SUGGESTED ANSWERS
DECEMBER - 2021 EXAMINATION

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

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

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

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

Question 1

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

(i) Any amount spent to minimize the working expenses is revenue expenditure.

(ii) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.

(iii) The provision for bad debts is debited to sundry debtors account.

(iv) Non-participating preference shareholders enjoy voting rights.

(v) There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.

(vi) Discount column of the cash book is never balanced. ***(6 x 2 = 12 Marks)***

(b) The following are the details of the spare parts of an Oil Mill:

1-1-2021	Opening Inventory	Nil
1-1-2021,	Purchases	10 units @ ₹ 300 per unit
15-1-2021	Issued for consumption	5 units
1-2-2021	Purchases	20 units @ ₹ 400 per unit
15-2-2021	Issued for consumption	10 units
20-2-2021	Issued for consumption	10 units

Find out the value of Inventory as on 31.3.2021,if the company follows Weighted Average Method. ***(4 Marks)***

(c) Explain the followings:

(i) Accrual Basis of Accounting

(ii) Amortisation

(iii) Contingent Assets

(iv) Contingent Liabilities ***(4 Marks)***

Answer

(a) (i) False: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.

(ii) True: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.

(iii) False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(iv) False: A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights**.**

(v) True: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.

(vi) True: Discount column is totalled and transferred to the discount allowed or received account.

(b) **Oil Mill**

Calculation of the value of Inventory as on 31-3-2021

	Receipts			Issues			Balance		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
		₹	₹		₹	₹		₹	₹
1-1-2021	Balance							Nil	
1-1-2021	10	300	3,000				10	300	3,000
15-1-2021				5	300	1,500	5	300	1,500
1-2-2021	20	400	8,000				25	380	9,500
15-2-2021				10	380	3,800	15	380	5,700
20-2-2021				10	380	3,800	5	380	1,900

Therefore, the value of Inventory as on 31-3-2021 = 5 units @ ₹380 = ₹1,900

(c) 1. Accrual Basis of Accounting

The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue.

2. Amortisation

The gradual and systematic writing off of an asset or an account over an appropriate period.

3. Contingent Asset

An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

4. Contingent Liability

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

Question 2

(a) From the following information, draw up a Trial Balance in the books of Shri M as on 31st March,2021:

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
Capital	*1,40,000*	*Purchases*	*36,000*
Discount Allowed	*1,200*	*Carriage Inward*	*8,700*
Carriage Outwards	*2,300*	*Sales*	*60,000*
Return Inward	*300*	*Return Outwards*	*700*
Rent and Taxes	*1,200*	*Plant and Machinery*	*80,700*
Stock on 1st April 2020	*15,500*	*Sundry Debtors*	*20,200*
Sundry Creditors	*12,000*	*Investments*	*3,600*
Commission Received	*1,800*	*Cash in Hand*	*100*
Cash at bank	*10,100*	*Motor Cycle*	*34,600*
Stock on 31st March, 2021	*20,500*		

(5 Marks)

(b) On 1st January, 2019 Kohinoor Transport Company purchased a Bus for ₹ 8,00,000. On 1st July, 2020 this bus was damaged due to fire and was completely destroyed and ₹ 6,00,000 were received by a cheque from the Insurance Company in full settlement on 1st October, 2020. On 1st July, 2020 another Bus was purchased by the company for ₹ 10,00,000.

The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31st March, 2021 and gain or loss on the destroyed Bus. ***(5 Marks)*** *(c) According to the cash-book of G there was balance of ₹ 4,45,000 in his bank on 30th June, 2021 On investigation you find that :*

(i) Cheques amounting to 60,000 issued to creditors have not been presented for payment till the date

(ii) Cheques paid into bank amounting to 1,10,500 out of which cheques amounting to ₹ 55,000 only collected by bank up to 30th June 2021

(iii) A dividend of ₹ 4,000 and rent amounting to 60,000 received by the bank and entered in the pass-book but not recorded in the cash book.

(iv) Insurance premium (up to 31st December, 2020) paid by the bank ₹ 2,700 not entered in the cash book.

