PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

QUESTIONS

True and false

1. State with reasons, whether the following statements are true or false:

   (i) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

   (ii) The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

   (iii) Consignment account is of the nature of real account.

   (iv) The balance in petty cash book represents an asset.

   (v) Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

   (vi) In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

   (vii) "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

   (viii) Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.

Theoretical Framework

2. (a) State the advantages of setting Accounting Standards.

   (b) Explain Cash and Mercantile system of accounting.

Journal Entries

3. (a) Pass a journal entry in each of the following cases.

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

Capital or revenue expenditure

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

   -- Complete repaint of existing building.

-- Installation of a new central heating system.

-- Repainting of a delivery van.

-- Providing drainage for a new piece of water-extraction equipment.

-- Legal fees on the acquisition of land.

-- Carriage costs on a replacement part for a piece of machinery.

Cash book

4. (a) Prepare a Triple Column Cash Book for the month of April 2018 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	4,500
1	Cash at bank	18,000
2	Paid into bank	1,500
5	Bought furniture and issued cheque	2,250
8	Purchased goods for cash	750
12	Received cash from Mr. K	1,470
	Discount allowed to him	30
14	Cash sales	7,500
16	Paid to Mr. P by cheque	2,175
	Discount received	75
19	Paid into Bank	750
23	Withdrawn from Bank for Private expenses	900
24	Received cheque from Mr. B	2,145
	Allowed him discount	30
26	Deposited Mr. B's cheque into Bank	
28	Withdrew cash from Bank for Office use	3,000
30	Paid rent by cheque	1,200

Classification 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) Purchase worth ₹ 4,500 from M not recored in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.

(v) Goods worth ₹ 5,000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

Bank Reconciliation Statement

5. Prepare a Bank Reconciliation Statement of Shri Hari as on 31st March, 2018:

   (i) Balance as per Pass Book is ₹ 10,000.

   (ii) Bank collected a cheque of ₹ 500 on behalf of Shri Hari but wrongly credited it to Shri Hari's Account (another customer of bank).

   (iii) Bank recorded a cash deposit of ₹ 1,589 as ₹ 1,598.

   (iv) Withdrawal column of the Pass Book undercast by ₹ 100.

   (v) The credit balance of ₹ 1,500 on page 5 was recorded on page 6 as debit balance.

   (vi) The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.

   (vii) The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Hari (another customer of the bank).

Inventories

6. Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:

   (i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was ₹ 80,000.

   (ii) On 31st December, stock sheet showed the following discrepancies:

      (a) A page total of ₹ 5,000 had been carried to summary sheet as ₹ 6,000.

      (b) The total of a page had been undercast by ₹ 200.

   (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled ₹ 70,000. Out of this ₹ 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled ₹ 4,000.

   (iv) Sales invoiced to customers totalled ₹ 90,000 from January to March, 2018. Of this ₹ 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled ₹ 4,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 1,000 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, 2018.

Concept and accounting of Depreciation

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2015.

On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

Bill of exchange

8. Prepare Journal entries for the following transactions in K. Katrak's books.

(i) Katrak's acceptance to Basu for ₹ 2,500 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 50 for interest.

(ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹ 20 noting charges. Bill withdrawn against cheque.

(iii) D. Dalal retires a bill for ₹ 2,000 drawn on him by Katrak for ₹ 10 discount.

(iv) Katrak's acceptance to Patel for ₹ 5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.

Consignment

9. (a) On 1.1.2018, Mr. Jill of Mumbai consigned to Mr. Jack of Chennai goods for sale at invoice price. Mr. Jack is entitled to a commission of 5% on sales at invoice price and 20% of any surplus price realized over and above the invoice price. Goods costing ₹ 1,00,000 were consigned to Chennai at the invoice price of ₹ 1,50,000. The direct expenses of the consignor amounted to ₹ 10,000. On 31.3.2018, an account sales was received by Mr. Jill from Mr. Jack showing that he had effected sales of ₹ 1,20,000 in respect of 4/5th of the quantity of goods consigned to him. Mr. Jack's direct expenses were ₹ 3,000. Mr. Jack accepted a bill drawn by Mr. Jill for ₹ 1,00,000 and remitted the balance due in cash.

