SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 1

1. Same method of depreciation is followed year after year due to consistency.
2. A change in accounting policy is justified due to all the three options given in the question.
3. Purchases book records all credit purchases of the goods in trade.
4. A bank reconciliation statement is prepared to know the causes for the difference between balances as per bank column of the cash book and pass book.
5. Due to this error, previous year's profit is overstated and current year's profit is understated.
6. In the absence of provision in the partnership agreement, profit and losses are shared equally.
7. Going concern is fundamental accounting assumption.
8. Compensating errors are not revealed by trail balance.
9. Wages paid for installation of machinery is a capital item.
10. If del-credere commission is allowed bad debts will not be borne by consignor, thus not debited to consignment etc.
11. Discount on issue of debenture is capital loss to be written off over tenure of debentures.
12. Loss on issue of debentures is treated as other current/non-current assets.
13. Dividends are usually paid as percentage of paid up capital.
14. Partners will get policy amount in the given case.
15. Profit/Loss on revaluation is shared among partners in old profit sharing ratio.
16. Interest on capital will be paid only from profit of the year in the given case.
17. Consigner is the owner of the consignment inventory.
18. Parties to joint venture are co-venturers.
19. Accommodation bill is dream when both parties are in need of funds.
20. Number of units expected to be produced from the use of asset is called as useful life.
21. Cost concept is being violated by A.
22. Change in method of depreciation should be done only in situation given in option (C).
23. Opening stock + closing stock – cost of goods sold = amount of purchase

    Or 80,700 + 6,000 – 5,800 = Rs. 80,900

ANSWERS

24. Annual depreciation under SLM = (original cost – salvage value)/useful life = (1,26,000 – 6,000)/ 6 = Rs. 20,000

25. Cost of goods sold = purchases + freight inward - closing stock = 90,000 + 6,000 – 12,000 = Rs. 84,000

Profit = sales – cost of goods sold = 1,20,000 – 84,000 = Rs. 36,000

26. Abnormal loss = cost of goods of the goods damaged + consignor's expenses of the goods damaged- the insurance claim received = 1/10 of 3,00,000 + 1/10of 5,000 – 3,000 = 30,000 + 500 – 3,000 = Rs. 27,500

27. Cash received on sales – opening stock – expenses incurred by A – expenses incurred by V + drawings made by V = profit incurred

Or 15,000 – 10,000 – 1,000 – 1,000 + 2,000 = Rs. 5,000

28. Bank will be credited with full value of the bill i.e. Rs. 20,000

29. Stock with customers on approval will be shown in the balance sheet at cost price or market price whichever is less. It will be shown as 3,500 – 800 = Rs. 2,700

30. Profit after allowing interest on capital will be distributed among A and B in their profit sharing ratio 3:2

So A will get 3/5 of 7,800 = Rs. 4,680

And B will get 3/5 of 7,800 = Rs. 3,120

31.

Partners	*Old ratio*	*New ratio*	*Sacrifice/gain*	*Sacrificing ratio*
A	5/8	7/16	5/8-7/16 = 3/16	A:B = 3/16:1/16 = 3:1
B	3/8	5/16	3/8-5/16 = 1/16	
C	—	4/16	Gain	

32.

Particulars	*Amount* Rs.	*Amount* Rs.
Balance as per cash book (Cr.)		(1500)
Add: Cheques issued but not presented	100 + 50 + 125	275
Less: Cheques deposited but not cleared	400	(400)
Balance as per the pass book (Dr.)		(1625)

33. Total cost of a fixed asset = cost of acquiring the asset + all other incidental cost involved in bringing the asset into working situation

Amount debited to the car account = purchase cost + repairs + registration cost + dealers commission

= 10,000 + 1,000 + 500 + 1,200 = Rs. 12,700

34. Purchase return account (cr) under casted by Rs 84 and sales return account (dr) over casted by Rs 84. Thus the debit side of the trial balance will be Rs 168 more than the credit side.

35. Difference in trial balance is due to wrong placing of Salaries A/c. Salaries account should come on Dr. side instead of Cr. side.

36. Goodwill = (29,600 + 28,700 + 28,900 + 24,000 + 26,800) × 3/5 = Rs. 82,800 Share of D in goodwill = 4/16 × 82,800 = Rs. 20,700

37. When there is forfeiture of shares which are issued at par the share capital account is debited with the called up value of the shares forfeited.

So the amount to be debited to the share capital account will be 2,000 × 9 = Rs. 18,000

38. Amount to be transferred to capital redemption reserve account = face value of the shares to be redeemed i.e.

Rs. 2,00,000 less proceeds from the new issue i.e. Rs. 1,50,000 = Rs. 50,000

39. Premium on redemption = 20% of Rs. 2,00,000 = Rs. 40,000

Amount to be written off every year = 40,000/5 = Rs. 8,000

40. Let × be the invoice value of goods sent out

Goods lost in transit will be 1/10 of × = Rs. 12,500

Thus × will be 10 × 12,500 = Rs. 1,25,000

41. Amount of consideration = Rs. 2,00,000

Total amount to be received on issue of debentures at 20% discount = Rs. 2,00, 000

So the actual amount of debentures issued = 200000 × 100/80 = Rs. 2,50,000

42. Forfeiture account will be credited with the amount already received in respect of the shares forfeited, here it will be 30 × 2 = Rs. 60

43. Share of C in policy amount = 3/16 × total amount of policy i.e. 3/16 × (25,000 + 20,000 + 51,000) = Rs. 18,000

44. New profit sharing ratio

Names	*Old ratio*	*New ratio*
A	3/5	3/5 × 4/5 = 12/25
B	2/5	2/5 × 4/5 = 8/25
C		1/5

Now if the total capital after admission is × then

1/5 of x = x – 30,000 – 15,000 Or 4/5x = Rs. 45,000 Or x = Rs. 56,250

thus the share of C will be 1/5 of Rs. 56,250 = Rs. 11,250

45. When the incoming partner is not bringing goodwill and the goodwill is adjusted through the capital accounts of the partners then NO goodwill will be shown in the balance sheet after admission. Thus the value will be nil.

46. There is no partnership deed. Thus The Indian Partnership Act is to be applied for settling the dispute. Interest on loan will be payable at 6% p.a.

Thus 6% on Rs. 80,000 will be the interest on loan = Rs. 4,800

The remaining profit 6,000 – 4,800 i.e. Rs. 1,200 will be distributed among the three partners equally

Thus Rs. 400 for X, 4,800 + 400 = Rs. 5,200 for Y, and Rs. 400 for Z

47. Let the cost price be x. Then sale price will be 125% of x

Or 125% of × = Rs. 20,000

Thus × = 20,000 × 100/125 = Rs.16,000

48. Amount to be paid to C = 35,000 × 98/100 = Rs. 34,300

Amount of the bill endorsed = Rs. 30,000

Hence amount to be settled in cash = Rs. 4,300

49. Cost of the typewriter = Rs. 1,00,000

Let the sale price be × then profit is 20% of x

Thus cost = x – 20% of x = 1,00,000 or 80/100 x = 1,00,000 or x = 1,00,000 × 10/8 or x = Rs. 1,25,000

50. Cost of the goods sold = 45,000 × 2/3 × 9/10 = Rs. 27,000

Invoice value of the goods sold = 27,000 + 33.33% of 27,000 = 27,000 + 100/300 × 27,000

= 27,000 + 9,000 = Rs. 36,000

Sale price = 36,000 × 120/100 = Rs. 43,200

51. Rent paid for 1-1-2009 to 30-9-2009 = 1200 × 9/12 = Rs. 900

Rent paid for 1-10-2009 to 31-12-2009 = 1600 × 3/12 = Rs. 400

Thus rent paid shown in profit & loss account for the year ended 31-12-2009 = 900 + 400 = Rs. 1300

52. Sum of the years digit = 5(5 + 1)/2 = 15

Year	*Depreciable base*	*Depreciation factor*	*Depreciation expenses*		*Accumulated depreciation*
1	3,00,000	5/15	3,00,000 × 5/15 =	1,00,000	1,00,000
2	3,00,000	4/15	3,00,000 × 4/15 =	80,000	1,80,000
3	3,00,000	3/15	3,00,000 × 3/15 =	60,000	2,40,000
4	3,00,000	2/15	3,00,000 × 2/15 =	40,000	2,80,000
5	3,00,000	1/15	3,00,000 × 1/15 =	20,000	3,00,000

