$\text{₹ } 3,20,000 \times \frac{100}{80} \times \frac{100}{80}$	
To Gross profit c/d		<u>5,58,140</u>			
		<u>13,44,000</u>			<u>13,44,000</u>
To Salaries		90,200	By Gross profit b/d		5,58,140
To Rent		17,200	By Bad debts recovered		1800
To Advertisement expenses		16,700			
To Printing and stationery		5,000			
To Bad debts		4,400			
To Carriage outward		5,400			
To Provision for doubtful debts					
5% of ₹ 4,80,000	24,000				
Less: Existing provision	<u>12,800</u>	11,200			
To Provision for discount on debtors					
2.5% of ₹ 4,56,000	11,400				
Less: Existing provision	<u>5,500</u>	5,900			
To Depreciation:					
Plant and machinery	16,000				
Furniture and fittings	<u>4,100</u>	20,100			
To Office expenses		40,640			
To Interest on loan		12,000			
To Net profit					

(Transferred to capital account)	3,31,200		
	<u>5,59,940</u>		<u>5,59,940</u>

Balance Sheet of Mr. Satendra as on 31st March, 2021

	Amount		Amount
<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital account	2,60,000	Plant and machinery	80,000
Add: Net profit	<u>3,31,200</u>	Less: Depreciation	<u>16,000</u>
	5,91,200	Furniture and fittings	41,000
Less: Drawings	<u>46,000</u>	Less: Depreciation	<u>4,100</u>
Bank overdraft	3,20,000	Closing stock	5,00,000
Sundry creditors	1,90,000	Sundry debtors	4,80,000
Payable salaries	9,800	Less: Provision for doubtful debts	<u>35,400</u>
			4,44,600
		Prepaid rent	1,200
		Cash in hand	5800
		Cash at bank	<u>12,500</u>
	<u>10,65,000</u>		<u>10,65,000</u>

14. (a) **Profit and Loss Appropriation Account**
for the year ended 31st December, 2020

Dr.				Cr.		
		₹	₹			₹
To	Interest on capital			By	Net profit b/d	79,500
	X (6% of ₹ 1,60,000)	9,600				
	Y (6% of ₹ 1,00,000)	6,000				
	Z (6% of ₹ 80,000)	4,800	20,400			
To	Partners' capital accounts:					
	[profit (₹ 79,500 – ₹ 20,400) transferred]					
	X ($\frac{5}{10}$ of ₹ 59,100)	29,550				
	Less: Transferred to Z	3,180	26,370			
	Y ($\frac{3}{10}$ of ₹ 59,100)					

			17,730		
Z ($\frac{2}{10}$ of ₹ 59,100)	11,820				
Add: Transferred from X	3,180	15,000			
		79,500			<u>79,500</u>

(b)

Valuation of Goodwill:		₹
(1)	Average Capital Employed	
	Total Assets less Trade payables as on 31.12.2020	12,50,000
	Add: 1/2 of the amount withdrawn by partners	1,50,000
		14,00,000
	Less: 1/2 of the profit earned in 2020	(2,00,000)
		12,00,000
(2)	Super Profit :	
	Profit of M/s Amar, Akbar ,Anthony	4,00,000
	Normal profit @ 30% on ₹ 12,00,000	3,60,000
	Super Profit	40,000
(3)	Value of Goodwill	
	3 Years' Purchase of Super profit (₹ 40,000 × 3) = ₹ 1,20,000	

15. (i)

Journal Entry in the books of the M/s TMR

Date	Particulars		Dr. ₹	Cr. ₹
April,5 2021	Tina's Capital A/c	Dr.	3,000	
	Meena's Capital A/c	Dr.	3,000	
	To Rita's Capital A/c			6,000
	(Being the required adjustment for goodwill through partner's capital accounts)			

(ii)

Revaluation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Furniture A/c (₹ 16,800-13,800)	3,000	By Machinery A/c (₹ 35,100 - 30,000)	5,100

