(ALL CA FOUNDATION BATCHES)

DATE: 24.10.2020 **MAXIMUM MARKS: 100** **TIMING: 3 Hours**

PAPER : PRINCIPLES & PRACTICE OF ACCOUNTING

Question no. 1 is compulsory.

Candidates are required to answer any four questions from the remaining five questions.

Answer 1:

(a) (i) DISTINCTION BETWEEN MONEY MEASUREMENT CONCEPT AND MATCHING CONCEPT

As per Money Measurement concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In Matching concept, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

{2 M}

Answer:

(a) (ii) DISTINCTION BETWEEN PERIODIC INVENTORY SYSTEM AND PERPETUAL INVENTORY SYSTEM

Both the systems - Periodic Inventory System and Perpetual Inventory System are not mutually exclusive and complementary in nature. Distinction between both the systems can be explained as follows:

S. No.	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification.	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a particular date.	It provides continuous information about inventory and cost of sales.
3.	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory.
5.	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6.	This system is simple and less expensive.	It is costlier method.
7.	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

{Half Point of any four}

Answer:

(b) (i) Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and

presentation of financial statements. Policies are based on various accounting concepts, principles and conventions. There is no single list of accounting policies, which are applicable to all enterprises in all circumstances. Enterprises operate in diverse and complex environmental situations and so they have to adopt various policies.
The areas wherein different accounting policies are frequently encountered can be given as follows:
(1) Valuation of inventories;
(2) Valuation of investments.
{2 M}

Answer:
(b) (ii) Inventory can be defined as assets held
- for sale in the ordinary course of business, or
- in the process of production for such sale, or
- for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.

The significance of inventory valuation arises due to the following reasons:
(i) Determination of Income
(ii) Ascertainment of Financial Position
(iii) Liquidity Analysis
(iv) Statutory Compliance
{2 M}

Answer:
(c)
Transit Company Limited
Bank Reconciliation Statement as on 30.06.2003

	(+)	**(-)**	
Bank balance as per the Pass Book	7,392		{1 M}
1. Deposited but not credited by bank	492		{1 M}
2. Bank charges had not been entered in the Cash Book	17		{1 M}
3. Cheque returned marked 'Out of date' entered in the Cash Book	42		{1 M}
4. Payment as per standing order not entered in the Cash Book	10		{1 M}
7. Payment as per order not entered in the Cash Book (Rs. 26 x 3)	78		{1 M}
8. Deposit entered in the Cash Book twice	364		{1 M}
10. Discount allowed wrongly entered in the bank column	5		{1 M}
Less : 6. Cash directly deposited by customer not entered in the cash book (Rs. 499 + 157)		656	{1 M}
5. Cheque of M.D. wrongly deposited into company's account		100	{1 M}
9. Cheques issued but not presented to Bank		4,672	{1 M}
	8,400	5,428	
Bank Balance as per Cash Book	2,972		{1 M}

Answer 2:
(a)
Plant and Machinery Account

		Rs.			**Rs.**	
2015			2015			
Jan.1	To Balance b/d	38,00,000	June 1	By Bank (Sales)	1,50,000	
June 1	To Bank (5,60,000 + 17,840)	5,77,840		By Depreciation (on sold machine)	29,525	{1 M}
				By Loss on sale	5,29,063	{1 M}

				By Loss on scrapping the machine	7,53,825	}{1 M}
				By Depreciation (on scrapped machinery)	32,775	}{1 M}
				By Depreciation (Note iii)	2,64,188	}{1 M}
				By Balance c/d	26,18,464	}{1 M}
		43,77,840			43,77,840	

Working Note :