You are required to prepare the consignment account and the account of Mr. Jack in the books of Mr. Jill.

Joint venture

10. (a) A and B, who are sharebrokers are to enter into Joint Venture to underwrite 5,00,000 equity shares of ₹ 10 each of X Ltd. who agrees to allot as fully paid 4,000 shares in the company in consideration of the underwriting arrangement. In connection with the venture, the following expenses are incurred by:

A : Printing and Stationery (₹ 5,000); Postage (₹ 1,000); Advertisement (₹ 3,000)

B : Postage (₹ 750); Solicitor's (₹ 3,500); Entertainment expenses (₹ 4,000)

The public subscription was for ₹ 4,80,000 shares only and the underwriters had to take up the balance shares. Therefore, they approached the Bank, which on the security of the shares, advanced the required sum on 1st July, @ 15% simple interest p.a. The underwriters paid for the shares on the same day and were also allotted the 4,000 shares by X Ltd. The underwriters through the Bank sold their total holding in the market in two equal lots and realized 90% of the face value of the first lot on 30th September and 85% for the second lot on 31st October. The sale proceeds were used first to discharge the principal value. However, interest was paid at the time of final settlement. Shares transfer fees of ₹ 1,000 was met from the Joint Venture Bank Account.

You are required to prepare a Memorandum Joint Venture Account, the account of A as appearing in B's Books and the account of B as appearing in A's Books and also the settlement of account between the parties.

Royalty

(b) Kumar grants a mine on lease to Hello on 31.3.14 a royalty of ₹ 2 per tonne of the coal produced. The following is the quantum of output for each year :

For the year ended 31st March,	2015	7,500 tonnes
	2016	8,000 tonnes
	2017	10,000 tonnes
	2018	12,500 tonnes

The minimum rent is fixed at ₹ 17,500 and short-workings recoupment is allowable throughout the period of lease. You are required to calculate the amount of royalty payable for the years ended 31stMarch, 2015, 2016, 2017 and 2018.

Average Due Date

11. (a) Mehnaaz accepted the following bills drawn by Shehnaaz.

On 8th March, 2018 ₹ 4,000 for 4 months.

On 16th March, 2018 ₹ 5,000 for 3 months.

On 7th April, 2018 ₹ 6,000 for 5 months.

On 17th May, 2018 ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to save ₹ 157 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 157.

Account current

(b) From the following particulars prepare an Account Current to be rendered by A to B at 31st December, reckoning interest @ 10% p.a.

2017		₹	2017		₹
July 1	Balance owing from B	600	Sept. 01	B accepted A's Bill at 3 months date	250
July 17	Goods sold to B	50	Oct.22	Goods bought from B	30
Aug. 1	Cash received from B	650	Nov. 12	Goods sold to B	20
Aug. 19	Goods sold to B	700	Dec. 14	Cash received from B	80
Aug. 30	Goods sold to B	40			
Sept. 1	Cash received from B	350			

Final accounts and Rectification of entries

12. The following is the trial balance of Hari as at 31st December, 2017:

	Dr.	*Cr.*
	₹	₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-
Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000

Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-
Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	
	5,11,330	5,11,330

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 3,000 due from Ram and included among the creditors ₹ 1,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Hari amounting to ₹ 600 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 400 had been omitted from the books.

(8) Stock on 31.12.2017 was ₹ 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017.

Partnership: Calculation of goodwill

13. Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2017 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2017 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Partnership: Admission and Retirement

14 Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2018 is as under:

Liabilities		**₹**	**Assets**	**₹**
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2018. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2018.

Financial statements of Not for Profit Organizations

15. The following information of M/s. TT Club are related for the year ended 31st March, 2018:

(1)

Balances	As on 01-04-2017 (₹)	As on 31-3-2018 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2018 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2018.

Issue of Shares

16. On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:

₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15^{th} July; those on 1st call were received on 20^{th} October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31^{st} March, 2018.

Forfeiture of Shares

17. Mr. P who was the holder of 2,500 preference shares of ₹ 100 each, on which ₹ 70 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 2,000 of such shares to Mr. Q at ₹ 60 per share paid-up as ₹ 70 per share.