(v) The payment side of the cash book had been under cast by ₹ 500

(vi) Bank charges ₹ 150 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of ₹ 20,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 6,000 had been discounted with the bank at a cost of ₹ 100 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank pass book. ***(10 Marks)***

Answer

(a)

Trial Balance of Shri. M as on 31st March, 2021

Particulars	Dr. Amount ₹	Cr. Amount ₹
Capital		1,40,000
Purchases	36,000	
Discount Allowed	1,200	
Carriage Inward	8,700	
Carriage Outwards	2,300	
Sales		60,000
Return Inward	300	
Return Outwards		700
Rent and taxes	1,200	
Plant and Machinery	80,700	

Stock on 1st April,2020	15,500	
Sundry Debtors	20,200	
Sundry Creditors		12,000
Investments	3,600	
Commission Received		1,800
Cash in Hand	100	
Cash at Bank	10,100	
Motor Cycle	34,600	
	2,14,500	2,14,500

Note : Stock as on 31st March,2021 will not appear in trail balance.

(b) Calculation of Gain/Loss on Bus damaged by Fire

Particulars	₹
Original cost as on 1.1.2019	8,00,000
Less: Depreciation for 2018-19 (3 months)	(40,000)
WDV as on 31st March,2019	7,60,000
Less: Depreciation for 2019-20	(1,52,000)
WDV as on 31st March,2020	6,08,000
Less: Depreciation for 2020-21 (3 months)	(30,400)
WDV as on 1st July,2020	5,77,600
Less: Amount received from Insurance company	(6,00,000)
Gain on Bus damaged by Fire	22,400

Calculation of depreciation for the year ended 31st March,2021

	Machine I damaged on 1st July,2020 (8,00,000) .₹	**Machine II Purchased on 1st July,2020 (10,00,000) ₹**
Book value as on 1st April,2020	6,08,000	
Purchased on 1st July,2020		10,00,000
Depreciation @20% Machines	30,400 (for 3 months)	1,50,000 (for 9 months)

Total depreciation ₹ **1,80,400**

(c) **In the Books of G**

Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	4,45,000	By Insurance premium A/c	2,700
To Dividend A/c	4,000	By Correction of errors	500
To Rent A/c	60,000	By Bank charges	150
To Bill receivable A/c	5,900	By Bill payable	20,000
		By Balance c/d	4,91,550
	5,14,900		5,14,900

Bank Reconciliation Statement as on 30th June, 2021

	₹
Adjusted balance as per cash book	4,91,550
Add: Cheques issued but not presented for payment till 30th June, 2021	60,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2021	(55,500)
Balance as per pass book	4,96,050

Question 3

(a) *On 12th May, 2020 A sold goods to B for 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills.*

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ₹ 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2020 B approached A offering ₹ 12,240 for retirement of his acceptance A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

(10 Marks)

(b) *Mr. Grow and Mr. Green had the following mutual dealings. They desired to settle their account on the average due date:*

Purchases by Grow from Green:	**₹**
6th January, 2021	*60,000*
2nd February, 2021	*28,000*
31st March, 2021	*20,000*
Sales by Grow to Green:	
6th January, 2021	*66,000*
9th March, 2021	*24,000*
20th March, 2021	*5,000*

You are asked to ascertain the average due date taking base date as 6th January 2021.

(5 Marks)

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

(i) *From the following details, prepare an account current, as sent by A to B on 30th June, 2021 by means of products method charging interest @ 6% p.a:*

2021	Particulars	Rs.
January 1	Balance due from B	600
January 11	Sold due from B	520
January 18	B returned goods	125
February 11	B paid by cheque	400
February 14	B accepted a bill drawn by A for one month	300
April 29	Goods sold to B	615
May 15	Received cash from B	700

(ii) *A, B and C are partners in a firm. On 1st April 2019 their fixed capital stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively.*

As per the provision of partnership deed:

(1) *C was entitled for a salary of 5,000 p.a.*

(2) *All the partners were entitled to interest on capital at 5% p.a.*

(3) *Profits and losses were to be shared in the ratio of Capitals of the partners.*

Net Profit for the year ended 31st March, 2020 of ₹ 33,000 and 31st March,2021 of ₹ 45,000 was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors. **(5 Marks)**