(i)	Calculation of loss on sale of machine on 1.6.2015			
			Rs.	
	Cost on 1.1.2013		8,74,800	
	Less: Depreciation @ 10% on Rs. 8,74,800		(87,480)	
	W.D.V. on 31.12.2013		7,87,320	
	Less: Depreciation @ 10% on Rs. 7,87,320		(78,732)	
	W.D.V. on 31.12.2014		7,08,588	}{1/2 M}
	Less: Depreciation @ 10% on Rs. 7,08,588 for 5 months		(29,525)	
			6,79,063	
	Less: Sale proceeds on 01.06.2015		(1,50,000)	
	Loss		5,29,063	}{1/2 M}
(ii)	Calculation of loss on scrapped machine			
			Rs.	
	Cost on 01.01.2014		8,74,000	
	Less: Depreciation @ 10% on Rs. 8,74,000		(87,400)	
	W.D.V. on 01.01.2015		7,86,600	}{1/2 M}
	Less: Depreciation @ 10% on Rs. 7,86,600 for 5 months		(32,775)	
	Loss		7,53,825	}{1/2 M}
(iii)	Depreciation			
	Balance of machinery account on 01.01.2015		38,00,000	
	Less: W.D.V. of machinery sold	7,08,588		
	W.D.V. of machinery scrapped	7,86,600	(14,95,188)	
	W.D.V. of other machinery on 01.01.2015		23,04,812	}{1/2 M}
	Depreciation @ 10% on Rs. 23,04,812 for 12 months		2,30,481	}{1/2 M}
	Depreciation @ 10% on Rs. 5,77,840 for 7 months		33,707	}{1/2 M}
			2,64,188	}{1/2 M}

Answer:

(b) **In the books of Senco Brothers**

Journal

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.	
(a)	Capital A/c To Profit and Loss Adjustment A/c (Being insurance claim received for loss of stock-in-transit wrongly deposited by the proprietor to his private bank account, now rectified)	Dr.		2,500	 2,500	}{1 M}
(b)	Profit and Loss Adjustment A/c To Sundry Creditors A/c (Being credit purchases not recorded in the books, now rectified)	Dr.		2,000	 2,000	}{1 M}

(c)	(i) Profit and Loss Adjustment A/c Dr. To Suspense A/c (Being sales commission not posted from the Cash Book, now rectified)		300	300	{1 M}
	(ii) Suspense A/c Dr. To Profit and Loss Adjustment A/c (Being dividends received undercast, now rectified)		100	100	{1 M}
	(iii) Suspense A/c Dr. To Sundry Creditors A/c (Being purchases not posted from purchases journal to suppliers account, now rectified)		190	190	{1 M}
	(iv) Suspense A/c Dr. To Sundry Debtors A/c (Being the debit side of a customer's account overcast, now rectified)		10	10	{1 M}
(d)	Profit and Loss Adjustment A/c Dr. To Sundry Debtors A/c (Being goods returned not recorded in the books, now rectified)		500	500	{1 M}
	Capital A/c Dr. To Profit & Loss Adjustment A/c (Being the net loss transferred to Capital Account)		200	200	{1 M}

Dr. **Suspense Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Profit and Loss Adjustment A/c	100		By Profit and Loss Adjustment A/c	300
	To Sundry Creditors A/c	190			
	To Sundry Debtors A/c	10			
		300			300

{1 M}

Dr. **Profit and Loss Adjustment Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Sundry Creditors A/c	2,000		By Capital A/c	2,500
	To Suspense A/c	300		By Suspense A/c	100
	To Sundry Debtors A/c	500		By Capital A/c (Loss)	200
		2,800			2,800

{1 M}

Answer 3:

(a) **JOURNAL**

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c To Share Application A/c (Application money received on 60,000 shares @ Rs. 3 per share)	Dr.		1,80,000	1,80,000
	Share Application A/c To Share Capital A/c To Share Allotment A/c (Application money transferred to share capital account and the excess money to share allotment account	Dr.		1,80,000	1,50,000 30,000