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

Issue of Debentures

18. A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

    You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

Basic accounting Ratios

19. Working capital of a company is ₹ 6,00,000. Its Current Ratio is 2.5:1. You are required to calculate value of (i) Current Liabilities, (ii) Current Assets, and (iii) Liquid Ratio/Quick Ratio/Acid Test Ratio, assuming inventories of ₹ 4,00,000.

Short Notes

20. Write short notes on any three of the following:

    (i) Double entry system.

    (ii) Importance of bank reconciliation to an industrial unit.

    (iii) Bill of exchange and the various parties to it.

    (iv) Joint venture account.

    (v) Journal.

SUGGESTED ANSWERS/HINTS

1. **(i)** *False*: Net income is determined by preparing income and expenditure in case of persons practicing vacation.

(ii) *True*: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

(iii) *False*: Consignment account is a nominal-cum-personal account.

(iv) *True*: The balance represents the cash physically in existence and is therefore an asset.

(v) *True*: Because it depicts that one aspect of the double entry has been completed.

(vi) *True*: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

(vii) *True*: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

(viii) *True*: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.

2. **(a)** 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.

(b) **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 trandsactions 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

3. (a) (i)

		₹	₹
Cash A/c	Dr.	2,000	
Land A/c	Dr.	4,000	
Furniture A/c	Dr.	1,000	
Stock A/c	Dr.	2,000	
To Creditors			1,000
To Bank overdraft			2,000
To Capital A/c			6,000

(Being commencement of business by mohan by taking over a running business).

(ii)

Advertisement Expenses A/c	Dr.	1,000	
To Purchases A/c			1,000

(iii)

Cash A/c	Dr.	300	
Bad Debts A/c	Dr.	300	
To Rahim			₹ 600

(b) Complete repaint: revenue.

-- Installation of new heating system: capital.

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Legal fees on acquisition of land: capital

-- Carriage costs on replacement part: revenue.

4. (a) **Triple Column Cash Book**

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2017			₹	₹	₹	2017			₹	₹	₹
April 1	To	Balance b/d		4,500	18,000	April 2	By	Bank (C)		1,500	
April 2	To	Cash (C)			1,500	April 5	By	Furniture A/c			2,250
April 12	To	Mr. K	30	1,470		April 8	By	Purchase A/c		750	
April 14	To	Sales A/c		7,500		April 16	By	Mr. P	75		2,175
April 19	To	Cash (C)			750	April 19	By	Bank (C)		750	
April 24	To	Mr.B (Note 2)	30	2,145		April 23	By	Drawings A/c			900
April 26	To	Cash (C)			2,145	April 26	By	Bank (C)		2,145	

April 28	To	Bank (C)		3,000		April 28	By	Cash (C)			3,000
						April 30	By	Rent A/c			1,200
						April 30	By	Balance c/d		13,470	12,870
			60	18,615	22,395				75	18,615	22,395
May 1	To	Balance b/d		13,470	12,870						

Note:

(1) Discount allowed and discount received ₹ 60 and ₹ 75 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

(b) (i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

5. Bank Reconciliation Statement as at 31.03.2018

		₹
Balance as per Pass Book		10,000
Add: Cheque wrongly credited to another customer's A/c	500	
Error in carrying forward	3,000	
Cheque recorded twice	350	3,850
		13,850
Less: Excess credit for cash deposit	9	
Undercasting of withdrawal column	100	
Wrong credit	1,000	1,109
Balance as per Cash Book		12,741

6. Valuation of Physical Stock as at March 31, 2018

		₹
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		

	₹ (70,000 – 3,000 + 4,000)		71,000	
(3)	Cost of sales return ₹ (1,000 – 200)		800	72,000
				1,52,000
Less:(1)	Overcasting of a page total ₹ (6,000 – 5,000)		1,000	
(2)	Goods sold and dispatched during January – March, 2018			
	₹ (90,000 – 5,000 + 4,000)	89,000		
	Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$	17,800	71,200	72,200
Value of stock as on 31st March, 2018				79,800

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 ₹ 4,000 goods delivered in March 2018 for which invoice was received in April, 2018, would be treated as purchases of the accounting year 2017-2018 and thus excluded. Similarly, goods dispatched in March, 2018 but invoiced in April, 2018 would be excluded and treated as sale of the year 2017-2018.