Thus depreciation amount to be charged during the fifth year i.e. 2009-2010 will be Rs. 20,000

53. Let the closing stock be x

Then opening stock = x – 3,000

Average stock = (opening stock + closing stock)/2 = (x + x – 3,000)/2 = x – 1,500 = Rs. 12,000

Thus closing stock i.e. x = Rs. 13,500

54. Since the company is following FIFO method the closing stock i.e. (15 + 20 + 10 - 32) units = 13 units will be valued as follows: 10 units from the stock purchased on mark 6 and 3 units from the stock purchased on mark 4 i.e. 10 units @ 460 per unit + 3 units @ 450/unit = 4,600 + 1,350 = Rs. 5,950

55. Bank Reconciliation Statement as on 31-3-2012

Particulars	*Amount*	*Amount*
Balance as per cash book(dr)		1,500
Add: cheques issued but not presented	150	
Add: dividend collected by bank on behalf of ABC ltd	50	
Add: interest paid on behalf of ABC ltd by bank	50	250
Less: cheques deposited but not cleared	100	(100)
Balance as per the pass book		1,650

56. Purchase return account (cr) under casted by Rs. 1000 and sales return account (dr) over casted by Rs. 1000. Thus the debit side of the trial balance will be Rs 2000 more than the credit side.

57. Amount to be capitalized = 2,50,000 + 19,000

And amount to be expensed off = 25,000 + 5,000 = Rs. 30,000

58. The entry will be:

Cash/bank	...Dr	2100	
To accounts receivable from Mohan			2100

59. The amount to be debited to share capital account will be the called up value of the shares forfeited i.e. 1,000 × 18 = Rs. 18,000

60. Calculation of gaining ratio

Particulars	*Old ratio*	*New ratio*	*Gain*	*Gaining ratio*
A	2/5	2/3	2/3 - 2/5 = 4/15	2:1
B	2/5			
C	1/5	1/3	1/3 - 1/5 = 2/15	

Statement showing the required adjustment for goodwill

Particulars	*A*	*B*	*C*
Right of goodwill before retirement	12,000	12,000	6,000
Right of goodwill after retirement	20,000		10,000
Gain/sacrifice	8,000	12,000	4,000

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 2

1. Book keeping is not a sub-field of Accounting.
2. Revenue from products' sale is realized at the time of sale.
3. Expenses for an accounting period are recognised on 'Matching' principle.
4. Accounting principles, policies are standardized to ensure transparency, consistency and comparability.
5. Change in accounting estimate means differences between certain parameters estimated (or restimated) and actual results achieved.
6. Inventory of raw materials is odd one out. All other three are fixed assets.
7. Double entry system affects two accounts.
8. Quantity of a particular product sold during the period will not be shown in general ledger.
9. In three column cash book, contra entries are passed.
10. For locating clerical errors, trial balance is prepared.
11. Present liability of uncertain amount which can be measured by using substantial degree of estimated is provision.
12. Cheques issued but not presented will be added to the Debit balance of cash book in the given case.
13. FIFO will shown the highest value of closing inventory under inflationary conditions (rising prices).
14. P&L A/c is debited in case of downward revaluation of assets in the given case.
15. The portion of acquisition cost of asset (to be allocated to P&L A/c) is called Book value.
16. If decision to dispose of assets has taken place, assets should be indicated in the balance sheet at NRV.
17. Petty cash balance is an asset.
18. Goods lying in the godown at buyer's risk should be treated as sales.
19. The rate is 6% as per Indian Partnership Act, 1932.
20. If del-credere commission is allowed for bad debts, consignee will debit bad debts amount to Commission earned as he has to bear this amount.
21. Cost concept is violated in the given case.
22. Matching concept supports the given calculation of profit.

ANSWERS

23. Premium on redemption = 20% of 2,00,000 = Rs. 40,000

Amount to be written off every year = 40,000/5 = Rs. 8,000

24. Amount to be transferred to capital redemption reserve account = face value of the shares to be redeemed i.e. Rs. 2,00,000 less proceeds from the new issue i.e. Rs. 1,50,000 = Rs. 50,000

25. Let x shares were issued by Ltd.

Total value of shares at cost plus premium = x (100 + 25) = Rs. 7,50,000

Or 125x = Rs. 7,50,000

Or x = Rs. 7,50,000/125 = Rs. 6,000 shares

26. Dividend will be paid on the amount called up and received i.e. called up value – calls in arrears

Or dividend payable = 15% of (5,00,000 – 40,000) = 15% of 4,60,000 = Rs. 69,000

27. Total no. of shares = 80,00,000/100 = Rs. 80,000 shares

Fully paid shares = Rs. 77,500

Shares on which the calls are in arrear = Rs. 80,000 – 77,500 = Rs. 2,500

Calls in arrear in amount = Rs. 62,500

Final calls on 2,500 shares = Rs. 62,500

Thus final call on 1 share = 62,500/2,500 = Rs. 25

28. Let X be the selling price then profit = 20% of x

Cost = selling price – profit = X – 20% of x = 80% of x

Profit markup = (profit/cost price) × 100 = (.2x/.8x) × 100 = 25%

29. When any one of the partner dies the life insurance policy money is distributed among the partners in the profit sharing ratio i.e.

A : 30,000 × 5/10 = Rs. 15,000

B : 30,000 × 3/10 = Rs. 9,000

C : 30,000 × 2/10 = Rs. 6,000

30. Amount to be transferred to B's loan account will be:

Capital	50,000	
Reserve	15,000 × 2/5	= Rs. 6,000
Goodwill	30,000 × 2/5	= Rs. 12,000
Profit on revaluation	7,050 × 2/5	= Rs. 2,820
Total		= Rs. 70,820

31. Total capital contribute by C = Rs.25,000

Less: Capital towards goodwill = Rs.5,000

Closing capital balance = Rs.20,000

32. When a new partner enters in partnership firm, the old partner sacrifices his share for him, so it is the duty of new partner to give goodwill in cash or in any other way to old partner. Under this problem, new partner bring his share of goodwill in cash form in the firm and it is taken by old partner in their sacrifice ratio.

R pays Rs. 9,000 for goodwill, half of which is withdrawn by P and Q

Withdrawal by P and Q = 1/2 of 9,000 = 4,500

New profit sharing ratio:

P's share = 2/3 of 3/4 = 1/2

Q's share = 1/3 of 3/4 = 1/4

P's sacrifice = 2/3 – 1/2 = 1/6

Q's sacrifice = 1/3 – 1/4 = 1/12

P and Q will withdraw in their sacrificing ratio i.e. 2 : 1

Thus P withdraws 2/3 of 4,500 = Rs. 3,000 and Q withdraws 1/3 of 4,500 = Rs. 1,500

33. Since C acquires $1/5^{th}$ share from A and $1/10^{th}$ share from B he acquires his share in the ratio 1/5 : 1/10 i.e. 2 : 1

Names	*Old ratio*	*Sacrifice*	*New ratio*
A	5/8	3/10 × 2/3	17/40
B	3/8	3/10 × 1/3	11/40
C		3/10	12/40

The new ratio = 17 : 11 : 12

34. When the value of goodwill is not given in the question then hidden goodwill is calculated with reference to the total capital of the firm and the profit sharing ratio.

Hidden goodwill is that goodwill the amount of which is not mentioned in the deed, but the amount of which has to calculated by capitalisation method or with the help profit sharing ratio.

This method is generally used when the new partner is unable to bring in his share of goodwill which is at the same time unknown. So to calculate the value of this hidden goodwill we will follow these steps:

1. First, we will multiply the capital brought by the new partner with his reciprocated ratio.
2. Secondly, we total up the actual capitals of all the partners including the capital brought by the new partner as well.

