PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

QUESTIONS

True and False

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

   (i) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business.

   (ii) Sale of office furniture should be credited to Profit and Loss Account.

   (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (iv) A partnership firm can acquire fixed assets in the name of the firm.

   (v) Debenture holders enjoy the voting rights in the company.

Theoretical Framework

2. (a) Distinguish between fundamental accounting assumption and accounting policies.

   (b) Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Journal Entries

3. (a) You are required to pass necessary journal entries in the books of Kewal:

   (i) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.

   (ii) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹1,000

   (iii) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.

   (iv) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.

   (v) Purchased second hand machinery from Jawahar for ₹30,000 against a cheque. Goods of ₹ 12,000 (Cost ₹ 9,000) used in repairs of this machinery which is necessary to make it ready for working.

Capital or Revenue Expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) An extension of railway tracks in the factory area.

   (ii) Amount spent on painting the factory.

(iii) Payment of wages for building a new office extension.

(iv) Amount paid for removal of stock to a new site.

(v) Rings and Pistons of an engine were changed to get full efficiency.

Cash Book

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

2021		₹
April 1	Received ₹ 40,000 for petty cash	
" 2	Paid auto fare	1,000
" 3	Paid cartage	5,000
" 4	Paid for Courier	1,000
" 5	Paid wages	1,200
" 5	Paid for stationery	800
" 6	Paid for the repairs to machinery	3,000
" 6	Bus fare	200
" 7	Cartage	800
" 7	Courier	1,400
" 8	Cartage	6,000
" 9	Stationery	4,000
" 10	Sundry expenses	10,000

Rectification of Errors

(b) The books of accounts of Dime Ltd. for the year ending 31.3.2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

(i) Return outward book was under cast by ₹ 100.

(ii) ₹ 1,500 being the total of discount column on the credit side of the cash book was not posted.

(iii) ₹ 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.

(iv) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customers' A/c. in the sales ledger.

(v) The Sales of ₹ 10,000 was omitted to be recorded.

Pass rectification entries in the next year.

Bank Reconciliation Statement

5. From the following particulars of M/s Swapnil enterprises, prepare a Bank reconciliation statement:

   (1) Bank overdraft as per Pass Book as on 31st March, 2021 was ₹ 8,800

   (2) Cheques deposited in Bank for ₹ 5,800 but only ₹ 2,000 were cleared till 31st March.

   (3) Cheques issued were ₹ 2,500, ₹ 3,800 and ₹ 2,000 during the month. The cheque of ₹ 5,800 is still with supplier.

   (4) Dividend collected by Bank ₹ 1,250 was wrongly entered as ₹ 1,520 in Cash Book.

   (5) Amount transferred from fixed deposit A/c into the current A/c ₹ 2,000 appeared only in Pass Book

   (6) Interest on overdraft ₹ 930 was debited by Bank in Pass Book and the information was received only on 3rd April 2021.

   (7) Direct deposit by M/s Rajesh Trader ₹ 400 not entered in Cash Book.

   (8) Corporation tax ₹ 1,200 paid by Bank as per standing instruction appears in Pass Book only.

Valuation of Inventories

6. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2021 on which date the total cost of goods in his godown came to ₹ 1,50,000. The following facts were established between 31st March and 15th April, 2021.

   (i) Sales ₹ 1,23,000 (including cash sales ₹ 30,000)

   (ii) Purchases ₹ 15,102 (including cash purchases ₹ 5970)

   (iii) Sales Return ₹ 3,000.

   (iv) On 15th March, goods of the sale value of ₹ 30,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

   (v) The trader had also received goods costing ₹ 24,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

   Goods are sold by the trader at a profit of 20% on sales.

   You are required to ascertain the value of Inventory as on 31st March, 2021.

Concept and Accounting of Depreciation

7. M/s. Seven Seas purchased a second-hand machine on 1st April, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

   Another machine was purchased for ₹ 80,000 on 1st Oct, 2017.

   On 1st Oct, 2019, the machine installed on 1st April, 2017 was sold for ₹ 1,00,000. Another machine for ₹30,000 was purchased and was installed on 31st December, 2019.

   Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from 1st April,2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2021.

Bills of Exchange

8. On 1st January 2021, Swapnil draws two bills of exchange for ₹ 32,000 and ₹ 50,000.

   The bill of exchange for ₹ 32,000 is for two months while the bill of exchange for ₹ 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2021, Vishal requests Swapnil to renew the first bill with interest at 15% p.a. for a period of two months. Swapnil agreed to this proposal. On 25th March, 2021, Vishal retires the acceptance for ₹ 50,000, the interest rebate i.e. discount being ₹ 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

   Show the Journal Entries (with narrations) in the books of Swapnil.