7. **In the books of M/s. Green Channel Co.**

Machinery Account

		₹			₹
1.1.2015	To Bank A/c	1,60,000	31.12.2015	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)		31.12.2015	By Balance c/d	2,56,000
1.7.2015	To Bank A/c	80,000		(₹ 1,80,000 + ₹ 76,000)	
		2,80,000			2,80,000
1.1.2016	To Balance b/d	2,56,000	31.12.2016	By Depreciation A/c	28,000
				(₹ 20,000 + ₹ 8,000)	
			31.12.2016	By Balance c/d	2,28,000
				(₹ 1,60,000 + ₹ 68,000)	
		2,56,000			2,56,000
1.1.2017	To Balance b/d	2,28,000	1.7.2017	By Bank A/c	1,00,000
30.9.2017	To Bank A/c	30,000		By Profit and Loss A/c	50,000
				(Loss on Sale – W.N. 1)	
			31.12.2017	By Depreciation A/c	18,750
				(₹ 10,000 + ₹ 8,000 + ₹ 750)	
				By Balance c/d	89,250

				(₹ 60,000 + ₹ 29,250)	
		2,58,000			2,58,000
1.1.2018	To Balance b/d	89,250	31.12.2018	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				By Balance c/d (₹ 51,000 + ₹ 24,862.5)	75,862.5
		89,250			89,250

Working Notes:

Book Value of machines (Straight line method)

	Machine I	Machine II	Machine III
	₹	₹	₹
Cost	2,00,000	80,000	30,000
Depreciation for 2015	20,000	4,000	
Written down value as on 31.12.2015	1,80,000	76,000	
Depreciation for 2016	20,000	8,000	
Written down value as on 31.12.2016	1,60,000	68,000	
Depreciation for 2017	10,000	8,000	750
Written down value as on 31.12.2017	1,50,000	60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. **Books of K. Katrak**

Journal Entries

			Dr. ₹	Cr. ₹
(i)	Bills Payable Account	Dr.	2,500	
	Interest Account	Dr.	50	
	To Cash A/c			1,000
	To Bills Payable Account			1,550
	(Bills Payable to Basu discharged by cash payment of ₹ 1,000 and a new bill for ₹1,550 including ₹ 50 as interest)			

(ii)	(a) G. Gupta	Dr.	4,020	
	To M. Mehta			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to M. Mehta dishonoured, ₹ 20 paid by M. Mehta as noting charges)			
	(b) M. Mehta	Dr.	4,020	
	To Bank Account			4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)			
(iii)	Bank Account	Dr.	1,990	
	Discount Account	Dr.	10	
	To Bills Receivable Account			2,000
	(Payment received from D. Dalal against his acceptance for ₹ 2,000. Allowed him a discount of ₹ 10)			
(iv)	Bills Payable Account	Dr.	5,000	
	To Bills Receivable Account			5,000
	(Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)			

9. **In the books of Mr. Jill**

Consignment Account

Date		*Particulars*	*₹*	*Date*		*Particulars*	*₹*
2018				**2018**			
Jan. 1	To	Goods sent on Consignment A/c		Jan. 1	By	Goods sent on Consignment A/c (Loading)	
		(Invoice price)	1,50,000			₹ (1,50,000 – 1,00,000)	50,000
	To	Bank A/c – Consignor's Expenses	10,000	Mar.31	By	Jack – Sales	1,20,000
					By	Stock on Consignment A/c	
Mar.31	To	Jack – Expenses	3,000			1/5×₹(1,50,000+10,000+3,000)	32,600
		– Commission*					
		(0.05 × ₹ 1,20,000)	6,000				
Mar.31	To	Stock Reserve A/c (₹ 50,000 × 1/5)	10,000				

	To	Profit on Consignment A/c (transferred to Profit and Loss A/c)	23,600				
			2,02,600				2,02,600

*Invoice price of goods sold: = 4/5 of ₹ 1,50,000 = ₹ 1,20,000.

The goods were sold for ₹ 1,20,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Jack.