3 Then we deduct the total of actual capitals of all the partners from the assumed capital.

Hidden goodwill = 25,000 × 6 – (50,000 + 30,000 + 15,000 + 25,000) = Rs. 30,000

Share of C in hidden goodwill = 30,000 × 1/6 = Rs. 5,000 which will be shared by existing partners in 3 : 2 ratio

So, the capital account of C will show closing balance of 25,000 – 5,000 = Rs. 20,000

If the new partner brings in cash for his share of goodwill, in addition to his capital, it is known as premium method.

Half of the premium = Rs. 5,000

Thus full premium = Rs. 10,000

Since D's share i.e. ¼ of the total share in goodwill = Rs. 10,000

Total value of goodwill = 10,000 × 4 = 40,000

35. Hidden goodwill is that goodwill the amount of which is not mentioned in the deed , but the amount of which has to calculated by capitalisation method or with the help profit sharing ratio.

Thus Hidden goodwill = 12,000 × 4 – (10000 + 20000 + 12000) = Rs. 6,000

36. At the time of admission of a partner, existing partners have to surrendersome of their share in favour of the new partner. The ratio in which they agree to sacrifice their share of profits in favour of incoming partner is calledsacrificing ratio. Some amount is paid to the existing partners for their sacrifice. The amount of compensation is paid by the new partner to the existing partner for acquiring the share of profit which they have surrendered in the favour of the new partner.Sacrificing Ratio is calculated as follows:

Sacrificing Ratio = Existing Ratio – New Ratio

Names	*Old ratio*	*New ratio*	*Sacrifice/gain*
A	5/8	7/16	5/8 - 7/16 = 3/16
B	3/8	5/16	3/8 - 5/16 = 1/16
C		4/16	

Thus the sacrificing ratio = 3:1

37. Profit after allowing interest on capital = Rs. 7,800 which will be divided among the partners in the ratio 3:2

Thus profit apportioned to Bill = 3/5 of 7,800 = Rs. 4,680

And profit apportioned to Monika = 2/5 of 7,800 = Rs. 3,120

38. when goods are sent on approval basis then at the end of the financial year the goods lying with customers will be valued at cost or market price whichever is less.

Let the cost price of the 100 articles sent on approval be x

Thus the sale price = 1.25x = 20,000

Thus the cost x = 20,000/1.25 = Rs. 16,000

39. In the case of any type of usance bill, if the due date calculated falls on a public holiday, the bill will be deemed to fall due on the previous working day i.e.18^{th} of july in this case.

40. When a person's liabilities are more than his assets and he is not in a position to pay all of his debts when they become due. Such a person is called insolvent.

When a person or party is declared by court as insolvent or bankrupt he is considered to be unable to pay his liabilities. It means, the bills accepted by him will be naturally dishonored. Generally the amount received from the estate of insolvent party is less than the amount due from him. The unsatisfied balance is treated as bad debts.

Total amount due from bonny = Rs. 25,000

Thus when Bonny became insolvent and 50 paise is recovered from Bonny's estate

Amount recovered from bonny = 50% of 25,000 = Rs. 12,500

41. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period.

Total amount of the bill = 8,000

Amount paid in cash = 4,000

Amount due = 4,000

Interest for 3 months @ 12% p.a. = 4,000 × 12/100 × 3/12 = 120

42. The drawer or holder of the bill may endorse (transfer) the bill in favor of his trades payable for the clearance of his own debts.

Amount due to C = 35,000

Amount to be settled at 2% discount = 35,000 × 98/100 = Rs. 34,300

Amount of the bill endorsed = Rs. 30,000

Thus amount to be paid in cash = Rs. 4,300

43. Discounting bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice — with right of recourse to you — and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = 50,000

Amount to be paid to bank on discounting at 12% pa = 50,000 × 12/100 × 3/12 = Rs. 1,500

Thus amount received from bank on discounting = 50,000 – 1,500 = Rs. 48,500

The amount of remittance to B will be = 48,500/2 = Rs. 24,250

44. Total shares subscribed by public = 1,00,000 × 80% = Rs. 80,000

Remaining shares purchased by A and B = Rs. 20,000

Shares purchased by A in his profit sharing ratio = 3/5 of 20,000 = 12,000 shares

45. Sales price = Rs. 2,00,000

Add: drawings = Rs. 5,000

Less: purchase cost = Rs. 1,00,000

Less: transportation cost = Rs. 10,000

Less: insurance cost = Rs. 5,000

Less: selling exp. = Rs. 10,000

Thus profit = Rs. 80,000

46. Sale price of the 4/5th goods = Rs. 2,50,000

Cost of 4/5th goods = Rs. 2,00,000

Drawings = 1/5 of 2,00,000 – 20% of (1/5 of 2,00,000) = 40,000 – 8,000 = Rs. 32,000

Profit on venture = sale price less purchase cost add drawings = 2,50,000 – 2,00,000 + 32,000 = Rs. 82,000

47. For goods taken over by coventurers, joint venture account will be credited by the amount of the goods taken over i.e. Rs. 15,000 in this case.

48. Remuneration paid for services is called commission. Commission is always paid on sales. Here normal commission = 2% of 70,000 = 1,400

Special commission = 20% of (gross sales-all commission-cost of goods sold)

Let special commission be x

Then x = 20% of (70,000 – 1,400 – x – 3/5 × 1,00,000) = 20% of (70,000 – 1,400 – 60,000 – x)

Or x = 20% of (8,600 – x)

Or x = 1,720 –.2x

Or 1.2x = 1,720

Or x = 1,433

Thus total commission = 1,433 + 1,400 = Rs. 2,833

49. The amount to be credited to trading account will be the balance of "Goods sent on consignment account" this can be derived as follows:

Goods sent on consignment

Particulars	*Amount*	*Particulars*	*Amount*
		By Consignement A/c (Rs. 120 × 1,000 Boxes)	1,20,000
To Consignment A/c (Rs. 20 × 1,000 Boxes)	20,000		
To Trading A/c	1,00,000		
	1,20,000		1,20,000

50. Remuneration paid for services is called commission. Commission is always paid on sales. Extra commission paid to consignee for timely collection of debs and for bad debts is called Del creder commission. Since delcredere commission is given, the consignee will bear the bad debt loss

Thus profit on consignment can be determined as follows

Consignment a/c

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment	2,00,000	By consignee A/c	2,10,000
To cash-expenses	5,000	By inventory on consignment	40,000
To consignee A/c-expenses	2,000		
To consignee A/c-ordinary commission	3,000		
To consignee A/c-delcredere commission	2,000		
To profit and loss on consignment	38,000		
	2,50,000		2,50,000

51. Cost of Goods Sold = Sales – Gross Profit.

Cost of Goods Sold = Opening inventory + Purchases + Direct Expenses – Closing inventory

Total cost of goods sent on consignment = Cost of the goods + expenses incurred by the consignor

= 1,00,000 + 5,000 = Rs. 1,05,000

1/5th of the consignment is still in transit = 1/5 of 1,05,000 = Rs. 21,000

52. Gross profit = Sales revenue – cost of goods sold

= Rs. 4,00,000 – Rs. 3,10,000 = Rs. 90,000

53. Cost of Goods Sold = Sales " Gross Profit.

Let x be the cost of goods sold

Then profit = 25% of x

Thus sales = x + 25% of x = 1.25x = Rs. 2,000

Or x = 2,000/1.25 = Rs. 1,600

54. Straight line method depreciates cost evenly through out the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Since repair on the machinery was made on 1.7.2009 and not before the machinery was put to use and it was also not a capital expenditure, it will not be considered while calculating the cost of the machinery.

Cost of the machinery = purchase price + installation expenses = 1,20,000 + 10,000 = 1,30,000

Depreciation = 10% of 1,30,000 = Rs. 13,000

55. To calculate the gain or loss on the sale of a fixed asset, one has to figure out the asset's book value up to the date of sale.

Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which shows a declining balance, weighted for earlier years, and lower and lower for later years, as the machine grows older.