Consignment

9. On 1.1.2021, Mr. Sam of Kerala consigned to Mr. Alex of Chennai goods for sale at invoice price. Mr. Alex 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 ₹ 5,00,000 were consigned to Chennai at the invoice price of ₹ 7,50,000. The direct expenses of the consignor amounted to ₹ 50,000. On 31.3.2021, an account sales was received by Mr. Sam from Mr. Alex showing that he had effected sales of ₹ 6,00,000 in respect of 4/5th of the quantity of goods consigned to him. Mr. Alex's direct expenses were ₹ 15,000. Mr. Alex accepted a bill drawn by Mr. Sam for ₹ 5,00,000 and remitted the balance due in cash.

   You are required to prepare the consignment account and the account of Mr. Alex in the books of Mr. Sam.

Sales of goods on approval or return basis

10. S Ltd. sells goods on Sale or Return basis. Customers having the choice of returning the goods within 15 days. During April 2021, the following are the details of the goods sent:

Date of dispatch	Party's name	Amount ₹
April 2	M/s G	20,000
4	M/s H	36,000
16	M/s I	50,000
20	M/s J	16,000
24	M/s K	42,000
28	M/s L	60,000

Within the stipulated time G and I returned the goods while H, J and K informed that they have accepted the goods. Prepare the following in the books of 'S'.

(i) Goods on "sales or return, sold and returned day books".

(ii) Goods on sales or return total account.

Average Due Date

11. Sunder purchases goods on credit. His due dates for payments were as under:

Transaction Date	₹	*Due Date*
March 5	1,200	April 08
April 15	800	May 18
May 10	1,100	June 13
June 5	1,600	July 10

Calculate Average due date.

Account current

12. The following are the transactions that took place between X and Y during the period from 1st October, 2020 to 31st March, 2021:

2020		₹
Oct.1	Balance due to X by Y	3,000
Oct 18	Goods sold by X to Y	2,500
Nov. 16	Goods sold by Y to X (invoice dated November, 26)	4,000
Dec.7	Goods sold by Y to X (invoice dated December, 17)	3,500
2021		₹
Jan. 3	Promissory note given by X to Y, at three months	5,000
Feb. 4	Cash paid by X to Y	1,000
Mar. 21	Goods sold by X to Y	4,300
Mar.28	Goods sold by Y to X (invoice dated April, 8)	2,700

Draw up an Account Current up to March 31st, 2021 to be rendered by X to Y, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

Final accounts and Rectification of entries

13. Mr. Bansal submitted to you the following trial balance, which he has not been able to agree. Rewrite the trial balance and prepare trading and profit and loss account for the year ended 31.3.2021 and a balance sheet as on that date after giving effect to the undermentioned adjustments:

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Closing stock	-	18,790
Drawings	3,305	-
Returns inward	-	550
Carriage inward	1,240	-
Deposit with X	-	1,400
Returns outward	840	-
Carriage outward	-	725
Rent paid	800	-
Rent outstanding	150	-
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	
	46,505	68,665

Adjustments:

1. Write off ₹ 600 as bad debt and make a provision for doubtful debts at 5% on balance sundry debtors.
2. Stock valued at ₹ 2,000 was destroyed by fire on 25th March,2021, but insurance company admitted a claim for ₹ 1,500 only and paid the sum in April,2021.

3. Depreciation to be provided on furniture at 10% per annum.

Partnership Accounts

Profit and Loss Appropriation Account

14. (a) A and B are partners in a firm sharing profits and losses equally. On 1st April, 2020 the balance of their Capital Accounts were : A ₹ 50,000 and B ₹ 40,000. On that date the balances of their Current Accounts were: A ₹ 10,000 (credit) and B ₹ 3,000 (debit). Interest @ 5% p.a. is to be allowed on the balance of Capital Accounts as on 1.4.2020. B is to get annual salary of ₹ 3,000 which had not been withdrawn. Drawings of A and B during the year were ₹ 1,000 and ₹ 2,000 respectively. The profit for the year ended 31st March, 2021 before charging interest on capital but after charging B's salary was ₹ 70,000. It is decided to transfer 10% of divisible profit to a Reserve Account. Prepare Profit & Loss Appropriation Account for the year ended 31st March, 2021 and show Capital and Current Accounts of the Partners for the year.

Calculation of goodwill

(b) Tina and Rita are partners in a firm. Their capitals are: Tina ₹ 6,00,000 and Rita ₹ 4,00,000. During the year ended 31st March, 2021 the firm earned a profit of ₹ 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 3 years purchase of Super Profit.