Jack's Account

	Particulars	₹		*Particulars*	₹	₹
To	Consignment A/c – Sales	1,20,000	By	Consignment A/c:		
				Expenses	3,000	
				Commission	6,000	9,000
			By	Bills Receivable A/c		1,00,000
			By	Bank A/c (Balancing figure)		11,000
		1,20,000				1,20,000

10. (a) Memorandum Joint Venture Account

		₹			₹	₹
To	A (Expenses):		By	Bank A/c:		
	Printing and Stationery	5,000.00		(Sale proceeds of shares):		
	Postage	1,000.00		September 30	1,08,000	
	Advertisement	3,000.00		October 31	1,02,000	2,10,000.00
To	B (Expenses):		By	Loss transferred to:		
	Postage	750.00		A		8,450.00
	Solicitor's fees	3,500.00		B		8,450.00
	Entertainment	4,000.00				
To	Bank A/c					
	(Loan for purchase)	2,00,000.00				
To	Bank A/c					
	(Interest on Bank loan)	8,650.00				
To	Bank A/c					

	(Shares transfer fees)	1,000.00				________
		2,26,900.00				2,26,900.00

Working Notes:

			₹
(i)	Sale proceeds: On 30th September 12,000 shares at ₹ 9 per share		1,08,000
	On 31st October 12,000 shares at ₹ 8.50 per share		1,02,000
			2,10,000
	Total liability: (5,00,000- 4,80,000 +4,000) = 24,000		
	Two equal lot = 24,000/2= 12,000 each		
(ii)	Interest on Bank Loan:		
	On ₹ 2,00,000 for 3 months @ 15% p.a.		7,500
	On ₹ 92,000 (i.e. ₹ 2,00,000 – ₹ 1,08,000) for 1 month @ 15% p.a.		1,150
			8,650
(iii)	Joint Venture Bank Account		
	Sale proceeds of shares		2,10,000
	Less: Loan	2,00,000	
	Interest and Shares transfer fee	9,650	2,09,650
	Balance given to A		350

Joint Venture with B Account in the Books of A

Dr.					*Cr.*
	Particulars	₹		*Particulars*	₹
To	Bank A/c (Expenses)	9,000	By	Profit and Loss (Share of loss)	8,450
			By	Joint Venture Bank A/c	350
			By	Bank A/c (Balance received from B)	200
		9,000			9,000

Joint Venture with A Account in the Books of B

Dr. *Cr.*

	Particulars	₹		Particulars	₹
To	Bank A/c (Expenses)	8,250	By	Profit and Loss (Share of loss)	8,450
To	Bank A/c (Balance paid to A)	200			
		8,450			8,450

(b) Statement showing amount of royalty payable

Date	Output (in tones)	Royalty @ ₹ 2 per tone	Minimum Rent	Short-workings allowable	Short-workings recouped	Amount payable
2015	7,500	15,000	17,500	2,500		17,500
2016	8,000	16,000	17,500	1,500		17,500
2017	10,000	20,000	17,500		2,500	17,500
2018	12,500	25,000	17,500		1,500	23,500

11. (a) Taking 19.6.2018 as a Base date

Transaction Date	Due Date	Amount	Amount	
8.3.2018	11.7.2018	4,000	22	88,000
16.3.2018	19.6.2018	5,000	0	0
7.4.2018	10.9.2018	6,000	83	4,98,000
17.5.2018	20.8.2018	5,000	62	3,10,000
		20,000		8,96,000

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2018 + ₹ 8,96,000/₹20,000

= 19.6.2018 + 44.8 days (or 45 days approximately)

= 3.8.2018

Mehnaaz wants to save interest of ₹ 157. The yearly interest is ₹ 20,000 × 18% = ₹ 3,600.

Assume that days corresponding to interest of ₹ 157 are Y.

Then, 3,600 × Y/365 = ₹ 157

or Y = 157 × 365/3,600 = 15.9 days or 16 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 157 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2018 (3.8.2018 – 16 days).

(b) B in Account Current with A

(Interest from Due Date to Dec.31, 2017 @ 10% p.a.)