Lets find the WDV as on 30-9-2010 of the machine in question

original cost as on 1-3-2009 = 60,000

31-3-2010 depreciation @ 20% pa = 60,000 × 0.2 = Rs. 12,000

31-3-2010 wdv = 60,000 – 12,000 = Rs. 48,000

30-9-2010 depreciation for the half year = 48, 000 × 20% × ½ = Rs. 4,800

30-9-2010 wdv = 48,000 – 4,800 = Rs. 43,200

30-9-2010 sale price = 30,000

Thus loss on sale = 43,200 – 30,000 = Rs. 13,200

56. Let the cost of goods sold = x

Then sale price will be = x + 1/3 of x = 4/3 x = 13,00,000

Thus x = 13,00,000 × 3/4 = 9,75,000

Thus closing inventory = opening inventory - cost of goods sold = 12,00,000 – 9,75,000 = Rs. 2,25,000

57. The cost of goods sold = opening inventory + purchases - closing inventory = 1,80,000 + 3,30,000 – 90,000 = 4,20, 000

Sales = cost of goods sold + profit = 4,20,000 + 25% of 4,20,000 = Rs. 5,25,000

58. Cheques issued (not presented) will be added to the balance as per cash book in the given case.

59. Wages for erecting machine should be debited to machinery account.

60. Amount spent for overhauling of second hand machine is capital expenditure.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 3

1. Ledger posting is not a function of accounting, it is work of book keeping.

2. Manufacturing account is required to calculate cost of manufactured goods.

3. It is an event not a transaction.

4. Financial statements consider assets and liabilities expressed in money terms.

5. Balance sheet represents accounting equation.

6. Since we follow dual aspect concept

So either it is increase in one asset and decrease in other

Or its increase in asset and increase in liability

In the asset side:

Increase in fixed asset (car) = 5,00,000

Decrease in cash in hand = 1,00,000

Thus total increase in asset = Rs. 4,00,000

In the liabilities side:

Increase in bills payable = Rs. 4,00,000

Thus Total assets increased by Rs. 4,00,000 with corresponding increase in liabilities by Rs. 4,00,000

7. Bad debts recovered are credited to Bad debts recovered amount.

8. Withdrawal by proprietor are debited to drawings A/c and credited to Cash A/c.

9. Contra entries are passed in three column cash book.

10. Consignment A/c is nominal as it shows profit/loss.

11. Due to periodicity concept, life of an enterprise is divided into accounting periods (intervals).

12. Accounting policies refer to accounting principles and methods of applying those principles.

13. Dividends are paid on paid up capital.

14. Remaining partners contribute to compensation amount in gaining ratio.

15. Petty cash balance is asset.

16. Interest on capital to be paid only from profits in given case.

17. Performa invoice is sent by consignor to consignee.

18. In the given case, discount charges will be recorded in Memorandum A/c.

19. Z will be payee of bill.

20. Here profit margin on sale is given and we are required to find the profit margin on cost. This can be done as follows:

Let the selling price be x

Then profit = 20% of x = .2x

Thus cost price = selling price – profit = x – . 2x = 0.8x

And the markup on cost will be = 0.2/0.8 × 100 = 25%

21. Conservatism concept is being violated in given case.

22. Objection of auditor is justified only in situation given in option (C).

23. Inventory should be valued at lower of cost or net realizable value. Pricing of inventory assumes significance when different lots are purchased at varying prices at different timings.

So in this case

Car	*Fiat*	*Ambassador*	*Maruti Esteem*	*Maruti 800*	*Zen*
Cost Rs.	90,000	1,15,000	2,75,000	1,00,000	2,10,000
Net realisable value (Rs.)	95,000	1,55,000	2,65,000	1,25,000	2,00,000
Value of inventory	90,000	1,15,000	2,65,000	1,00,000	2,00,000
Total value =			Rs. 7,70,000		

24. Sum of years digits method takes the asset's expected life and adds together the digits for each year. So if the asset was expected to last for six years, the sum of the years' digits would be obtained by adding: 6 + 5 + 4 + 3 + 2 + 1 to get a total of 21.Each digit is then divided by this sum to determine the percentage by which the asset should be depreciated each year, starting with the highest number in year 1 *i.e.* 6 in this case.

Total depreciable cost	*Depreciation rate*	*Depreciation expense*	*Accumulated depreciation*	*Book value at end of year*
				1,26,000 (original cost)
1,26,000	6/21	36,000 (1,26,000 × 6/21)	36,000	90,000

So Rs. 36,000 is the depreciation expenses in year 1.

ANSWERS

25. Operating expenses is not considered in calculation of gross profit .

Thus gross profit = sales – cost of goods sold = 4,00,000 – 3,10,000 = Rs. 90,000

26. Closing inventory = opening inventory + purchases – cost of goods sold

Cost of goods sold = x (say) = total sales – gross profit = 80,000 – 25% of 80,000

Or x = 80,000 – 20,000 = 60,000

Purchases = cost of goods available for sale – opening inventory = 1,00,000 – 20,000 = 80,000

Thus closing inventory = 20,000 + 80,000 – 60,000 = Rs. 40,000

27. The venture was entered for purchase and sale of a particular piece of land. So the profit will be ascertained by deducting purchase price from the sale price as there are no other expenses given in the question and the contribution of A and B will be used to determine the profit sharing ratio of the venture.

Thus profit = 60,000 – 20,000 = 40,000

28. When a person or party is declared by court as insolvent or bankrupt he is considered to be unable to pay his liabilities. It means, the bills accepted by him will be naturally dishonored. Therefore, when it is known that a person has become insolvent, entry for the dishonor of the bill of exchange should be passed both in the books of the drawer and acceptor.

Later on something may be received from his estate. When the amount has been received casdh account will be debited and the personal account of the person will be credited.

Here 40 p per rupee has been recovered . thus amount recovered will be 40% of 50,000 = Rs. 20,000

29. Average inventory = (opening inventory + closing inventory)/2 = 12,000

Or (opening inventory + closing inventory) = 12,000 × 2 = 24,000 ... (1)

Given closing inventory = opening inventory + 3,000

Closing inventory – opening inventory = 3,000 ... (2)

Adding (1) and (2)

2 closing inventory = 27,000

Closing inventory = 27,000/2 = Rs. 13,500

30. Steps to be followed:

(a) Determine the normal rate of return i.e. 15%

(b) Find out the average profit of the partnership firm. In this case it is Rs. 12,00,000

(c) Determine the capital employed i.e. 8,00,000

(d) Find out the normal value of the business by dividing average profit by normal rate of return. In this case it would be 12,00,000/15% = 80,00,000

(e) Deduct average capital employed from the normal value of business to arrive at goodwill. Here goodwill will be = 80,00,000 – 8,00,000 = Rs. 72,00,000

31. The sacrificing ratio is the ratio which indicates the sacrifice made by the old partners in their profit sharing to bring in the new partner. Below table shows the calculation of the sacrificing ratio.

Partners	*New share*	*Old share*	*Sacrificing ratio*
A	7/16	5/8	5/8 – 7/16 = 3/16
B	5/16	3/8	3/8 – 5/16 = 1/16 or 3 : 1
C	4/16		

32. Bank reconciliation statement as on …

Particulars	*Amount*	*Amount*
Balance as per cash book (Cr)		(1,500)
Add:		
Cheques issued but not presented for payment	100 + 50 + 125	275
Less:		
Cheques deposited but not cleared	400	(400)
Balance as per pass book (Dr)		(1,625)

33. The cost of a depreciable asset is made up of:

- The net cost of the asset.
- The cost of site preparation.
- Initial delivery and handling costs.
- Installation costs.
- Professional fees (architects and engineers etc) relating to having the asset in place and ready to work.
- Other cost incurred to make the asset work, i.e. computer software for a computer.
- Capital improvements made after the initial purchase (not to be confused with repairs and maintenance).
- In summary, the cost of acquisition includes the purchase cost plus any reasonable costs incurred in placing the asset into a position where it is ready for use.

The amount debited to machinery account will be

Purchase cost + transportation cost + installation cost = 10,000 + 1,500 + 1,200 = 12,700

34. Sales = opening inventory + purchases less return + gross profit – closing in ventory

Let sales be x = 22,000 + 1,10,000 + 20% of x – 25,000

Or x = 1,07,000 + 20% of x

Or x – 20% of x = 1,07,000

80% of x = 1,07,000

x = 1,07,000 × 100/80 = Rs. 1,33,750

35. The difference is due to wrong placing of salaries A/c. Salaries A/c should have come on Dr. side instead of Cr.

36. Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years.