Admission and Retirement of Partner

15. Acme & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2021 is as under:

Liabilities		₹	Assets	₹
Capitals:			Land	30,000
Mr. A	2,40,000		Buildings	6,00,000
Mr. B	60,000		Plant and machinery	3,90,000
Mr. C	90,000	3,90,000	Furniture	1,29,000
Reserves			Investments	36,000
(un-appropriated profit)		60,000	Inventories	3,90,000
Long Term Debt		9,00,000	Trade receivables	4,17,000
Bank Overdraft		1,32,000		

Trade payables		5,10,000		
		19,92,000		19,92,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. F will be admitted as a partner with effect from 1st April, 2021. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹3 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 ₹ 45,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 6 lakhs which will be contributed by Mr. A, Mr. B and Mr. C 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.

You are required to prepare

(a) Revaluation account;

(b) Partners capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2021.

Financial Statements of Not for Profit Organizations

16. From the following receipts and payments account of Pune Club, prepare income and expenditure account for the year ended 31.03.2021 and its balance sheet as on that date:

Receipts	₹	Payments	₹
Cash in hand	4,000	Salary	2,000
Cash at bank	10,000	Repair expenses	500
Donations	5,000	Purchase of furniture	6,000
Subscriptions	12,000	Misc. expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest received from bank	500	Insurance premium	200
Sale of old newspaper	150	Snooker table	8,000
Sale of drama tickets	1,050	Stationary	150
		Drama expenses	500

		Cash in hand (closing)	2,650
		Cash at bank (closing)	7,200
	33,700		33,700

The following adjustments are to be made while drawing up the accounts:

1. Subscriptions in arrear for year 2020-21 ₹900 and subscriptions in advance for 2021-22 ₹ 350.
2. Insurance premium outstanding ₹ 40 and Misc. expenses prepaid ₹90.
3. 50% of donation is to be capitalized.
4. Entrance fees are to be treated as revenue income.
5. 8% interest has accrued on investment for five months.
6. Snooker table costing ₹ 30,000 was purchased on 31st March,2020 and ₹22,000 were paid for it.

Issue of Shares

17. On 1st June, 2020, Suraj Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

    ₹ 20 on application;

    ₹ 20 on allotment;

    First call of ₹ 30 on 1st Dec, 2020; and

    Second and final call of ₹ 30 on 1st March, 2021.

    By 20th July, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st Aug. All sums due on allotment were received on 15th Sept; those on 1st call were received on 20th Dec.

    You are required to journalise the transactions when accounts were closed on 31st March, 2021

Forfeiture of Shares

18. Delta Ltd. forfeited 600 shares of ₹ 10 each issued at a premium of 10% to W for non-payment of first and final call money of ₹ 3 (including ₹ 1 premium). At different intervals of time out of these 400 shares were re-issued to Z, credited as fully paid for ₹ 9 per share and 100 shares were re-issued to X as ₹ 10 paid up for ₹ 11 per share. Record the journal entries for forfeiture and reissue of shares.

Issue of Debentures

19. On 1st April 2020, XY Ltd. took over assets of ₹4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.

XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2020-21

20. Write short notes on:
    (i) Noting Charges.
    (ii) Objective of Accounting Standards.
    (iii) Retirement of bills of exchange.
    (iv) Over-riding Commission.

SUGGESTED ANSWERS

1. (i) True: The profit on sale of capital assets should not be added to revenue to ascertain profit since it has not been earned due to normal business operations.

(ii) False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.

(iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del-credere commission.

(iv) False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It can acquire fixed assets in the name of its partners.

(v) False: Debenture holders do not enjoy voting rights in company.

2. (a)

Fundamental Accounting Assumption	Accounting Policies
There are three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
No disclosures is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed.
If fundamental accounting assumption is not followed, it is to be disclosed in the	If the policy is changed in subsequent year, the effect of

financial statements together with the reasons.	such change should be disclosed in the financial statements.
There is no option to choose fundamental accounting assumptions.	The firm has an option to select a particular policy.

(b) Change in accounting policy may have a material effect on the items of financial statements. For example, cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

3. (a) In the books of Kewal

Journal entries

	Particulars		Dr.	Cr.
			Amount	Amount
			₹	₹
(i)	Bank A/c	Dr.	9,000	
	Discount allowed A/c	Dr.	1,000	
	To Hari Krishan A/c			10,000
	(Amount received from Hari Krishan after allowing discount of 1,000).			
(ii)	Drawings	Dr.	7,000	
	To Purchases A/c			6,000
	To Cash A/c			1,000
	(Goods and cash withdrawn for personal use).			
(iii)	Free Samples/Sales promotion A/c	Dr.	3,000	
	To Purchases A/c			3,000
	(Being the goods distributes as free samples).			
(iv)	Bank A/c	Dr.	10,000	
	To Commission A/c			10,000
	(Commission received).			
	Commission A/c	Dr.	5,000	
	To Commission received in Advance A/c			5,000
	(Commission received in advance adjusted).			
(v)	Machinery A/c	Dr.	30,000	
	To Bank A/c			30,000
	(Machinery purchased from Jawahar)			
	Machinery A/c	Dr.	9,000	

	To Purchases A/c (Goods used in repairs of Machinery).			9,000

(b) (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.