To Inventory A/c (₹ 5,700 – 4,500)	1,200		
To Partners' Capital A/cs (Tina - ₹ 300, Meena - ₹ 300, Rita - ₹ 300)	900		
	5,100		5,100

Partners' Capital Accounts

	Tina	Meena	Rita		Tina	Meena	Rita
To Rita (Goodwill)	3,000	3,000	–	By Balance b/d	24,600	24,600	27,000
To Cash A/c	–	–	6,000	By General Reserve A/c	3,000	3,000	3,000
To Executors A/c	–	–	30,300	By Revaluation A/c (Profit)	300	300	300
To Balance c/d	24,900	24,900	–	By Tina (Goodwill)	–	–	3,000
				By Meena (Goodwill)	–	–	3,000
	27,900	27,900	36,300		27,900	27,900	36,300

Working Note:**Statement showing the Required Adjustment for Goodwill**

Particulars	Tina	Meena	Rita
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	–
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

16.

**Corrected Receipts and Payments Account of Peppapig Club
for the year ended 31st March, 2021**

Receipts		₹	Amount ₹	Payments		Amount ₹
To	Balance b/d		900	By	Expenses	
To	Subscription				(₹ 12,600 –	7,200
	Annual Income	9,180			₹ 5,400)	
				By	Sports Material	5,400

	Less: Receivable as on 31.3.2020	540		By	Balance c/d (Cash in Hand and at Bank)	1,81,440
	Add: Advance received for the year 2020–2021	180				
	Add: Receivable as on 31.3.2020	360				
	Less: Advance received as on 31.3.2020	<u>180</u>	9,000			
To	Other Fees		3,600			
To	Donation for Building		1,80,000			
To	Sale of Furniture		<u>540</u>			
			<u>1,94,040</u>			<u>1,94,040</u>

**Income and Expenditure Account of Peppapig club
for the year ended 31st March, 2021**

Expenditure		Amount	Income		Amount
		₹			₹
To	Sundry Expenses		By	Subscription	9,180
To	Sports Material		By	Other fees	3,600
	Balance as on 1.4.2020	13,320	By	Interest on investment (5% on ₹ 54,000)	2,700
	Add: Purchases	5,400			
	Less: Balance as on 31.3.2021	<u>3,600</u>	By	Deficit: Excess of Expenditure over Income	7,200
To	Loss on sale of Furniture				
		<u>360</u>			
		<u>22,680</u>			<u>22,680</u>

**Balance Sheet of Peppapig club
as on 31st March, 2021**

Liabilities	Amount	Assets	Amount
	(₹)		(₹)
Capital Fund	72,000	Furniture	3,600
Less: Excess of Expenditure over Income	<u>7,200</u>	Less: Sold 5% Investment	<u>900</u>
Building Fund	1,80,000	Interest Accrued	
			54,000

Subscription Received in Advance	180	on Investment	2,700
		Sports Material	3,600
		Subscription Receivable	540
		Cash in Hand and at Bank	
	<u>2,44,980</u>		<u>1,81,440</u>
			<u>2,44,980</u>

Working Note:

Balance Sheet of Peppapig Club
as on 1st April, 2020

Liabilities	Amount	Assets	Amount
	₹		₹
Subscription Received in Advance	180	Furniture	3,600
Capital Fund	72,000	Investment	54,000
(Balancing Figure)		Sports Material	13,320
		Subscription Receivable	360
	<u>72,180</u>	Cash in Hand and at Bank	<u>900</u>
			<u>72,180</u>

17.