Goodwill = Average Profits × Number of years of Puchase

Before calculating the average profits the following adjustments should be made in the profits of the firm:

(a) Any abnormal profits shoulld be deducted from the net profits of that year.

(b) Any abnormal loss should be added back to the nat profits of that year.

(c) Non operating incomes eg. income from investments etc should be deducted from the net profits of that year.

Here average profit of last 5 years will be (85,000 + 90,000 + 70,000 + 1,00,000 + 80,000)/5 = 85,000

Agreed number of years = 3 years

Thus goodwill = 85,000 × 3 = Rs. 2,55,000

37. Abnormal Loss: It refers to the abnormal loss of stock due to fire, theft or accident. If any abnormal loss is there, goods destroyed will be credited to the Trading Account and will be debited to P&L account after adjusting insurance claim and salvage value because the Trading Account is prepared under normal conditions of the business and has no place for abnormal instances.

Gross profit = sales – cost of goods sold (COGS)

Let COGS = x then

Or 4/3 of x = 2,00,000

Or x = 1,50,000

Or Gross profit = 1/3 of 1,50,000 = 50,000

Closing inventory = opening inventory + purchases + gross profit – sales – goods destroyed =

80,000 + 1,60,000 + 50,000 – 2,00,000 – 30,000 = Rs. 60,000

38. Trading account discloses the gross profit and gross loss and for this it only records the sales and direct cost of goods sold. Following is the trading account for the given question :

Trading account for the year ended…

Particulars	*Amount*	*Particulars*	*Amount*
To opening inventory	20,000	By sales	1,40,700
To purchases	85,800	By closing inventory	18,000
To carriage on purchases	2,300		
To gross profit	50,600		
	1,58,700		1,58,700

39. The shares are being issued at a premium thus the value of each share issued will be 100 + 25 = Rs. 125

Total value of assets acquired = 7,50,000

Number of shares issued = total value of shares acquired/value per share = 7,50,000/125 = 6,000 shares

40. Invoice value of the goods lost = 1/10th of the total invoice value of the goods sent = 12,500

Thus total invoice value of the goods sent = 12,500 × 10 = Rs. 1,25,000

41. The debentures are being issued at a discount thus the value of each debenture will be 100 – 20 = Rs. 80

Total value of machinery purchased = 4,00,000

Number of debentures issued in consideration = total value of machinery purchased/value per debenture = 4,00,000/80 = 5,000 debentures

Thus the actual value of the debentures issued = 5,000 × 100 = Rs. 5,00,000 should be credited to debentures account.

42. Premium on redemption = 20% of 5,00,000 = Rs. 1,00,000

Amount to be written off every year = 1,00,000/10 = Rs. 10,000

43. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted, has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as ‘goodwill’. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm.

If the new partner brings in cash for his share of goodwill, in addition to his capital, it is known as premium.

The premium brought in by Z in the above case = Rs. 4,500 which equals to his share in the firm which is 1/6

Thus the total value of goodwill of the firm will be 4,500 × 6 = Rs. 27,000

44. Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years.

Goodwill = Average Profits × Number of years of Purchase

Here average profit of last 3 years will be (42,000 + 39,000 + 45,000)/3 = 42,000

Agreed number of years = 2 years

Thus goodwill = 42,000 × 2 = Rs. 84,000

45. When the company has the debentures in Financial statements with entitlement to interest.

Interest will accrue on a timely basis e.g. Month to month or period to period.

However the so accrued will become accrued and due on the said due dates.

If the company has to prepare the financial statements, it has to provide for the interest expense up to that period and show it under interest accrued but not due.

Here half yearly interest gets due on 30th Jun and we are closing books on 31st march. Thus interest accrued but not due will be for 3 months i.e. from 1st April 2010 to 30th Jun 2010

Or interest accrued but not due = 20,00,000 × 14% × 3/12 = Rs. 70,000 will be shown under current liabilities.

46. Profit on venture can be ascertained by deducting the purchase cost and all expenses from the sales proceeds. Here commission to the partners are also considered as expenditure. Thus profit on venture = sale proceeds – purchases – commission to A – commission to B = 2,50,000 – 2,00,000 – 1% of 2,00,000 – 5% of 2,50,000 = Rs. 35,500.

47. Straight line method depreciates cost evenly through out the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

- Cost includes the initial and any subsequent capital expenditure.
- Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.
- Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Since repair on the machinery was made on 1.7.2010 and not before the machinery was put to use and it was also not a capital expenditure, it will not be considered while calculating the cost of the machinery.

Cost of the machinery = purchase price + installation expenses = 1,20,000 + 10,000 = 1,30,000

Depreciation = (1,30,000 – 5,000)/5 = Rs. 25,000

48. The drawer or holder of the bill may endorse (transfer) the bill in favor of his trades payable for the clearance of his own debts. A bill of exchange is a "negotiable instrument" i.e. a document which is transferable by delivery without notice to the party liable (drawee).

Total amount to be settled = 35,000

Amount to be settled after discount = 35,000 × 98% = Rs. 34,300

Value of the bill endorsed = 30,000

Thus amount to be settled in cash = 34,300 – 30,000 = Rs. 4,300

49. Total cost of the rice = purchase cost + carriage inward + insurance expenses = 2,00,000 + 2,000 + 3,000 = Rs. 2,05,000

$1/5^{th}$ inventory was taken over by B on cost will be equal to $1/5^{th}$ of 2,05,000 = Rs. 41,000

50. When goods are sent on approval basis then at the end of the financial year the goods lying with customers will be valued at cost or market price whichever is less. Thus goods lying with customers will be 55,000 × 2 = Rs. 1,10,000

51. Expense must be recorded in the accounting period in which it is incurred. Therefore, prepaid expense must be not be shown as expense in the accounting period in which it is paid but instead it must be presented as such in the subsequent accounting periods in which the services in respect of the prepaid expense have been performed.

Thus electricity expenses paid for the current year will be shown in the profit and loss account.

Electricity charges paid = 1-1-2009 to 30-9 -2009 + 1-10-2009 to 31-12-2009 = 2,400 × 9/12 + 3,200 × 3/12 = 1,800 + 800 = Rs. 2,600

52. Invoice value = cost + markup

Invoice value = 2,00,000 + 20% of 2,00,000 = 2,00,000 + 40,000 = Rs. 2,40,000

53. On the death of a partner, The representatives are entitled to Share of profit upto the date of death.

Thus share in profits for the period 1st April 2010 to 30th June 2010 to be credited to D's Account will be calculated as follows:

Profit for the period will be 24,000 × 3/12 = 6,000

Share of D in profit = 4/16 of 6,000 = Rs. 1,500

54. Invoice value of goods sold = 4/5 of 2,00,000 = 1,60,000

Sales value = 1,76,000

Surplus of sales above invoice value = 1,76,000 – 1,60,000 = Rs. 16,000

Thus commission = 2% of 1,60,000 + 10% of 16,000 = 3,200 + 1,600 = Rs. 4,800

55. Bank Reconciliation Statement as on 31-3-2012

Particulars	*Amount*	*Amount*
Balance as per cash book (dr)		1500
Add:		
Cheques issued but not presented	150	
Dividend collected by bank on behalf of ABC Ltd.	50	
Interest allowed by bank	50	+ 250
Less:		
Cheques deposited but not cleared	100	(100)
Balance as per the pass book		1650

56. In the given case, total of Dr. side of trial balance will be Rs.2,000 more than Cr. Side.

57. If the capital of the new partner is given, the entire capital of the new firm will be determined on the basis of the new partner's capital and his profit sharing ratio. Therefore the capital of other partners is ascertained by dividing the total capital in the new profit sharing ratio.

New profit sharing ratio

Names	*Old ratio*	*New ratio*
A	5/8	5/8 × 4/5 = 1/2
B	3/8	3/8 × 4/5 = 3/10
C		1/5

Capital of Z = 1,20,000 which is $1/5^{th}$ of the total capital

Thus capital balance of X and Y will be

Capital of X = 1,20,000 × 1/2 × 5 = 3,00,000

Capital of Y = 1,20,000 × 3/10 × 5 = 1,80,000

58. For journal entry for renewal in books of A will be, BR and cash will be debited and L and interest will be credited. Thus option (A) is correct.

59. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.