(iv) Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.

(v) Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

4. (a) PETTY CASH BOOK

Receipts ₹	Date 2021	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Courier ₹	Wages ₹	Sundries ₹
40,000	April1		To Cash							
	2	1	By Conveyance	1,000	1,000					
	3	2	By Cartage	5,000		5,000				
	4	3	By Courier	1,000				1,000		
	5	4	By Wages	1,200					1,200	
	5	5	By Stationery	800			800			
	6	6	By Repairs to machine	3,000						3,000
	6	7	By Conveyance	200	200					
	7	8	By Cartage	800		800				
	7	9	By Courier	1,400				1,400		
	8	10	By Cartage	6,000		6,000				
	9	11	By Stationery	4,000			4,000			
	10	12	By Sundry Expenses	10,000						10,000
				34,400	1,200	11,800	4,800	2,400	1,200	13,000
			By Balance c/d	5,600						

40,000				40,000							
5,600			To Balance b/d								
28,800	11		To Cash								

(b) **In the Books of Dime Ltd.**

	Particulars	Dr.	Cr.
		Amount	Amount
2021		₹	₹
(i)	Suspense A/c Dr.	100	
	To Profit & Loss Adjustment A/c		100
	(Returns outward book was under cast now rectified).		
(ii)	Suspense A/c Dr.	1,500	
	To Profit & Loss Adjustment A/c		1,500
	(Discount received was not recorded, now rectified)		
(iii)	Office Furniture A/c Dr.	6000	
	To Profit & Loss Adjustment A/c		6000
	(Office furniture purchased wrongly debited to Purchase A/c. now rectified.)		
(iv)	Debtors A/c Dr.	90	
	To Suspense A/c		90
	(Debtors account was posted ₹ 670 in place of 760 now rectified.)		
(v)	Debtors A/c Dr.	10,000	
	To Profit & Loss Adjustment A/c		10,000
	(Sales of ₹10,000 omitted to be recorded, now rectified)		

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

Particulars		**Amount ₹**
Overdraft as per Pass Book		8,800
Add: (i) Cheques issued but not presented till 31st March	5,800	
(ii) Transfer from fixed deposit	2,000	
(iii) Direct deposit by M/s Rajesh Trader	400	8,200
		17,000

Less: (i) Cheques deposited but not cleared (5,800 - 2,000)	3,800	
(ii) Dividend collected excess recorded in Cash Book (1,520-1,250)	270	
(iii) Interest on overdraft debited in Pass Book only	930	
(iv) Corporation tax paid appeared in Pass Book only	1200	6,200
Overdraft as per Cash Book		10,800

6. **Statement of Valuation of Stock on 31st March, 2021**

		₹	₹
Value of stock as on 15th April, 2021			1,50,000
Add:	Cost of sales during the period from 31st March, 2021 to 15th April, 2021		
	Sales (₹ 1,23,000 – ₹ 3,000)	1,20,000	
	Less: Gross Profit (20% of ₹ 1,20,000)	24,000	96,000
	Cost of goods sent on approval basis (80% of ₹ 18,000)		14,400
			260400
Less:	Purchases during the period from 31st March, 2021 to 15th April, 2021	15,102	
	Unsold stock out of goods received on consignment basis (30% of ₹ 24,000)	7,200	22,302
			2,38,098

7. **Machinery Account in the books of M/s. Seven Seas**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2017	To Bank A/c	1,60,000	31.03.2018	By Depreciation A/c	24,000
	To Bank A/c	40,000		(₹ 20,000 + ₹ 4,000)	
	(Erection charges)		31.03.2018	By Balance c/d	2,56,000
1.10.2017	To Bank A/c	80,000		(₹ 1,80,000 + ₹76,000)	
		2,80,000			2,80,000
1.4.2018	To Balance b/d	2,56,000	31.03.2019	By Depreciation A/c	28,000
				(₹ 20,000 + ₹ 8,000)	
			31.03.2019	By Balance c/d	2,28,000
				(₹ 1,60,000 +₹ 68,000)	
		2,56,000			2,56,000
1.4.2019	To Balance	2,28,000	1.10.2019	By Bank A/c	1,00,000