Answer

(a) **Journal Entries in the books of Mr. A**

2020			(₹)	(₹)
May,12	B's A/c	Dr.	36,470	
	To Sales account			36,470
	(Being goods sold to B on credit)			
May,12	Bills receivable (No. 1) A/c	Dr.	16,470	
	Bills receivable (No. 2) A/c	Dr.	20,000	
	To B's A/c			36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)			
	OR			
	Bills receivable A/c	Dr.	36,470	
	To B's A/c			36,470
	(Being acceptances received from B, one for ₹ 16,470 at one month and other for ₹ 20,000 at 3 months)			
June,5	Bills for Collection A/c	Dr.	36,470	
	To Bills receivable (No.1) A/c			16,470
	To Bills receivable (No.2) A/c			20,000
	(Being both the bills sent to bank for collection)			
	OR			
	Bills for Collection A/c	Dr.	36,470	
	To Bills receivables A/c			36,470
	(Being B's acceptances sent for collection on due dates)			
June,15	Bank A/c	Dr.	16,470	
	To Bills for Collection A/c			16,470
	(Being amount received on retirement of Bills receivable No. 1)			

Aug,14	B's A/c	Dr.	20,020	
	To Bills for Collection a/c			20,000
	To Noting Charges or Bank Charges			20
	(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)			
Aug,16	B's A/c	Dr.	480	
	To Interest a/c			480
	(Being interest due)			
Aug,16	Bank/Cash A/c	Dr.	8,020	
	To B's A/c			8,020
	(Being cash received)			
Aug,16	Bills receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			12,480
	(Being Bills receivable (No. 3) drawn accepted by B)			
	OR			
	Alternatively combined entry may be given for the above two entries:			
	Bank/Cash a/c	Dr.	8,020	
	Bills receivable a/c	Dr.	12,480	
	To B's A/c			20,500
	(Being cash and new acceptance at 3 months received from B)			
Aug,16	Bills for Collection A/c	Dr.	12,480	
	To Bills receivable (No.3) A/c			12,480
	(Being Bills receivable (No.3) sent to bank for collection)			
	OR			
	Bills for collection A/c	Dr.	12,480	
	To Bills receivable A/c			12,480
	(Being new acceptance sent to bank for collection on due date)			

Oct, 1	Bank A/c Dr.	12,240	
	Rebate A/c Dr.	240	
	To Bills for Collection		12,480
	(Being amount received on retirement of Bills receivable (No.3))		

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug,16	Bank/ Cash A/c Dr.	8,020	
	Bills Receivable (No. 3) A/c Dr.	12,480	
	To B's A/c		20,020
	To interest A/c		480
	(Being the ₹ 8,020 paid in cash and new bill (Bills receivable No. 3) accepted for 3 months)		

(b) Taking 6th January, 2021 as base date

Due date	Amount ₹	No. of days from the base date i.e. 6th Jan. 2021	Product
For Grow's payments 2021			
6th January	60,000	0	0
2nd February	28,000	27	7,56,000
31st March	20,000	84	16,80,000
Total	1,08,000		24,36,000
For Green's payment 2021			
6th January	66,000	0	0
9th March	24,000	62	14,88,000
20th March	5,000	73	3,65,000
Total	95,000		18,53,000

Excess of Grow's products over Green's = ₹ 24,36,000 – ₹ 18,53,000 = ₹ 5,83,000

= ₹ 1,08,000 – ₹ 95,000 = ₹ 13,000

Number of days from the base date to the date of settlement is ₹5,83,000 / ₹13,000 = 45 days (approx)

Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February.

On 20th February, 2021, Grow has to pay Green ₹ 13,000 to settle the account.

(c) (i) B in Account Current with A

(Interest to 30th June 2021, @ 6% p.a.)

Date 2021	Particulars	Amount ₹	Days	Products	Date 2021	Particulars	Amount ₹	Days	Products
Jan.1	To Balance b/d	600	181	1,08,600	Jan.18	By Sales Returns	125	163	20,375
Jan. 11	To Sales A/c	520	170	88,400	Feb. 11	By Bank A/c	400	139	55,600
Apr. 29	To Sales A/c	615	62	38,130	Feb. 14	By B/R A/c (due date: March 17)	300	105	31,500
June 30	To Interest A/c	15.69							
					May 15	By Cash A/c	700	46	32,200
					June 30	By Balance of products			95,455
					"	By Balance c/d	225.69		
		1750.69		2,35,130			1750.69		2,35,130

Calculation of interest:

$$\text{Interest} = \frac{95,455}{365} \times \frac{6}{100} = ₹\ 15.69$$

OR

(ii)