	Share Allotment A/c To Share Capital A/c (Allotment money due on 50,000 shares @ Rs. 4 per share)	Dr.		2,00,000	 2,00,000	
	Bank A/c[1] To Share Allotment A/c (Allotment money received, except on 1,500 shares)	Dr.		1,65,500	 1,65,000	{1 M}
	Share First Call A/c To Share Capital A/c (First call due on 50,000 shares @ Rs. 2 per share)	Dr.		1,00,000	 1,00,000	
	Bank A/c To Share First Call A/c (First call money received, except on 1,500 shares @ Rs. 2 per share)	Dr.		97,000	 97,000	{1 M}
	Share Final Call A/c To Share Capital A/c (Final call due on 50,000 shares @ Rs. 1 per share)	Dr.		50,000	 50,000	
	Bank A/c To Share Final Call A/c (Final call received, except on 1,500 shares @ Rs. 1 per share)	Dr.		48,500	 48,500	{1 M}
	Share Capital A/c To Share Allotment A/c To Share First Call A/c To Share Final Call A/c To Share Forfeiture A/c (Forfeiture of 1,500 shares)	Dr.		15,000	 4,500 3,000 1,500 6,000	{1 M}
	Bank A/c Share Forefeiture A/c To Share Capital A/c (Re-issue of 1,000 shares at Rs. 8 per share)	Dr. Dr.		8,000 2,000	 10,000	{1 M}
	Share Forefeiture A/c[2] To Capital Reserve A/c (Profit on 1,000 forfeited shares transferred to Capital Reserve A/c)	Dr.		2,000	 2,000	{1 M}

Working Notes :

(1)

(A) As Applicants for 20,000 shares were allotted = 15,000 shares

∴ Applicants for 2,000 shares were allotted $= \frac{15{,}000}{20{,}000} \times 2{,}000 = 1{,}500$ shares

Excess application money received on these :

(2,000 shares – 1,500 shares) x Rs. 3 = Rs. 1,500 {1 M}

(B) Amount due on allotment on these shares = 1,500 shres x Rs. 4 = Rs. 6,000

Less: Excess received on application from these shares <u>Rs. 1,500</u>

Amount not received on allotment <u>Rs. 4,500</u> {1 M}

(C)	Amount received on allotment :	Rs.	
	Total amount due on allotment 50,000 shares x Rs. 4	= 2,00,000	
	Less: Excess amount received on applications 10,000 shares x Rs. 3	= 30,000	{1 M}
	Balance Due	1,70,000	
	Less: Amount not received on allotment	4,500	
	Net Amount received on allotment in Cash	1,65,500	

(2) Since only 1,000 shares have been re-issued, therefore the profit on 1,000 shares will be transferred to Capital Reserve.

Profit on 1,500 shares = Rs. 6,000

$\therefore$ Profit on 1,000 shares = Rs. $\frac{6,000}{1,500}$ x 1,000 = Rs. 4,000 {1 M}

Less : Loss on re-issue of 1,000 shares @ Rs. 2 per share Rs. 2,000

Rs. 2,000

Answer:

(b)

In the books of X

Journal Entries

Date	Particulars		Debit	Credit	
2016			Rs.	Rs.	
1-Apr	Bills receivable account To Y's account (Acceptance received from Y for mutual accommodation)	Dr.	8,000	 8,000	}{1 M}
1-Apr	Bank account Discount account To Bills receivable account (Bill discounted for Rs. 3,920)	Dr. Dr.	7,840 160	 8,000	}{1 M}
	Y's account To Cash account To Discount account (Half of proceeds remitted to Y)	Dr.	4,000	 3,920 80	 }{1 M} }{1 M}
Aug. 4	Y's account To Bills payable account (Acceptance given to Y, being unable to remit the due amount)	Dr.	14,000	 14,000	 }{1 M}
	Bank account $\left[\frac{4,000 + 2,600}{13,200} \times 800\right]$ Discount account To Y's account (Amount received from Y and discount amount credited to him)	Dr. Dr.	2,600 }{1 M} 400 }{1 M}	 3,000	
	Bills payable account To Y's account (Acceptance to Y dishnoured because of insolvency)	Dr.	14,000	 14,000	}{1 M}
	Y account To Bank account To Deficiency account (Amount paid @ 25 paise in a rupee and balance credited to deficiency account as being unable to pay)	Dr.	7,000	 1,750 5,250	 }{1 M} }{1 M}

Answer 4:

(a) **Calcutta Football Club**

Income and Expenditure Account for the year ended 31st December, 2007

Expenditure		Rs.	Income		Rs.	
To Remuneration to Club Coach		5,000	By Donations and Subscriptions (Note 4)		24,500	}{1 M}
To Groundmen's pay		2,500	By Profit from bar room :			
To Groundmen's bonus		2,000	Bar room receipts	4,000		
To Ground rent		2,500	Less: Bar room expenses	2,000	2,000	}{1 M}
To Printing and Stationery (Note 1)	{1 M}{	2,800	By Profit from Club night :			
To Repairs to Equipments (Note 2)	{1 M}{	4,500	Contribution to Club night	1,000		
To Honorarium to Secretary : Rs. (4,000 + 2,000)	{1 M}{	6,000	Net proceeds of Club night	7,800		
To Depreciation on Equipments (Note 3)	{1 M}{	5,200		8,800		
To Excess of Income over Expenditure		1,700	Less: Club night expenses	3,800	5,000	}{1 M}
		{1 M}	By Bank Interest	500		
			Add: Accrued interest	200	700	
		32,200			32,200	

Balance Sheet of Calcutta Football Club as on 31st December, 2007

Liabilities		Rs.	Assets		Rs.
Capital Fund :			Equipments (Note 3)		17,500
Opening balance (Note 5)	28,800		Subscriptions Due		1,000
Add: Surplus	1,700		Bank : Saving Account	20,400	
Add: Entrance fees	1,800	32,300	Add: Accrued interest	200	20,600
Outstanding Expenses :		{1 M}	Cash		2,500
Groundman's bonus		2,000			
Printing and Stationery		800			
Honorarium to Secretary		6,000			
Bank Overdraft (Note 6)		500			
		41,600			41,600

Working Notes:

Dr. **(1) Printing and Stationery Account** **Cr.**

To Bank	3,000	By Outstanding Printing	1,000
To Outstanding Printing	800	By Income and Expenditure (Balancing figure)	2,800
	3,800		3,800

(2) Repairs to Equipment = Rs. 5,000 – Rs. 3,000 + Rs. 2,500 = Rs. 4,500

Dr. **(3) Equipments Account** **Cr.**

To Balance b/d	8,000	By Bank – sale	800
To Bank – purchase	15,500	By Depreciation (Balancing figure)	5,200
		By Balance c/d	17,500
	23,500		23,500

Dr. **(4) Donations and Subscriptions Account** **Cr.**

To Subscriptions due	1,500	By Receipts and Payments	25,000
To Income and Expenditure (Balancing figure)	24,500	By Subscriptions due	1,000
	26,000		26,000

(5) Balance Sheet of Calcutta Football Club as on 1st January, 2007

Liabilities	Rs.	Assets		Rs.
Outstanding Expenses :		Equipments		8,000
Printing and Stationery	1,000	Subscriptions Due		1,500
Honorarium to Secretary	4,000	Bank : Saving Account	19,300	
Capital Fund (Balancing figure)	28,800	Current Account (Note 6)	3,000	22,300
	{1 M}	Cash in hand		2,000
	33,800			33,800

(6) Bank Balance of Current Account as per Cash Book (figures in rupees)

Particulars	1.1.2007	31.12.2007
Balance as per Pass Book	6,000	2,000
Less : Cheque issued but not presented	3,000	2,500
Balance as per Cash Book	3,000	(O/D) (500)

Answer:

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

Dr. Consignment to Madras Account Cr.

Date	Particulars		Rs.	Date	Particulars	Rs.	
	To Goods sent on Consignment A/c (Note 1)		13,10,000		By Goods Sent on Consignment A/c (W.N.-3)	2,62,000	}{1 M}
	To Bank A/c – Forwarding expenses		13,100		By Abnormal Loss A/c (W.N.-4)	8,100	
	To S. Raman A/c – expenses :				By S. Raman A/c	14,40,000	
	Unloading expenses	2,990			By Stock on Consignment A/c	1,01,230	}{1 M}
	Selling expenses	4,000			(W.N.-5)		
	Carriage Outward	6,100					
	Godown rent	6,000					
	Advertisements	2,000	21,090	}{1 M}			
	To S. Raman A/c – Commission :	Rs.					
	5% Ordinary	72,000					
	1% Del Credere	14,400	86,400				
	To Stock Reserve A/c (Rs. 200 x 100)		20,000	}{1 M}			
	To Profit & Loss on Consignment A/c		3,60,740	}{1 M}			
			18,11,330			18,11,330	