		b/d				
31.12.2019	To	Bank A/c	30,000	1.10.2019	By Profit and Loss A/c (Loss on Sale – W.N. 1)	50,000
				31.03.2020	By Depreciation A/c (₹ 10,000 + ₹ 8,000 + ₹ 750)	18,750
				31.03.2020	By Balance c/d (₹ 60,000 + ₹ 29,250)	89,250
			2,58,000			2,58,000
1.4.2020	To	Balance b/d	89,250	31.3.2021	By Depreciation A/c (₹ 9,000 + ₹ 4,387.5)	13,387.5
				31.3.2021	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 2017-18	20,000	4,000	
Written down value as on 31.03.2018	1,80,000	76,000	
Depreciation for 2018-19	20,000	8,000	
Written down value as on 31.03.2019	1,60,000	68,000	
Depreciation for 2019-20 (Mach I- 6 months)	10,000	8,000	750
Written down value as on 01.10.2019	1,50,000		
Written down value as on 31.03.2020		60,000	29,250
Sale proceeds	1,00,000		
Loss on sale	50,000		

8. Journal Entries in the books of Swapnil

2021			Dr. (₹)	Cr. (₹)
Jan. 1	Bills receivable (No. 1) A/c	Dr.	32,000	
	Bills receivable (No. 2) A/c	Dr.	50,000	

	To Vishal A/c (Being drawing of bills receivable No. 1 due for maturity on 4.3.2021 and bills receivable No. 2 due for maturity on 4.4.2021)			82,000
March 4	Vishal's A/c	Dr.	32,000	
	To Bills receivable (No.1) A/c			32,000
	(Being the reversal entry for bill No.1 on renewal)			
March 4	Bills receivable (No. 3) A/c	Dr.	32,800	
	To Interest A/c			800
	To Vishal 's A/c			32,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2021 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	49,500	
	Discount A/c	Dr.	500	
	To Bills receivable (No. 2) A/c			50,000
	(Being the amount received on retirement of bills No.2 before the due date)			
May 7	Vishal's A/c	Dr.	32,800	
	To Bills receivable (No. 3) A/c			32,800
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	16,400	
	To Vishal's A/c			16,400
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	16,400	
	To Vishal's A/c			16,400
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

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

Consignment Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
2021				**2021**			
Jan. 1	To	Goods sent on Consignment A/c (Invoice price)	7,50,000	Jan. 1	By	Goods sent on Consignment A/c (Loading) ₹ (7,50,000 – 5,00,000)	2,50,000
	To	Bank A/c – Consignor's Expenses	50,000	Mar.31	By	Alex – Sales	6,00,000
Mar.31	To	Alex – Expenses	15,000		By	Stock on Consignment A/c 1/5 × ₹ (7,50,000 + 50,000 + 15,000)	1,63,000
		– Commission* (0.05 × ₹ 6,00,000)	30,000				
Mar.31	To	Stock Reserve A/c (₹ 2,50,000 × 1/5)	50,000				
	To	Profit on Consignment A/c (transferred to Profit and Loss A/c)	1,18,000				
			10,13,000				10,13,000

*Invoice price of goods sold: = 4/5 of ₹ 7,50,000 = ₹ 6,00,000.

The goods were sold for ₹ 6,00,000 and hence there was no surplus price. Therefore, extra commission @ 20% will not be given to Mr. Alex.

Alex's Account

	Particulars	*Amount ₹*		*Particulars*	₹	*Amount ₹*
To	Consignment A/c – Sales	6,00,000	By	Consignment A/c:		
				Expenses	15,000	
				Commission	30,000	45,000
			By	Bills Receivable A/c		5,00,000
			By	Bank A/c (Balancing figure)		55,000
		6,00,000				6,00,000

10. (i) Goods on sales or return, sold and returned day book in the books of 'S'

Date 2021	*Party to whom goods sent*	*L.F*	*Amount ₹*	*Date 2021*	*Sold ₹*	*Returned ₹*
Apr. 2	M/s G		20,000	Apr. 17		20,000
Apr. 4	M/s H		36,000	Apr. 19	36,000	
Apr. 16	M/s I		50,000	May 1		50,000
Apr. 20	M/s J		16,000	May 5	16,000	-
Apr. 24	M/s K		42,000	May 9	42,000	-
Apr. 28	M/s L		60,000	May 13		
			2,24,000		94,000	70,000

In the books of S Ltd.