Particulars	**A**	**B**	**C**	**Total Profit of firm**
I. Amount already credited:				
Share of profit (in the ratio of 1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	78,000
II. Amount which should have been credited:				
C's Salary (2019-20,2020-21)			10,000	
Interest on Capital (2019-20,2020-21)	5,000	2,500	2,500	
Share of Profit	29,000	14,500	14,500	58,000
	34,000	17,000	27,000	
Net effect (I-II)	(8,000)	9,000	(1,000)	-

The necessary journal entry will be:

Particulars	Debit (₹)	Credit (₹)
B's Current A/c	9,000	

To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit shared among partners in the ratio of capital)		

Question 4

(a) *The Income and Expenditure Account of the Women Club for the Year ended on December 31, 2021 is as follows.*

Expenditure	*₹*	*Income*	*₹*
To Salaries	*47,500*	*By Subscription*	*75,000*
To General Expenses	*5,000*	*By Entrance Fees*	*2,500*
To Audit Fee	*2,500*	*By Contribution for Annual Dinner*	*10,000*
To Secretary's honorarium	*10,000*	*By Annual Sports Meet Receipts*	*7,500*
To Stationary and Printing	*4,500*		
To Annual Dinner Expenses	*15,000*		
To Interest and bank charges	*1,500*		
To Depreciation	*3,000*		
To Surplus	*6,000*		
	95,000		*95,000*

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2020	*6,000*
Subscription received in advance on 31st December,2020	*4,500*
Subscription received in advance on 31st December, 2021	*2,700*
Subscription outstanding on 31st December,2021	*7,500*

Salaries outstanding at the beginning and end of the year 2021 were respectively ₹ 4,000 and ₹ 4,500. General Expenses include insurance prepaid to the extent of ₹ 600. Audit fee for the year 2021 is as yet unpaid. During the year 2021 audit fee for the year 2020 was paid amounting to ₹ 2,000

The Club owned a freehold lease of ground valued at ₹ 1,00,000. The club had sports equipment on 1st January, 2021 valued at ₹ 26,000. At the end of the year 2021, after depreciation, this equipment amounted to ₹27,000. In the year 2020, the Club had raised a bank loan of ₹20,000.This was outstanding throughout the year 2021.On 31st December, 2021 in hand was ₹ 16,000.

You are required to:

Prepare the Receipts and Payments Account for the year ended on December 31, 2021 and the Balance Sheet as on that date.

(b) *A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2021, following is the Balance Sheet of A and B.*

Balance Sheet as at 31st March, 2021

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital accounts			*Cash in hand*	*1,15,000*
A	*2,85,000*		*Cash at bank*	*1,10,000*
B	*1,55,000*	*4,40,000*	*Sundry Debtors*	*1,60,000*
Creditors		*3,75,000*	*Stock*	*2,00,000*
General reserve		*60,000*	*Bills receivable*	*30,000*
			Land and building	*2,50,000*
			Office furniture	*10,000*
		8,75,000		*8,75,000*

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(i) *Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.*

(ii) *C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits.*

(iii) *Stock and Furniture to be reduced by 10%.*

(iv) *A provision @ 5% for doubtful debts to be created on debtors.*

(v) *Land and building to be appreciated by 20%.*

(vi) *Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.*

Prepare Revaluation Account and Partners Capital Accounts. ***(10 Marks)***

Answer

(a) The Women Club

Receipts and Payments Account for the year ended 31st December, 2021

	Receipts	₹	₹		Payments	₹	₹
To	Balance b/d (balancing figure)		13,900	By	Salaries (W.N.2)		47,000

To	Subscriptions (W.N.1)		71,700	By	General Expenses	5,000	
To	Entrance Fees		2,500		*Add*: Paid for 2022	600	5,600
To	Contribution for annual dinner		10,000	By	Audit fee (2021)		2,000
To	Annual sport meet receipt		7,500	By	Secy. Honorarium		10,000
				By	Stationery & Printing		4,500
				By	Annual Dinner Expenses		15,000
				By	Interest & Bank Charges		1,500
				By	Sports Equipment's		
					[27,000 -– (26,000 – 3,000)] (W.N.3)		4,000
				By	Balance c/d		16,000
			1,05,600				1,05,600
To	Balance b/d		16,000				