Dr. *Cr.*

Date		*Particulars*	*Due Date*	*Amount (₹)*	*Days*	*Product*	*Date*		*Particulars*	*Due Date*	*Amount (₹)*	*Days*	*Product*
July 1	To	Balance b/d	July 1	600	184	1,10,400	Aug. 1	By	Cash A/c	Aug. 1	650	152	98,800
July 17	To	Sales A/c	July 17	50	167	8,350	Sept. 1	By	Cash A/c	Sept. 1	350	121	42,350
Aug. 19	To	Sales A/c	Aug 19	700	134	93,800	Sept. 1	By	Bills Receivable A/c	Dec. 4	250	27	6,750
Aug.30	To	Sales A/c	Aug. 30	40	123	4,920	Oct. 22	By	Purchases A/c	Oct. 22	30	70	2,100
Nov.12	To	Sales A/c	Nov. 12	20	49	980	Dec. 14	By	Cash A/c	Dec. 14	80	17	1,360
Dec.31	To	Interest A/c ₹ (67,090 × 0.1 / 365)		18.38			Dec. 31	By	Balance c/d		68.38		67,090
				1428.38		2,18,450					1428.38		2,18,450

12. Trading and Profit and Loss Account of Mr. Hari

for the year ended 31st December, 2017

	₹	₹		₹	₹
To Opening stock		46,800	By Sales	3,89,600	
To Purchases	3,21,700		*Less:* Returns	8,600	3,81,000
Add: Omitted invoice	400		By Closing stock		78,600
	3,22,100				
Less: Returns	5,800				
	3,16,300				
Less: Drawings	600	3,15,700			
To Carriage		19,600			
To Gross profit c/d		77,500			
		4,59,600			4,59,600

To Rent and taxes		4,700	By Gross profit b/d		77,500
To Salaries and wages		9,300	By Discount		4,440
To Bank interest	1,100				
Add: Due	1,700	2,800			
To Printing and stationary	14,400				
Less: Prepaid (1/4)	3,600	10,800			
To Discount allowed		1,800			
To General expenses		11,450			
To Insurance		1,300			
To Postage & telegram expenses		2,330			
To Travelling expenses		870			
To Provision for bad debts [W.N.(ii)]		1,150			
To Provision for discount on debtors [W.N.(iii)]		437			
To Depreciation on furniture & fittings		500			
To Net profit		34,503			
		81,940			81,940

Balance Sheet of Hari as at 31st December, 2017

Liabilities	₹	₹	*Assets*	₹	₹
Capital	76,690		Furniture & fittings	5,000	
Add: Net profit	34,503		*Less:* Depreciation	500	4,500
	1,11,193		Sundry debtors (W.N.1)	23,000	
Less: Drawings:			*Less:* Provision for bad		
Cash 30,000			& doubtful debts (W.N.2)	1,150	
Goods 600	30,600	80,593		21,850	
Bank loan		20,000	*Less:* Provision for		
Bank interest due		1,700	discount (W.N.2)	437	21,413
Sundry creditors (W.N.3)		14,200	Stock		78,600
			Prepaid expenses:		
			Printing & stationary		3,600

		Bank balance	8,000
		Cash balance	380
	1,16,493		1,16,493

Working Notes:

(1) Sundry debtors

Balance as per trial balance	24,000
Less: Due to Ram	1,000
	23,000

(2) Provision for bad & doubtful debts:

@ 5% on ₹ 23,000	1,150
Provision for discount:	
2% on ₹ 21,850 (23,000 -1,150)	437

(3) Sundry creditors

Balance as per trial balance	14,800
Less: Set off in respect of Ram	1,000
	13,800
Add: Purchase invoice omitted	400
	14,200

13.

Valuation of Goodwill:		₹
(1)	*Average Capital Employed*	
	Total Assets *less* Trade payables as on 31.12.2017	6,25,000
	Add: 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less: 1/2 of the profit earned in 2017	(1,00,000)
		6,00,000
(2)	*Super Profit :*	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on ₹ 6,00,000	1,80,000
	Super Profit	20,000
(3)	*Value of Goodwill*	
	5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000	

14. **Revaluation Account**

	₹		₹
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P 30,400	
		Q 18,240	
		R 12,160	60,800
	63,800		63,800

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c			20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	56,000	1,12,160	60,000		1,10,400	56,000	1,12,160	60,000

Bank Account

	₹		₹
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	1,48,560		1,48,560

Balance Sheet of NEHA Co.

as at 1st April, 2018

Liabilities	₹	*Assets*	₹
Capital Accounts:		Land	10,000
P 80,000		Buildings	1,90,000
Q 80,000		Plant and Machinery	1,04,000