(ii) Goods on Sales or Return Total Account

2021		Amount ₹	2021		Amount ₹
Apr.	To Customers for Sale on Approval A/c		May. 31	By Goods sent on sales or return M/s G	20,000
2	Returned by G	20,000		M/s H	36,000
4	Sold to H	36,000		M/s I	50,000
16	Returned by I	50,000		M/s J	16,000
20	Sold to J	16,000		M/s K	42,000
24	Sold to K	42,000		M/s L	60,000
30	To bal c/d	60,000			
		2,24,000			2,24,000

11. Calculation of average due date (Base date: 8th April)

Due Date	*Amount*	*No. of days from base date*	*Product*
	₹		₹
8th April	1,200	0	0
18th May	800	40	32,000
13th June	1,100	66	72,600
10th July	1,600	93	1,48,800
	4,700		2,53,400

$$\text{Average due date} = \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}}$$

= 8th April + 2,53,400/4,700

= 8th April + 54 days = 1st June

12. In the books of G

H in Account Current with G

(interest to 31st March,2021@10%p.a.)

Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product	Date	Due date	Particulars	No. of days till 31.3.21	Amt.	Product
2020	2020			₹	₹	2020	2020			₹	₹
Oct 1,	Oct 1,	To Balance b/d	182	3,000	5,46,000	Nov 16	Nov 26	By Purchases	125	4,000	5,00,000
Oct 18,	Oct 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2021	2021					2021	2021				
Jan 3	Apr 6	To Bills payable	(6)	5,000	(30,000)	Mar 28	Apr 8	By Purchases	(8)	2,700	(21,600)
Feb 4	Feb 4	To Cash	55	1,000	55,000	Mar 31	Mar 31	By Balance of product			1,81,600
Mar 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar 31	Mar 31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

$$\text{Interest for the period} = \frac{1,81,600 \times 10 \times 1}{100 \times 365} = ₹\ 50 \text{ (approx.)}$$

13. Redrafted Trial Balance of Mr. Bansal as on 31st March,2021

Particulars	Dr.	Cr.
	₹	₹
Capital	-	16,000
Opening stock	17,500	-
Drawings	3,305	-
Returns inward	550	-
Carriage inward	1,240	-
Deposit with X	1,400	-
Returns outward	-	840

Carriage outward	725	-
Rent paid	800	-
Rent outstanding	-	150
Purchases	13,000	-
Sundry debtors	5,000	-
Sundry creditors	-	2,200
Furniture	1,500	-
Sales	-	29,000
Wages	850	-
Cash	1,370	-
Advertisement	950	-
	48,190	48,190

Trading and Profit and Loss Account of Mr. Bansal

for the year ended 31st March,2021

Dr.					*Cr.*
Particulars	₹	₹	*Particulars*	₹	₹
To Opening stock		17,500	By Sales	29,000	
To Purchases	13,000		*Less:* Returns inward	(550)	28,450
Less: Returns outward	(840)	12,160	By Stock destroyed by fire		2,000
To Wages		850	By Closing stock		18,790
To Carriage inward		1,240			
To Gross profit		17,490			
		49,240			49,240
To Carriage outward		725	By Gross profit		17,490
To Rent		800			
To Advertisement		950			
To Bad debts		600			
To Provision for doubtful debts (5% of ₹ 4,400)		220			
To Loss of stock by fire		500			

To Depreciation on furniture (10% of ₹1,500)	150		
To Net profit	13,545		
	17,490		17,490

Balance Sheet of Mr. Bansal

as at 31st March,2021

Liabilities		₹	*Assets*		₹
Capital	16,000				
Add: Net profit	13,545		Furniture	1,500	
	29,545		*Less:* Depreciation	150	1,350
Less: Drawings	3,305	26,240	Deposit with X		1,400
Sundry creditors		2,200	Closing Stock		18,790
Outstanding rent		150	Sundry debtors	5,000	
			Less: Bad debts	600	
				4,400	
			Less: Provision for Doubtful Debts	220	4,180
			Insurance claim receivable		1,500
			Cash		1,370
		28,590			28,590

14 (a) **Profit and Loss Appropriation Account**

for the year ended 31st March, 2021

		₹	₹			₹
To	Salary - B		3,000	By	Net profit	73,000
To	Interest on Capitals:					
	A	2,500				
	B	2,000	4,500			
To	Reserve (10% of 65,500)		6,550			
To	Partners' current accounts:					
	A	29,475				
	B	29,475	58,950			
			73,000			73,000

Partners' Capital Accounts

Date		A	B	Date		A	B
31.03.21	To Balance c/d	50,000	40,000	01.04.20	By Balance b/d	50,000	40,000
		50,000	40,000			50,000	40,000