Balance Sheet of Women Club as on December 31, 2021

Liabilities	`	`	Assets	`	`
Subscription received			Freehold Ground		1,00,000
in advance		2,700	Sport Equipment:		
Audit Fee Outstanding		2,500	As per last		
Salaries Outstanding		4,500	Balance Sheet	26,000	
Bank Loan		20,000	Additions	4000	
Capital Fund:				30,000	
Balance as per previous			Less: Depreciation	(3,000)	27,000
Balance Sheet	1,15,400		Subscription Outstanding		7,500
Add: Surplus for 2021	6,000	1,21,400	Insurance Prepaid		600
			Cash in hand		16,000
		1,51,100			1,51,100

Balance Sheet of Women Club as on 31st December, 2020

Liabilities	₹	Assets	₹
Subscriptions received in advance	4,500	Freehold Ground	1,00,000
Salaries outstanding	4,000	Sports Equipment	26,000
Audit fees unpaid	2,000	Subscriptions Outstanding	6,000
Bank Loan	20,000	Cash in hand	13,900
Capital Fund (balancing figure)	1,15,400		
	1,45,900		1,45,900

Working Note 1:

Calculation of Subscription received during the year ended 31st December, 2021

	₹
Subscription as per Income & Expenditure account	75,000
Add: Subscription outstanding at the end of 2020	6,000
Add: Subscription received in advance on 31.12.2021	2,700
	83,700
Less: Subscription received in advance on 31.12.2020	(4,500)
Less: Subscription outstanding on 31.12.2021	(7,500)
	71,700

Working Note 2:

Salaries as per income & expenditure	47,500
Add: Opening outstanding	4,000
Less: Closing outstanding	(4,500)
Total Salary paid	47,000

Working Note 3:

Purchase of Sports equipment = Closing Balance + Depreciation- Opening

= 27,000 + 3,000 - 26,000 = ₹ 4,000

(b) **Revaluation Account**

Particulars	Amount ₹	Particulars	Amount ₹
To Furniture	1,000	By Land and Building	50,000
To Stock	20,000		
To Provision for doubtful debts	8,000		
To Revaluation Profit	21,000		
A (21,000 x ¾) 15,750			
B (21,000 x ¼) 5,250			
	50,000		50,000

Partners' Capital Accounts

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To 'B's Current A/c (bal fig)	-	45,250	-	By Balance b/d	2,85,000	1,55,000	–
To Balance c/d	4,20,000	1,40,000	1,40,000	By General reserve	45,000	15,000	-
				By Revaluation Profit	15,750	5,250	
				By Bank A/c	-	-	1,40,000
				By C's Current A/c (Goodwill)	30,000	10,000	-
				By As Current A/c (bal fig)	44,250	-	-
	4,20,000	1,85,250	1,40,000		4,20,000	1,85,250	1,40,000

Working Notes:

1. Calculation of total Capital

   C's capital contribution of ₹ 1,40,000 consists of 1/5th of capital.

   Therefore, total capital of firm should be ₹ 1,40,000 x 5 = ₹ 7,00,000

   Hence, ₹ 5,60,000 (7,00,000 -1,40,000) will be shared by A and B in the ratio of 3:1 i.e., A's capital ₹ 4,20,000 and B's capital ₹ 1,40,000

2. Calculation of New Profit Sharing ratio

   A = ¾ x 4/5 = 12/20 = 3/5

B = 1 /4 X 4/ 5 = 4/20 = 1/5

C = 1/5= 4/20 = 1/5 or 3 : 1 : 1

OR

Calculation of sacrificing ratio

Partners	New share	Old share	Sacrifice	Gain
A	$\frac{3}{5}$	$\frac{3}{4}$	$\frac{-3}{20}$	-
B	$\frac{1}{5}$	$\frac{1}{4}$	$\frac{-1}{20}$	-
C	$\frac{1}{5}$	-	-	$\frac{1}{5}$

3. Goodwill

C's share in Goodwill = 40,000 (2,00,000x1/5) is adjusted through C's Current

Account because capitals of old partners are also adjusted on the basis of C's Capital.