States Ltd.**Journal**

2020			Dr. ₹	Cr. ₹
May 20	Bank Account To Share Application A/c (Application money on 1,50,000 shares at ₹ 2 per share received.)	Dr.	3,00,000	3,00,000
June 1	Share Application A/c To Share Capital A/c (The amount transferred to Capital Account on 1,50,000 shares ₹ 2 on application. Directors' resolution no..... dated)	Dr.	3,00,000	3,00,000
	Share Allotment A/c To Share Capital A/c	Dr.	4,50,000	4,50,000

	(Being share allotment made due at ₹ 3 per share. Directors' resolution no..... dated)			
July 15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	4,50,000	4,50,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 1,50,000 shares at ₹ 2 as per Directors, resolution no... dated...)	Dr.	3,00,000	3,00,000
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	3,00,000	3,00,000
2021 Feb. 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 1,50,000 share at ₹ 3 per share on second and final call, as per Directors resolution no... dated...)	Dr.	4,50,000	4,50,000
March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 1,50,000 shares at ₹3 per share.)	Dr.	4,50,000	4,50,000

18. In the books of Company
Journal

Particulars		Dr. ₹	Cr. ₹
Preference Share Capital A/c (12,000 x ₹60)	Dr.	7,20,000	
To Preference Share Allotment A/c			2,40,000
To Preference Share First Call A/c			2,40,000
To Forfeited Share A/c			2,40,000
(Being the forfeiture of 12,000 preference shares ₹ 60 each being called up for non-payment of allotment)			

and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (10,000 x ₹50)	Dr.	5,00,000	
Forfeited Shares A/c (10,000 x ₹10)	Dr.	1,00,000	
To Preference Share Capital A/c			6,00,000
(Being re-issue of 10,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....)			
Forfeited Shares A/c	Dr.	1,00,000	
To Capital Reserve A/c (Note 1)			1,00,000
(Being profit on re-issue transferred to Capital Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 2,40,000/1,20,000 = ₹ 20

Loss on re-issue = ₹ 60 – ₹ 50 = ₹ 10

Surplus per share re-issued ₹ 10

Transferred to capital Reserve ₹ 10 x 10,000 = ₹ 1,00,000.

19.

Books of Avantika Ltd.**Journal**

Machinery A/c	Dr.	9,90,000	
To Avneet Ltd.			9,90,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Avneet Ltd.	Dr.	9,90,000	
To 10% Debentures A/c			9,90,000
(10% Debentures issued to Avneet Ltd.)			
Case(ii) When debentures are issued at 20% discount:			
Avneet Ltd.	Dr.	9,90,000	
Discount on Issue of Debentures A/c	Dr.	2,47,500	
To 10% Debentures A/c			12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)			

Case(iii) When debentures are issued at 20% premium:		
Avneet Ltd.	Dr.	9,90,000
To 10% Debentures A/c		8,25,000
To Premium on Issue of Debentures A/c		1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)		

Workings:**(a) Number of debentures issued in case of 20% discount:**

	(₹)
Face value	100
Less: Discount 20%	<u>20</u>
Value at which issued	<u>80</u>
$\text{₹ } 9,90,000 / 80 = 12,375 \text{ Debentures}$	

(b) Number of debentures issued in case of 20% premium:

	(₹)
Face value	100
Add: Premium 20%	<u>20</u>
Value at which issued	<u>120</u>
$\text{₹ } 9,90,000 / 120 = 8,250 \text{ Debentures}$	

20. (i) Double entry system may be defined as that system which recognizes and records both the aspects of a transaction.

Every transaction has two aspects and according to this system, both the aspects are recorded. This system was developed in the 15th century in Italy by Luca Pacioli. It has proved to be systematic and has been found of great use for recording the financial affairs for all institutions requiring use of money.

This system offers the under mentioned advantages:

- By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.
- The profit earned or loss suffered during a period can be ascertained together with details.
- The financial position of the firm or the institution concerned, can be ascertained at the end of each period, through preparation of the balance sheet.
- The system permits accounts to be kept in as much detail as necessary and

therefore, affords significant information for the purpose of control etc.

- (e) Result of one year may be compared with those of previous years and reasons for the change may be ascertained. It is because of these advantages that the double entry system has been used extensively in all countries.
- (ii) Transactions are first entered in a book called 'Journal' to show which account should be debited and which should be credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an ordinary manner. Journal gives details regarding any transaction. Thus journal tells the amounts to be debited and credited and also the accounts involved.
- (iii) Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.
- (iv) A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

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