Partners' Current Accounts

Date		A	B	Date		A	B
01.04.20	To Balance b/d	-	3,000	01.04.20	By Balance b/d	10,000	
31.03.21	To Drawings A/c	1,000	2,000	31.03.21	By Interest on Capital	2,500	2,000
31.03.21	To Balance c/d	40,975	29,475	31.03.21	By Salary		3,000
				31.03.21	By Profit and Loss App A/c	29,475	29,475
		41,975	34,475			41,975	34,475

Note: Profit before charging interest on Capital and Salary to B = 70,000+3,000 =73,000

(b) (i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 3,00,000 \times 100}{20} = ₹\ 15,00,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 15,00,000 – ₹ 10,00,000 [i.e., ₹ 6,00,000 + ₹ 4,00,000]

Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 2,00,000

Average Profit = ₹ 3,00,000

Super Profit = Average profit – Normal Profit

=₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000

Goodwill = Super Profit x Number of years purchase

= ₹1,00,000 x 3 = ₹ 3,00,000

15. (a) **Revaluation Account**

Particulars	Amount`	Particulars		Amount`
To Buildings A/c	30,000	By Investments A/c		9,000
To Plant and Machinery A/c	78,000	By Loss to Partners:		
To Provision for Doubtful Debts A/c	83,400	A	91,200	
		B	54,720	
		C	36,480	1,82,400
	1,91,400			1,91,400

Partners' Capital A/c

Particulars	A	B	C	F	Particulars	A	B	C	F
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	91,200	54,720	36,480	-	By Balance b/d	2,40,000	60,000	90,000	-
To Investments A/c	-	45,000	-	-	By Reserves A/c	30,000	18,000	12,000	-
To B's Loan A/c	-	68,280	-	-	By C and F's Capital A/c	30,000	90,000	-	-
To A and B's Capital A/c			60,000	60,000	By Bank A/c (balancing figure)	31,200	-	2,34,480	1,80,000
To Balance c/d	2,40,000	-	2,40,000	1,20,000					
	3,31,200	1,68,000	3,36,480	1,80,000		3,31,200	1,68,000	3,36,480	1,80,000

Bank Account

Particulars	Amount`	Particulars	Amount`
To A's capital A/c	31,200	By Bank Overdraft A/c	1,32,000
To C's capital A/c	2,34,480	By Balance c/d	3,13,680
To F's capital A/c	1,80,000		
	4,45,680		4,45,680

Balance Sheet of Acme & Co.

as at 1st April, 2021

Liabilities		₹	*Assets*	₹
Capital Accounts:			Land	30,000
A	2,40,000		Buildings	5,70,000
C	2,40,000		Plant and Machinery	3,12,000

F 1,20,000	6,00,000	Furniture	1,29,000
Long Term Debts	9,00,000	Inventories	3,90,000
Trade payables	5,10,000	Trade receivables 4,17,000	
Q's Loan Account	68,280	*Less:* Provision for Doubtful Debts (83,400)	3,33,600
		Balance at Bank	3,13,680
	20,78,280		20,78,280

16. **Income and Expenditure Account of Pune Club**

for the year ended 31st March,2021

Dr. *Cr.*

Expenditure	₹	₹	Income	₹	₹
To Salary		2,000	By Donation	5,000	
To Repair expenses		500	Less: Capitalised (50%)	(2,500)	2,500
To Misc expenses	500		By Subscriptions (WN-2)		12,550
Less: Prepaid	(90)	410	By Entrance fees		1,000
To Insurance premium	200		By Interest on investment [8/100x6,000x5/12]		200
Add: Outstanding	40	240	By Interest received from bank		500
To Stationary		150	By Sale of old newspapers		150
To Drama expenses		500	By Sale of drama tickets		1,050
To Surplus-excess of income over expenditure		14,150			
		17,950			17,950

Balance Sheet of Pune Club

as on 31st March,2021

Liabilities	₹	₹	*Assets*	₹
Capital fund (WN-1)			Snooker table	30,000
Opening balance	36,000		Furniture	6,000
Add: Surplus	14,150		Investments	6,000
Donations	2,500	52,650	Interest accrued	200

Outstanding insurance premium	40	Prepaid Misc. expenses	90
Subscription received in advance	350	Subscriptions receivable	900
		Cash in hand	2,650
		Cash at bank	7,200
	53,040		53,040

Working Note:

1. Balance Sheet of Pune Club

as on 31st March,2020

Liabilities	₹	*Assets*	₹
Capital fund (balancing figure)	36,000	Snooker table	30,000
Creditors for Snooker table	8,000	Cash in hand	4,000
		Cash at bank	10,000
	44,000		44,000

2. Subscriptions

	₹
Subscription as per Receipt and Payment A/c	12,000
Add: Outstanding for year 2020-21	900
	12,900
Less: Advance for year 2021-22	(350)
	12,550

17. In the books of Suraj Ltd.

Journal Entries

2020			Dr. ₹	Cr. ₹
July 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at ₹ 20 per share received.)			
Aug 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares ₹ 20 on application. Directors' resolution no........ dated ......)			