Dr. Goods Sent on Consignment Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Consignment to Madras A/c	2,62,000		By Consignment to Madras A/c	13,10,000
	To Trading A/c – transfer	10,48,000			
		13,10,000			13,10,000

{1 M}

Dr. Abnormal Loss Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Consignment to Madras A/c	8,100		By Bank A/c – Insurance claim	8,100
		8,100			8,100

{1 M}

Working Notes :

(1) Calculation of No. of units sent on consignment

	No. of units sold by consignee	=	1200
+	No. of units in the hands of consignee	=	100
+	No. of units lost in transit	=	10
			1,310

1,310 x 1,000 = 13,10,000 }{1 M}

(2) Calculation of Invoice Price and cost price per unit
If selling price is 20% above selling price is 1,200 (14,40,000 ÷ 1,200)

IP = $\frac{1,200}{120}$ x 100 = 1,000 }{1/2 M}

If selling price is 50% above cost price then

Cost = $\frac{1,200}{150}$ x 100 = 800 }{1/2 M}

(3) Calculation of loading price on goods sent of consignment
= (1,000 – 800) = 200 x 1,310 = 2,62,000

(4) Calculation of Ab. loss
10 x 800 = 8,000
10 x 10 = 100
8,100 }{1/2 M}

(5) Valuation of unsold stock

1,000 x 100 = 1,00,000
10 x 100 = 1,000
$\frac{2,990}{1,300}$ x 100 = 230
1,01,230 }{1/2 M}

Answer 5:

(a) Statement showing the Value of Stock on 30th November, 2016

Particulars	Rs.	Rs.
Value of Stock as on 4th December 2016		25,000
Add: Cost of goods sold between 1st and 4th December (Rs. 1,500-300)	1,200 }{1 M}	
Add: Cost of goods with customers on sale or return (Rs. 1,000-200)	800 }{1 M}	
Add: Purchase made before 30th November, but goods received after 4th December	600 {1 M}	2,600
		27,600
Less: Goods purchased and received between 1st & 4th December (Rs. 1,200–200)		1,000 }{1 M}
Value of Stock on 30th November, 2016		26,600 }{1 M}

Answer:

(b) Samaddar

Dr. Trading and Profit and Loss Account for the year ended 31st December, 1998 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock (Note 1)		18,900	By Sales	2,02,000	
To Purchases	1,38,600		Less: Sales Returns	890	2,01,110
Less: Purchases Returns	1,580		By Closing Stock		16,400
	1,37,020				
Less: Goods Pillerred	650	1,36,370 }{1 M}			
To Gross Profit c/d		62,240 }{1 M}			
		2,17,510			**2,17,510**
To Goods Pillerred		650	By Gross Profit b/d		62,240
To Printing and Stationery		2,600	By Interest on Deposit	450	
To Salaries	28,200		Add: Accrued Interest	450	900
Less: Advance Salary	3,500		By Bad Debts Recovered		700

	24,700		To Provisional for Doubtful Debts (W.N.-2)		740
Add: Employer's contribution to P.F.	1,240	25,940	}{1 M}		
To Trade Expenses		12,650			
To Loss on Furniture Destroyed (W.N.-3)		630			
To Discount Allowed (Rs. 1,000 – 900)		100	}{1 M}		
To Depreciation on:					
Freehold Premises	3,900				
Furniture and Fixture (W.N.-4)	860	4,760			
To Amorlization of Patent Right (Rs. 5,400/9)		600	}{1 M}		
To Net Profit c/d		16,650	}{1 M}		
		64,580			**64,580**