Therefore, Journal entry for goodwill will be

C's Current A/c	Dr.	40,000	
To A's Capital A/c			30,000
To B's Capital A/c			10,000

Question 5

(a) *Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:*

(i) *Wages paid for construction of office building debited to wages account ₹ 20,000.*

(ii) *A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book.*

(iii) *An amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.*

(iv) *Goods (Cost being ₹ 5,000 and Sales price being ₹ 6,000) distributed as free samples amount prospective customers were not recorded anywhere.*

(v) *Goods worth ₹ 1,500 returned by Green have not been recorded anywhere.*

(5 Marks)

(b) *On 31st March, 2021 the Trial Balance of Mr. Black was as follows:*

Particulars	*Debit (₹)*	*Particulars*	*Credit (₹)*
Stock on 1/4/2020		*Sundry Creditors*	*1,50,000*
Raw Materials	*2,10,000*	*Bills Payables*	*75,000*
Work-in-Progress	*95,000*	*Sale of scrap*	*25,000*
Finished Goods	*1,55,000*	*Commission received*	*4,500*
Sundry Debtors	*2,40,000*	*Provision for doubtful debts*	*16,500*
Carriages on Purchase	*15,000*	*Capital account*	*10,00,000*
Bills Receivables	*1,50,000*	*Sales*	*16,72,000*
Wages	*1,30,000*	*Bank overdraft*	*85,000*
Salaries	*1,00,000*		
Telephone and Postage	*10,000*		
Repairs to office furniture	*3,500*		
Cash at Bank	*1,70,000*		
Office Furniture	*1,00,000*		
Repairs to Plant	*11,000*		
Purchases	*8,50,000*		
Plan and Machinery	*7,00,000*		
Rent	*60,000*		
Lighting	*13,500*		
General Expenses	*15,000*		
	30,28,000		*30,28,000*

The following additional information is available:

Stocks on 31st March,2021 were:

Raw material	*₹ 1,62,000*
Finished goods	*₹ 1,81,000*
Work-in-progress	*₹ 78,000*

Salaries and wages unpaid for the year ended 31st March,2021 were respectively, ₹ 9,000 and ₹ 20,000. Machinery is to be depreciated by 10% and office furniture by 7½%. A provision for doubtful debts is to be maintained @1% of sales. Rent is to be charged as to 3/4 to factory and 1/4 to office. Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March,2021. ***(15 Marks)***

Answer

(a) **Journal**

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Building A/c	Dr.	20,000	
	To Wages A/c			20,000
	(Correction of wrong debit in the wages A/c of the construction of office building)			
(2)	Ramesh	Dr.	2,400	
	To Purchases A/c			1,200
	To Sales A/c			1,200
	(Correction of wrong entry in the Purchases Book of a credit sale of goods to Ramesh)			
(3)	Mahesh Chand	Dr.	2,000	
	To Bad Debts Recovered A/c			2,000
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)			
(4)	Advertisement expenses or Sales Promotion or Free Samples A/c	Dr.	5,000	
	To Purchases A/c			5,000
	(Entry of the goods distributed as free samples omitted from records)			
(5)	Returns Inwards /Sales Return A/c	Dr.	1,500	
	To Green			1,500
	(Entry of goods returned by Green omitted from records)			

(b) **In the books of Mr. Black**

Manufacturing Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
Raw material consumed:			By Closing Stock of Work in Progress	78,000

To Opening Stock of Raw Materials	2,10,000		By Sale of Scrap	25,000
			By Cost of goods Manufactured	
Add: Purchases	8,50,000		(Transferred to Trading Account)	11,90,000
Less: Closing Stock	1,62,000	8,98,000		
To Opening Stock of WIP		95,000		
To Wages	1,30,000			
Add: Outstanding Wages	20,000	1,50,000		
To Carriage on Purchases		15,000		
To Repairs to Plant		11,000		
To Rent (3/4)		45,000		
To Lighting (2/3)		9,000		
To Depreciation of Plant		70,000		
		12,93,000		12,93,000

Trading Account for the year ended 31st March, 2021

Particulars	₹	Particulars	₹
To Opening Stock of finished goods	1,55,000	By Sales	16,72,000
To Cost of goods transferred from Manufacturing A/c	11,90,000	By Closing Stock	1,81,000
To Gross Profit c/d	5,08,000		
	18,53,000		18,53,000

Profit and Loss Account for the year ended 31st March, 2021

Particulars		₹	Particulars	₹
To Salaries	1,00,000		By Gross Profit b/d	5,08,000
Add: Outstanding	9,000	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Depreciation of furniture		7,500		
To Rent (1/4)		15,000		