	Share Allotment A/c To Share Capital A/c (Being share allotment made due at ₹ 20 per share. Directors' resolution no...... dated ......)	Dr.	8,00,000	8,00,000
Sept 15	Bank Account To Share Allotment A/c (The sums due on allotment received.)	Dr.	8,00,000	8,00,000
Dec. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of first call-on 80,000 shares at ₹ 30 as per Directors, resolution no... dated...)	Dr.	12,00,000	12,00,000
Dec. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	12,00,000	12,00,000
2021 March 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 40,000 share at ₹ 30 per share on second and final call, as per Directors resolution no... dated...)	Dr.	12,00,000	12,00,000
March 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at ₹ 30 per share.)	Dr.	12,00,000	12,00,000

18. **In the Books of Delta Ltd.**

Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
1.	Share capital A/c (600 × ₹ 10)	Dr.		6,000	
	Securities Premium A/c (600 × ₹ 1)	Dr.		600	
	To Calls-in-arrears A/c (600 × ₹ 3)				1,800

	To forfeited Shares A/c (600 × ₹ 8)			4,800
	(Being 600 shares forfeited for non-payment of call money)			
2.	Bank A/c (400 × ₹ 9) Dr.		3,600	
	Forfeited Shares A/c (400 × ₹ 1) Dr.		400	
	To Share Capital A/c (400 × ₹ 10)			4,000
	(Being 400 shares re-issued as fully paid-up for ₹ 9 per share)			
3.	Forfeited Shares A/c Dr.		2,800	
	To Capital Reserve A/c			2,800
	(Being the transfer of profit on re-issue of 400 shares to Z)			
4.	Bank A/c (100 × ₹ 11) Dr.		1,100	
	To Share Capital A/c (100 × ₹ 10)			1,000
	To Securities Premium A/c (100 × ₹ 1)			100
	(Being 100 shares re-issued to X as fully paid-up for ₹ 11 per share)			
5.	Forfeited Shares A/c (₹ 4,800 × 100/600) Dr.		800	
	To Capital Reserve A/c			800
	(Being the transfer of profit on re-issue of 100 shares to X)			

19. Journal Entries

Date	Particular	L.F	Dr.	Cr.
2020	Sundry Assets A/c Dr.		4,50,000	
April	Goodwill A/c (Bal. fig) Dr.		50,000	
	To Himalayan Ltd. A/c			4,40,000
	To Sundry Liabilities A/c			60,000
	(Being Assets and liabilities taken over for a net consideration of ₹ 4,40,000)			
	Himalyan Ltd. A/c Dr.		4,40,000	
	To 8% Debentures A/c			4,00,000
	To Securities Premium A/c			40,000
	(Being 4000; 8% Debenture of ₹ 100 each issued at a premium of 10%)			

	Bank A/c Dr. To Debenture Application A/c (Being the application money received for 3000, 8% Debenture)		90,000	 90,000
	Debenture Application A/c Dr. To 8% Debenture A/c (Being 3000; 8% Debenture allotted)		90,000	 90,000
	Debentures allotment A/c Dr. Loss on issue of debenture A/c Dr. To 8% Debentures A/c To Premium on redemption of debentures A/c (Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)		1,80,000 45,000	 2,10,000 15,000
	Bank A/c Dr. To Debentures Allotment A/c (Being the allotment money received)		1,80,000	 1,80,000
2021 Mar,31	Profit and Loss A/c Dr. To Loss on issue of Debenture A/c (Being the Loss on issue of debenture written off)		45,000	 45,000

20. (i) Noting Charges: It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

(ii) Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

(iii) Retirement of bills of exchange: Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

(iv) Over-riding Commission: In the case of consignment accounts, the consignor pays a commission to the consignee in consideration of services rendered by the latter for selling the goods consigned. This commission may be either normal commission or special commission. Again, the special commission may be del-credere commission or over riding commission.

Over-riding commission is an extra commission allowed to the consignee in addition to the normal commission. Such additional commission is generally allowed:-

(i) To provide additional incentive to the consignee for the purpose of introducing and creating a market for a new product.

(ii) To provide incentive for supervising the performance of other agents in a particular area.

(iii) To provide incentive for ensuring that the goods are sold by the consignee at the highest possible price.