So the amount to be debited to share capital account will be = total number of shares forfeited × called up value of each share = 2,000 × 9 = Rs. 18,000

60. At the time of retirement of a partner an adjustment is necessary in respect of the goodwill. the retiring partner is entitled to his share of goodwill in the firm. In absence of agreement goodwill is to be distributed in the profit sharing ratio.

Thus the contribution of X and Z to compensate Y will be

Y's share in goodwill = 30,000 × 2/5 = 12,000

X's contribution = 12,000 × 2/3 = 8,000

Z's contribution = 12,000 × 1/3 = 4,000

ANSWERS

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 4

1. Opening inventory consists of Raw Materials, Work in progress and Finished goods.

2. Closing inventory is shown in Trial Balance and not opening in case of adjusted purchases being shown in trial balance.

3. Owners, Management and employees are internal users. Govt. is external user of financial statements.

4. As per Business entity concept, Business is separate and distinct from the providers of Capital.

5. As per going concern concept, fixed assets are acquired for use in the business for earning revenues and are not meant for sale.

6. Type of entries mentioned in the question are called compound journal entries.

7. In the given case, balance as per pass book will be more than the balance as per cash book by amount of unpresented cheque.

8. Errors (if noticed) should be rectified without waiting the accounting year to end.

9. Drawer, Drawee and Payee all are parties to bill of exchange.

10. All expenditures and receipts of revenue nature go to either trading or P& L A/c.

11. Credit not is sent to customer when he returns the goods.

12. Noting charges are paid at time dishonour of bill.

13. Depreciation of fixed asset is revenue.

14. Interest on drawings is gain for business.

15. The transaction would affect both A and B.

16. Dep. is charged by allocating depreciable cost in proportion of annual output to the life time output is Production units method.

17. A bill drawn outside India on person resident in India is foreign bill.

18. General Reserve at time of admission of new partner is transferred to the old partner's Capital accounts.

19. A suspense A/c facilitates preparation of Financial Statements even when Trial Balance has not tallied.

20. Recording of transactions in ledger is called posting.

21. The referred norms are called Accounting Standards.

22. In the given case, the treatment by auditor is justified due to Historical cost concept.

23. Mr. A started his business on 1st Jan 2009 with cash thus there was no opening inventory and hence the opening inventory to be shown in trial balance of Mr. A for the year will be nil.

24. The provision created to cover the next year's bad debt expense out of the current year's debtors is known as provision for bad debts. The provision for bad debt is calculated on the debtors' balance obtained after deducting the bad debt written off.

The provision created to cover the expense of discount that may be allowed to the debtors during the coming year when they pay their debt on time. The provision for discount on debtors is calculated on the debtors balance after deducting the bad debt and the provision for bad debt amount.

Thus provision for doubtful debt = 5% of (55,200 – 200) = Rs.2,750

25. According to annuity method, the purchase of the asset concerned is considered an investment of capital, earning interest at certain rate. The cost of the asset and also interest thereon are written down annually by equal installments until the book value of the asset is reduced to nil or its bread up value at the end of its effective life. The annual charge to be made by way of depreciation is found out from annuity tables. The annual charge for depreciation will be credited to asset account and debited to depreciation account, while the interest will be debited to asset account and credited to interest account.

Thus depreciation to be charged = asset value × the annuity = 40,000 × .230975 = Rs. 9,239

26. Under the diminishing balance method or Written Down Value Method, depreciation according to a fixed percentage calculated upon the original cost (in the first year) and written down value, (in subsequent years) of an asset, is written off during each accounting period over the expected useful life of the asset. Under this method, the rate of depreciation remains constant year after year whereas the amount goes on decreasing.

Let the cost of the asset when purchased be x

1st april 2007	Cost of machine	x
31-3-2008	Depreciation @10%	.1x
31-3-2008	wdv	.9x
31-3-2009	depreciation@10%	10% of .9x = .09x
31-3-2009	wdv	.9x – .09x = .81x
31-3-2010	depreciation@10%	.081x
31-3-2010	wdv	.81x – .081x = .729x = 72,900

So 0.729x = 72,900

x = Rs. 1,00,000 = the cost of the machine

27. When the company has the debentures in Financial statements with entitlement to interest. Interest will accrue on a timely basis e.g. Month to month or period to period.

However it will become accrued and due on the said due dates. If the company has to prepare the financial statements, it has to provide for the interest expense up to that period and show it under interest accrued but not due.

Interest from 1-5-2009 to 30-9-2009 i.e. for 5 months from the date of issue of debentures = 7% of 40,00,000 × 1/2 × 5/6 = 1,16,667

Interest from 1-10-2009 to 31-3-2010 = 7% of 40,00,000 × 1/2 = 1,40,000

Total interest to be debited to profit and loss for the year ended 31-3-2010 will be = 1,16,667 + 1,40,000 = Rs. 2,56,667

28. A Company can't issue redeemable Pref. Shares for a period exceeding 20 years (if not issued for infrastructure projects).

29. When issue is over-subscribed, the company will have to allot to each applicant according to the number of share applied by him. The excess application money is adjusted towards the sum due on allotment. Pro rata actually means 'in proportion'.

So the proportion in which the shares will be allted = total shares allotted/total shares applications received = 10,000/14,000 = 5/7

F applied for 420 shares so the total shares allotted to him will be = 420 × 5/7 = 300 shares

So excess application money received from F = (420 – 300) × 2 = Rs. 240

30. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.

So the amount to be debited to share capital account will be = total number of shares forfeited × called up value of each share = 200 × 8 = Rs. 1,600

31. On the death of a partner, the representatives are entitled to Share of profit upto the date of death.

Thus share in profits for the period 1st April 2010 to 30th June 2010 to be credited to D's Account will be calculated as follows:

Estimated Profit for the period based on last year's profit will be 24,000 × 3/12 = 6,000

Share of D in profit = 4/16 of 6,000 = Rs. 1,500

32. When goods are sent on approval basis then at the end of the financial year the goods lying with customers will be valued at cost or market price whichever is less. Thus goods lying with customers will be 55,000 × 2 = Rs. 1,10,000.

33. The cost of a depreciable asset is made up of:

- The net cost of the asset.
- The cost of site preparation.
- Initial delivery and handling costs.
- Installation costs.
- Professional fees (architects and engineers etc) relating to having the asset in place and ready to work.
- Other cost incurred to make the asset work, ie computer software for a computer.
- Capital improvements made after the initial purchase (not to be confused with repairs and maintenance).

In summary, the cost of acquisition includes the purchase cost plus any reasonable costs incurred in placing the asset into a position where it is ready for use.

So the amount debited to car account will be = purchase cost + initial repairs + registration + dealers commission = 10,000 + 1,000 + 500 + 1,200 = Rs. 12,700

34. If noting charges are paid by the bank (if the bill has been discounted) it will be realised by the bank from the drawer, who will charge it from drawee.

Thus the bank will deduct from A's bank balance the amount of the bill plus noting charges.

i.e. 12,000 + 20 = Rs. 12,020

35. Cost of the goods sold = 40,000

Sale price of the goods sold = 50,000

Profit on sale = 50,000 – 40,000 = 10,000

Profit margin on cost = profit/cost × 100 = (10,000/40,000) × 100 = 25%

Cost of the goods taken over by B = total goods – goods sold = 42,500 – 40,000 = 2,500

Amount at which the goods are taken over by B = 2,500 + 25% of 2,500 = 2,500 + 625 = Rs. 3,125

36. Whenever partners withdrew money from the partnership firm for their private purpose it could be termed as drawings. Interest is charged on drawings for the reason that the amount has been withdrawn by the partners without allowing it for being used for the purpose of the business. Where the Drawings are made at regular intervals, all the drawings are converted to an equivalent of drawings for a specified period and interest is calculated thereon.

Drawings of X at the end of each month =

Interest on drawings = 5% of 200 × (11 + 10 + 9 + …. + 3 + 2 + 1)/12

= 5% of 200 × (11(11 + 1)/2)/12 = 5% of 13,200/12 = Rs. 55

37. Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years.

Goodwill = Average Profits X Number of years of Purchase

Average profit of the last four years = (18,000-8,500 + 30,000 + 16,500)/4 = 14,000

Goodwill = 14,000 × $1^1/_2$ yrs. = Rs. 21,000

38. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.