Balance Sheet of Samaddar as at 31st December, 1998

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital			Freehold Premises	39,000	
Opening Balance	95,000		Less: Depreciation	3,900	35,100
Add: Net Profit	16,650		Furniture and Fixture (W.N.-5)	9,100	
	1,11,650		Less: Depreciation	790	8,310 }{1 M}
Less: Drawings	10,200		Patent Right	5,400	
Income Tax	7,900	93,550	Less: Amortization	600	4,800
		{1 M}	Debtors (W.N.-1)	21,200	
Provident Fund	6,500		Less: Provision for Doubtful Debts	1,060	20,140
Add: Employer's Contribution	1,240	7,790 {1 M}	Deposit with Das	18,000	
Creditors for :			Add: Accrued Interest	450	18,450
Goods	16,020		Closing Stock		16,400
Less: Mutual Indebtedness	(200)		Advance Salaries		3,500
Creditors for Stationery	(200)		Bank balance		6,950
	15,620		Cash in Hand		6,310
Furniture	1,200				
Stationery	200	17,020	}{1 M}		
Outstanding Trade Expenses		1,600			
		1,19,960			1,19,960

Working Note :

(1) Calculation of adjusted value of debtors

As per Trial Balance		=	22,800
(-)	Received from debtor not recorded	=	1,000
			21,800
(-)	Adjustment with creditor	=	200
			21,600
(-)	Bad debts not written off	=	400
			21,200

New provision required @ 5%
= 21,200 x 5% = 1,060

{1 M}

(2) **Provision for Doubtful Debts a/c**

To Bad debts a/c	400	By Balance b/d	2,200
To P/L a/c (B/F)	740		
To Balance c/d	1,060		

{1 M}

(3) Loss on Furniture Destroyed
Book value of furniture destroyed Rs. 700. Depreciation @ 10% p.a. for 1 year = 10% of Rs. 700 = Rs. 70.
Therefore, loss on furniture destroyed = Rs. (700-70) = Rs. 630. {1 M}

(4)

Closing Value of Furniture and Fixture and Depreciation Thereon	Rs.
Book value as per trial balance	8,600
Less: Book value of furniture destroyed on 31.12.1998	700
	7,900
Add: Purchase of furniture	1,200
	9,100
Depreciation @ 10% p.a. on Rs. 700	70
Rs. (8,600 – 700)	790
Rs. 1,200	--
	860

{1 M}

(5) **Calculation of Closing Balance of Furniture and Fixture**

To Balance b/d	8,600	By Dep. on damaged part	70
To Creditors	1,200	By Loss on damages	630
		By Dep. on balance part (8,600 – 700)	790
		By Balance c/d (B/F)	8,310
	9,800		9,800

{1 M}

Answer 6:

(a) In the books of the Firm

Dr. Profit and Loss Adjustment Account Cr.

Particulars	Rs.	Particulars	Rs.
To Bills Receivalbe A/c	1,000	By C Capital A/c – Rent	200
To B Capital A/c – Goods	1,500	By Plant and Machinery A/c	
To Electricity A/c	500	(Not capitalised – Rs. 9,500 + 500)	10,000
To Plant and Machinery A/c – Depreciation	500		
To Partners Capital A/cs :			
(A-Rs. 2,010; B-Rs. 2,010; C-Rs. 2,680)	6,700	}{1 M}	
	10,200		10,200

Dr. Revaluation Account Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	3,075	By Land and Building A/c	22,600
To Provision for Sundry Debtors A/c	1,000	By Sundry Creditors A/c	2,900
To Plant and Machinery A/c	7,425		
To Partners' Capital A/cs:			
(A-4,200; B-4,200; C-5,600)	14,000	}{1 M}	
	25,500		25,500

Working Notes : (1) Calculation of Goodwill and its adjustment

	Rs.
Aggregate profits of the 5 years (as given)	76,300
Add: Adjustment in the Profit & Loss Adjustment A/c	6,700

Adjusted profit for 5 years	83,000
Average profit	16,600
Goodwill is 3 years' purchase of the average profit (Rs. 16,600 x 3)	49,800

{1 M}

C's share of goodwill is 4/10 of Rs. 49,800 = Rs. 19,920; C's share of goodwill purchased by A and B in the ratio 3 : 2. Therefore, A's share-3/5 of Rs. 19,920 = Rs. 11,952; B's share – 2/5 of Rs. 19,920 = Rs. 7,968.