To Lighting (1/3)		4,500		
To General Expenses		15,000		
To Provision for doubtful Debts: Required (1% of ₹1,67,200)	16,720			
Less: Existing Provision	16,500	220		
To Net Profit		3,47,780		
		5,12,500		5,12,500

Question 6

(a) *Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of ₹ 10 each. The amount was payable as follows:*

(i)	*On Application*	*₹ 1 per share*
(ii)	*On Allotment*	*₹ 2 per share*
(iii)	*On First call*	*₹ 3 per share*
(iv)	*On Second and final Call*	*₹ 4 per share*

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. Al the forfeited shares were re-issued at ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Fashion Garments Ltd. ***(15 Marks)***

(b) *Discuss the following:*

(i) What do you mean by principal books of accounts?

(ii) What are the rules of posting of journal entries into the Leger? ***(5 Marks)***

Answer

(a) In the books of Fashion Garments Ltd.

Journal Entries

Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c Dr.		10,000	
To Equity Share Application A/c			10,000

(Money received on applications for 10,000 shares @ ₹ 1 per share)				
Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)	Dr.		10,000	 10,000
Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ ₹ 2 per share)	Dr.		20,000	 20,000
Bank A/c To Equity Share Allotment A/c (Allotment money received on 9,900 shares) **OR** Bank A/c Calls in arrears A/c To Equity Share Allotment A/c (Allotment Amount received except 100 shares)	Dr. Dr. Dr.		19,800 19,800 200	 19,800 20,000
Equity Share Capital A/c To Share Forfeiture A/c To Equity Shares Allotment A/c (100 Shares of Ram forfeited) **OR** Equity Share Capital A/c To Shares Forfeiture A/c To Calls in arrears A/c (100 shares forfeited due to non-payment of allotment money)	Dr. Dr.		300 300	 100 200 100 200
Equity Share First Call A/c To Equity Share Capital A/c (First call made due on 9,900 shares at ₹ 3 per share)	Dr.		29,700	 29,700
Bank A/c To Equity Share First Call A/c (First call money received on 9,750 shares at ₹ 3 per share) **OR**	Dr.		29,250	 29,250

Bank A/c	Dr.		29,250	
Calls in arrears A/c	Dr.		450	
To Equity Share First Call A/c				29,700
(First Call money received except 150 shares)				
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c				450
To Equity Share First Call A/c				450
(150 Shares of Shyam forfeited)				
OR				
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c				450
To Calls in arrears A/c				450
(150 shares forfeited due to non - payment of First call money)				
Equity Share Second and Final Call A/c	Dr.		39,000	
To Equity Share Capital A/c				39,000
(Second and Final call made due on 9,750 shares at ₹ 4 per share)				
Bank A/c	Dr.		38,800	
To Equity Share Second and Final Call A/c				38,800
(Second and Final call money received on 9,700 shares at ₹ 4 per share)				
OR				
Bank A/c	Dr.		38,800	
Calls in arrears A/c	Dr.		200	39,000
To Equity Shares Second and Final call A/c				
(Second and Final call money received except 50 shares)				
Equity Share Capital A/c	Dr.		500	
To Share Forfeiture A/c				300
To Equity Share Second and Final Call A/c				200
(50 Shares of Mohan forfeited)				
OR				
Equity Share Capital A/c				
To Shares Forfeiture A/c	Dr.		500	
To Calls in arrears A/c				300
(50 shares forfeited due to non-payment of Second and final call money)				200
Bank A/c	Dr.		2,700	

Share Forfeiture A/c Dr. To Equity Share Capital A/c (300 shares reissued at ₹ 9 per share)			300	3,000
Share Forfeiture A/c Dr. To Capital Reserve A/c (W.N.1) (Profit on re-issue transferred to Capital Reserve)			550	550

Working Note-1: Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Ram forfeited	₹ 100
Surplus out of 150 shares of Shyam forfeited	₹ 450
Surplus out of 50 shares of Mohan forfeited	₹ 300
	₹ 850
Less: Loss on re-issue of shares	₹ 300
Transferred to Capital Reserve	₹ 550

(b) (i) Ledger is known as principal books of accounts as it provides full information regarding all the transactions pertaining to any individual account.

Ledger contains all set of accounts (viz. personal, real and nominal accounts)

(ii) Rules regarding posting of entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.