Thus amount to be credited to the share forfeited account = no. af shares allotted to A × amount received by A = 100 × 6 = Rs. 600

39. BRS as on 31-3-2012

Particulars	*Amount*	*Amount*
Balance as per cash book (dr)		5,000
Add:		
Cheques issued but not presented	2,000	2,000
Less:		
Cheques deposited but not cleared	1,500	
Wrong debit by bank	20	(1,520)
Balance as per the pass book (cr)		5,480

40. When the company has the debentures in Financial statements with entitlement to interest.

Interest will accrue on a timely basis e.g. month to month or period to period.

However the so accrued will become accrued and due on the said due dates.

If the company has to prepare the financial statements, it has to provide for the Interest expense up to that period and show it under interest accrued but not due.

Amount of interest accrued on 31st Dec. will be for the period Oct. to Dec. = (6% of 30,000) × 3/12 = Rs. 450

41. The provision created to cover the next year's bad debt expense out of the current year's debtors is known as provision for bad debts. This provision is created on the debtors after deducting the current year's bad debt.

Accounts receivable = 30,000

Less furthur bad debts = 3,000

Provision for bad debts = 10% of (30,000 – 3,000) = Rs. 2,700

42. The drawings are usually made by the partners at regular intervals. Thus, the interest on drawings is calculated with reference to the time period involved.

Monthly/quarterly drawings method: If uniform amount is withdrawn at each time and the interval between two withdrawals also is uniform. In such a case interest on drawings is calculated with monthly drawings method. Time period in this method is calculated as follows:

When drawings are for 12 months period and at the beginning of each month = Total drawings × Rate/100 × 6.5/12

So interest on drawings of A will be = 1,000 × 12 × 10/100× 6.5/12 = 650

And interest on drawings of B will be = 500 × 12 × 10/100× 6.5/12 = 325

Total interest on drawings = 650 + 325 = Rs. 975

43. Profit of the firm before allowing interest on capital = Rs. 3,900

Interest on capital of A = 5% of 40,000 = Rs. 2,000

Interest on capital of B = 5 % of 25,000 = Rs. 1,250

Profit after interest = 3,900 – 2,000 – 1,250 = Rs. 650

The profit sharing ratio of A and B is 3 : 2

Thus profit shared by A = 650 × 3/5 = Rs. 390

And profit shared by B = 650 × 2/5 = Rs. 260

44. The expenditure will shown as prepaid expense in Financial statements for the year ended 31.12.09.

45. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period.

Total amount of the bill = 8,000

Amount paid in cash = Rs. 2,000

Amount due = Rs. 6,000

Interest for 3 months @18%pa = 6,000 × 18/100 × 3/12 = Rs. 270

The amount of renewed bill will be = 6,000 + 270 = Rs. 6,270

46. Straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Cost of the machinery = purchase price + installation expenses + carriage = 50000 + 2000 + 4000 = Rs. 56,000

Depreciation = (56,000 – 6,000)/10 = Rs. 5,000

47. Partners are entitled to receive interest at an agreed rate of interest on any Loan given by them to the firm. Interest on Loan is a charge against profits so a partner is entitled to receive interest whether there are profits or not. If there is no agreement regarding the rate of interest, it is taken as 6% p.a.

So as nothing is mentioned in the deed of partnership regarding the interest on loan so interest on Gopal's loan will be paid at 6% pa.

Interest on Gopal's loan will be = 6% of Rs. 12,000 = Rs. 720

48. Interest is paid on capital for the reason that it has been used for the purpose of the partnership business.

Since the capital was contributed on 1 July, 2009 and the books are being closed on 31st Dec. 2009. Thus interest on capital will be calculated for half a year:

For A = 40,000 × 10% × 6/12 = 2,000

For B = 50,000 × 10% × 6/12 = 2,500

So total interest on capital will be = Rs. 4,500

49. Under this method Goodwill is calculated on the basis of Super Profits i.e. the excess of actual profits over the average profits.

For calculating Goodwill:

(i) Normal Profits = Capital Invested × Normal rate of return/100

(ii) Super Profits = Actual Profits – Normal Profits

(iii) Goodwill = Super Profits × No. of years purchased

Here normal profit = 4,00,000 × 12.5% = 50,000

Super profit = 60,000 – 50,000 = 10,000

Goodwill = 10,000 × 2 = Rs. 20,000

50. To calculate the gain or loss on the sale of a fixed asset, one has to figure out the asset's book value up to the date of sale.

Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which shows a declining balance, weighted for earlier years, and lower and lower for later years, as the machine grows older.

Lets find the WDV as on 1-07-2010 of the machine in question

Original cost as on 1-1-2009 = 2,00,000

31-12-2009 depreciation @20%pa = 2,00,000 × 0.2 = 40,000

31-12-2009 wdv = 2,00,000 – 40,000 = 1,60,000

30-6-2010 depreciation for the half year = 1,60,000 × 20% × 1/2 = 16,000

30-9-2010 wdv = 1,60,000 – 16,000 = 1,44,000

30-9-2010 sale price = 1,60,000

Thus profit on sale = 1,60,000 – 1,44,000 = Rs. 16,000

51. The basic accounting equation, also called the balance sheet equation, represents the relationship between the assets, liabilities, and owner's equity of a business. It is the foundation for the double-entry bookkeeping system. For each transaction, the total debits equal the total credits. It can be expressed as

Assets = Liabilities + Capital

So here Assets = cash brought in as capital + sales proceeds received in cash + closing inventory

= 50,000 + 3,600 + (20,000 – 3,000) = 70,600

Liabilities = accounts payable on account of purchases made on credit = 20,000

owners equity = cash brought in + profit = 50,000 + 600 = 50,600

thus assets = liabilities + owners equity

52. Value of physical stock as on 15.4.2010 = Rs. 3,00,000

Add cost of goods sold between 31-3-2010 and 15-4-2010 = 1,00,000 × 80% = Rs. 80,000

Less purchases made between 31-3-2010 and 15-4-2010 = 50,000

Value of closing stock as on 31-3-2010 = Rs. 3,30,000

53. **Joint Venture a/c**

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To Coventurers a/c-A-supplies	1,00,000		By Coventurers a/c	1,20,000
	To Coventurers a/c-B-freight			By Closing Stock	5,250

and Insurance	5,000	(1,05,000 × 5/100)	
To Coventurers a/c-profit	20,250		
	1,25,250		1,25,250

54. For rectification, Ramesh will be debited by Rs. 1,000 with corresponding credit to Sales Return.

55. L ast-In, First-Out is one of the common techniques used in the valuation of inventory on hand at the end of a period and the cost of goods sold during the period. LIFO assumes that goods which made their way to inventory (after purchase, manufacture etc.) later are sold first and those which are manufactured or acquired early are sold last. Thus LIFO assigns the cost of newer inventory to cost of goods sold and cost of older inventory to ending inventory account. This method is exactly opposite to first-in, first-out method.

Date	*Purchases*			*Sales*			*Balance*		
	Units	*Unit Cost*	*Total*	*Units*	*Unit Cost*	*Total*	*Units*	*Unit Cost*	*Total*
March 4	900	5	4,500				900	5	4,500
March 5				600	5	3,000	300	5	1,500
March 10	400	5.50	2,200				300	5	1,500
							400	5.5	2,200
March 12				400	5.5	2,200	300	5	1,500

Closing inventory as on 15th March will be Rs. 1500

56. Cost of the computer = purchase cost + repairing expenses + miscellaneous expenses = 10,000 + 1,000 + 500 = 11,500

Let the sale price be x

Then profit will be 20% of x i.e. 0.2x

Cost of the computer = sale price-profit = x – 0.2x = 0.8x = 11,500 or x = Rs. 14,375

57. Total sales value = 1,00,000

Sales price after discount = 1,00,000 – 5% of 1,00,000 = 1,00,000 – 5,000 = Rs. 95,000

So the amount of the bill drawn will be Rs. 95,000.