R 40,000	2,00,000	Furniture	43,000
Long Term Debts	3,00,000	Inventories	1,30,000
Trade payables	1,70,000	Trade receivables 1,39,000	
Q's Loan Account	22,760	*Less:* Provision for Doubtful Debts (27,800)	1,11,200
		Balance at Bank	1,04,560
	6,92,760		6,92,760

15. Subscription for the year ended 31.3.2018

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2017	11,250	
Less: Subscription received in advance on 31.3.2018	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2018	16,500	
Add: Subscription received in advance on 1.4.2017	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2018

	₹
Payment for Sports material	2,25,000
Less: Amounts due for sports material on 1.4.2017	(67,500)
	1,57,500
Add: Amounts due for sports material on 31.3.2018	97,500
Purchase of sports material	2,55,000
Sports material consumed:	
Stock of sports material on 1.4.2017	75,000
Add: Purchase of sports material during the year	2,55,000
	3,30,000
Less: Stock of sports material on 31.3.2018	(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account	2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2018 (An extract)

Liabilities	₹	*Assets*	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

16. Pehal Ltd.

Journal

2017			*Dr.* ₹	*Cr.* ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......)			
	Share Allotment A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000
	(Receipt of the amounts due on first call.)			
2018				
Feb. 1	Share Second and Final Call A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000

	(Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	12,00,000	
	To Share Second & Final Call A/c			12,00,000
	(Amount received against the final call on 60,000 shares at ₹20 per share.)			

17. **Journal entries**

		Dr. ₹	Cr. ₹
Preference Share Capital A/c (2,500 x ₹ 70)	Dr.	1,75,000	
To Preference Share Allotment A/c (2,500 x ₹ 20)			50,000
To Preference Share First Call A/c (2,500 x ₹ 20)			50,000
To Forfeited Share A/c			75,000
(Being the forfeiture of 2,500 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
Bank A/c (2,000 x ₹60)	Dr.	1,20,000	
Forfeited Shares A/c (2,000 x ₹10)	Dr.	20,000	
To Preference Share Capital A/c			1,40,000
(Being re-issue of 2,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No…..dated….)			
Forfeited Shares A/c	Dr.	40,000	
To Capital Reserve A/c (Note 1)			40,000
(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 75,000/2500 = ₹ 30

Loss on re-issue =₹ 70 – ₹ 60 = ₹ 10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 2000 = ₹ 40,000.

18. **In the books of A Limited**

Date	Particulars		₹ '000	₹ '000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No…..dated…)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No….dated…)			

19. Current Ratio = 2.5 : 1 (Given)

Let Current Liabilities = x

Then, Current Assets= 2.5 x

Working Capital = Current Assets - Current Liabilities

₹ 6,00,000 = 2.5x = x

₹ 6,00,000 = 1.5x

Therefore,

(i) Current Liabilities (x) = $\frac{Rs.6,00,000}{1.5}$ = ₹ 4,00,000

(ii) Current Assets = ₹ 4,00,000 x 2.5 = ₹ 10,00,000

(iii) Liquid Ratio/Acid Test Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹\,6,00,000}{4,00,000} = 1.5:1$

Quick Assets = Current Assets – Inventories

= ₹ 10,00,000 – ₹ 4,00,000 = ₹ 6,00,000

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:

(a) By the use of this system, the accuracy of the accounting work can be established through the device of trial balance.

(b) The profit earned or loss suffered during a period can be ascertained together with details.

(c) 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.

(d) 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) 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.

(iii) 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.

(iv) A joint venture account is a nominal account prepared by the co-venturers involved in the joint ventures. The objective of preparing a joint venture account is to ascertain the profit or loss arising out of the joint venture business. The joint venture account is debited with the value of goods or stores bought or used on account of joint venture. It is also debited with expenses incurred. The credit will be to the trading account or cash account or to the party which has supplied the goods or incurred the expenses. When the sale proceeds are received, the party receiving it will debit bank account (or sundry debtors) and credit the joint venture account. The other party will debit the party which has received the sale proceeds and credit the joint venture account.

Thus, joint venture account will reflect profit or loss, which must be transferred to the profit and loss account and the other party's account in agreed proportions.

(v) 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.