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Date	Particulars		Rs.	Rs.
	A Capital A/c	Dr.	11,952	
	B Capital A/c	Dr.	7, 968	
	To C Capital A/c			19,920
	(Being the required adjustment for goodwill)			

{1 M}

Calculation of New Profit Sharing Ratio between A and B:
C's share of 4/10 is purchased by A and B in the ratio 3/5 and 2/5. Therefore, A will get from C-4/10 x 3/5 = 12/50. B will get from C-4/10 x 2/5 = 8/50. Total share of A, therefore – 3/10 + 12/50 = 27/50. Total share of B, therefore – 3/10 + 8/50 = 23/50. Therefore, thre ratio between A and B is 27 : 23.

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To C Capital A/c {1/2 M}	11,952	7,968	--	By Balance b/d	50,000	45,000	65,000
To Profit and Loss Adjustment A/c {1/2 M}	--	--	200	By General Reserve A/c {1/2 M}	3,000	3,000	4,000
To Bank A/c {1/2 M}	--	-	50,000	By Profit and Loss Adjustment A/c {1/2 M}	2,010	2,010	2,680
To C Loan A/c {1/2 M}	--	--	47,000	By Revaluation A/c {1/2 M}	4,200	4,200	5,600
To Bank A/c (balacing fiqure) {1/2 M}	--	4,042	--	By A Capital A/c {1/2 M}	--	--	11,952
To Balance c/d {1 M}	78,300	66,700	--	By B Capital A/c {1/2 M}	--	--	7,968
				By Profit and Loss Adjustment A/c {1/2 M}	--	1,500	--
				By Bank A/c (paid to C-27 : 23) {1/2 M}	27,000	23,000	--
				By Bank A/c (balancing fiqure) {1/2 M}	4,042	--	--
	90,252	78,710	97,200		90,252	78,710	97,200

Adjustment in Regard to capital of A and B

	Rs.
Adjusted Capital of A (Rs. 50,000 + 3,000 + 2,010 + 4,200 + 27,000 – 11,952)	74,258
Adjusted Capital of B (Rs. 45,000 + 3,000 + 2,010 + 4,200 + 1,500 + 23,000 – 7,968)	70,742
Total adjusted capitals of A and B	1,45,000

{1 M}

The total capital of A and B will be shared in the ratio 27 : 23. Therefore closing capital balance will be :

A – 27/50 x Rs. 1,45,000 = Rs. 78,300; B – 23/50 x Rs. 1,45,000 = Rs. 66,700. {1/2 M}

(2) Value of Plant after rectification = Rs. 40,000 + Rs. 9,000 + Rs. 500 + Rs. 500 – (Depreciation Rs. 500) = Rs. 49,500. 15% Depreciation = Rs. 7,425. {1/2 M}

Balance Sheet of A and B

Liabilities	Rs.	Assets		Rs.
Sundry Creditors	9,100	Cash at Bank		3,000
Bills Payable	18,000	Bills Receivable		10,000
6% Mortgage Loan	17,000	Stock		21,925
C Loan	47,000	Sundry Debtors	20,000	
Outstanding Electricity	500	Less: Provision	1,000	19,000
Capital Accounts (A-Rs. 78,300; B- Rs. 66,700)	1,45,000 {1/2 M}	Furniture		5,000
		Plant and Machinery		42,075
		Land and Building		1,35,600
	2,36,600 }{1/2 M}			2,36,600 }{1/2 M}

Answer:

(b) **Sale or Return Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
2016			2016		
31-May	To Sundries: Sales	24,000 {1 M}	31-May	By Sundries	
15-Jun	To Sundries: Returned	43,000 {1 M}		(Goods sent on sale or return basis)	93,000 }{1 M}
15-Jun	To Balance c/d	26,000 }{1 M}			
		93,000			93,000
				By Balance b/d	26,000

P's Account {1 M}

Date	Particulars	Rs.	Date	Particulars	Rs.
2016			2016		
May 31	To Sale or Return A/c	15,000	May 31	By Sale or Return A/c	15,000

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