58. The Maturity date will be 3 days after 2nd May i.e. 5th May, 2010.

59. Discounting bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = 50,000

Amount to be paid to bank on discounting at 12% pa = 50,000 × 12/100 × 3/12 = Rs. 1,500

Thus amount received from bank on discounting = 50,000 – 1,500 = Rs. 48,500

The amount of remittance to B will be = 48,500/2 = Rs. 24,250

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 5

1. Drawings A/c is a personal account.
2. Income Tax paid by sole-proprietor from business bank A/c is debited to his Capital A/c.
3. Employees are internal users. All others are external.
4. Recording of transaction in journal is called entry.
5. Narrations are given for each journal entry.
6. Each account debited in journal should be debited in ledger with reference of respective credit account.
7. Basic distinction between capital and revenue expenditure is considered on the basis of nature of business, purpose of expense and effect on revenue generating capacity.
8. Unintentional Omissions/Commissions are called errors.
9. Treating a revenue expenditure as capital or vice-versa is error of principle.
10. Under Reconciliation Statement, while adjusting cash book, all errors/omissions in cash book are considered.
11. In ledger, 8 columns are prepared.
12. Transactions are recorded in Chronological order (in order of occurence) in journal.
13. These errors are called compensating errors.
14. If opening inventory is overstated, income for an accounting period will be under-stated.
15. Inventories are valued at lower of cost or NRV.
16. Joint venture A/c shows profit/Loss and is a nominal A/c.
17. Existing goodwill is written back by old partners in old profit/loss ratio.
18. To promote credit sales, Del-credere commission is provided.
19. Normal loss is unavoidable and should be spread over the entire consignment.
20. Co-venturers keep separate set of books of accounts if venture size is big.
21. In the given case, old bill will be cancelled.
22. The periodical statement sent by consignee to consignor is Account Sales.

23. Dividends payable are dividends that a company's board of directors has declared to be payable to its shareholders. Until such time as the company actually pays the shareholders, the cash amount of the dividend is recorded within a dividends payable account as a current liability.

Equity shares called up = 5,00,000

Calls in arrear = 40,000

Share capital on which dividend is to be paid = 5,00,000 – 40,000 = 4,60,000

Proposed dividend = 15%

Thus amount of dividend payable = 15% of 4,60,000 = Rs. 69,000

24. When issue is over-subscribed, the company will have to allot to each applicant according to the number of share applied by him. The excess application money is adjusted towards the sum due on allotment. Pro rata actually means 'in proportion'.

So the proportion in which the shares will be allotted = total shares allotted/total shares applications received = 10,000/14,000 = 5/7

F applied for 420 shares so the total shares allotted to him will be = 420 × 5/7 = 300 shares

So excess application money received from F = (420 – 300) × 2 = Rs. 240

25. Cost of the boxes sent by X = 2,000 × 100 = 2,00,000

Sales price of the boxes sent = 2,00,000 + 45% of 2,00,000 = 2,90,000

The amount of bill drawn by X on Y will be = 60% of 2,90,000 = Rs 1,74,000

26. The wrong casting of purchases in the cash book will only effect the bank balances as in no other account it has been wrongly posted. As the purchase of Rs. 1870 was recorded as Rs. 1,780 in the cashbook, the cash book will show the bank balance more than actual by Rs. 90.

27. Cost of purchasing 1,000 pcs of cover files @ Rs. 275 per 100 pc = Rs. 2,750

Sales tax on above = Rs. 137.5

Transport charges = Rs. 50

Thus purchase price per piece = (2,750 + 137.5 + 50)/1,000 = Rs. 2.9375

28. Remuneration paid for services is called commission. Commission is always paid on sales. Extra commission paid to consignee for timely collection of debs and avoids bad debts is called Del creder commission. Since delcredere commission is given the consignee will bear the bad debt loss.

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.

Thus ordinary commission = 5% of 60,000 = 3,000

Del creder commission = 2% of (30% of 60,000) = 360

Overriding commission = 3% of (60,000 – 50,000) = 300

Total commission = Rs. 3,660

29. Total expenses:

Expense head	*Amount*
Freight	2,000
Godown rent	1,000
Interest on loan taken by A(18% of 50,000 × 1/12)	750
Selling expenses by B	5,000
Interest on loan taken by B(18% of 1,50,000 × 2/12)	4,500
Total	Rs. 13,250

30. If noting charges are paid by the bank (if the bill has been discounted) it will be realised by the bank from the drawer, who will charge it from drawee.

Thus the bank will deduct from Ritesh's bank balance the amount of the bill plus noting charges.

i.e. 10,000 + 200 = Rs. 10,200

31. When goods are sent on approval basis then at the end of the financial year the goods lying with customers will be valued at cost or market price whichever is less.

Goods sent out on sale or return basis = 1,20,000

Approval letter received for goods worth Rs. 80,000

Goods still lying with the dealer = 1,20,000 – 80,000 = 40,000

So cost of goods lying with the dealer = 40,000 × 100/125 = Rs. 32,000

32. By profit sharing ratio in a partnership firm, we mean the ratio in which the profits and losses of the firm are to be distributed amongst the partners.

In the absence of a partnership deed and where there is no indication as to the agreement between the partners in this aspect, it should be considered as equal share for all partners.

Thus the profits Rs. 1,50,000 will be shared among the partners equally i.e.

A	Rs. 50,000
B	Rs. 50,000
C	Rs. 50,000

33. The cost of acquisition includes the purchase cost plus any reasonable costs incurred in placing the asset into a position where it is ready for use.

So the amount debited to car account will be = purchase cost + initial repairs + registration + dealers commission = 2,00,000 + 25,000 + 5,000 + 2,000 = Rs. 2,32,000

34. Partners are entitled to receive interest at an agreed rate of interest on any Loan given by them to the firm. Interest on Loan is a charge against profits so a partner is entitled to receive interest whether there are profits or not. If there is no agreement regarding the rate of interest, it is taken as 6% p.a.

So as nothing is mentioned in the deed of partnership regarding the interest on loan so interest on Prafful's loan will be paid at 6% pa.

Interest on Prafful's loan will be = 6% of 20,000 = Rs. 1,200

35. The cost of the goods sold = 1,60,000

Sale price of the goods sold = 2,40,000

Profit on sale = 2,40,000 – 1,60,000 = 80,000

Profit margin on cost = profit/cost × 100 = (80000/160000) × 100 = 50%

Cost of the goods taken over by B = total goods-goods sold = 2,40,000 – 1,60,000 = 80,000

Amount at which the goods are taken over by B = 80,000 + 50% of 80,000 = Rs. 1,20,000

36.

	Rs.
Total value per share	9
Application money	2
Allotment money	4
First call	1
Final call (9 – 2 – 4 – 1)	2

37. On the death of a partner, the representatives are entitled to Share of profit upto the date of death.

Thus share in profits for the period 1st April 2010 to 30th June 2010 to be credited to D's Account will be calculated as follows:

Profit for the period on the basis of last year's profit will be 75,000 × 3/12 = Rs. 18,750

Share of D in profit = 1/3 of 18,750 = Rs. 6,250

38. If the amount of premium on shares forfeited has been received by the company prior to the forfeiture, securities Premium A/c will not get affected. In this case the journal entry of forfeiture of shares will be similar to the entry made as if the shares had been issued at par.

The journal entry will be

Share Capital A/c …Dr

To Share forfeited A/c

To Unpaid Calls A/c/Calls in arrears A/c

(Forfeiture of share issued at premium)

In the above question premium was received at the time of allotment and the shares were forfeited for nonpayment of first and final call thus securities premium account will not get effected and the amount debited to the same will be Nil.

39. 6% rate is allowed as per Indian Partnership Act.

40. Invoice value of the goods lost = $1/10^{th}$ of the total invoice value of the goods sent = 25,000

Thus total invoice value of the goods sent = 25,000 × 10 = Rs. 2,50,000

41. The debentures are being issued at a discount thus the value of each debenture will be 100 – 20 = Rs. 80

Total value of machinery purchased = 5,00,000

Number of debentures issued in consideration = total value of machinery purchased/value per debenture = 5,00,000/80 = 6,250 debentures

Thus the actual value of the debentures issued = 6,250 × 100 = Rs. 6,25,000 should be credited to debentures account.

42. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount per share = Rs. 1

Total discount on the reissued shares = Rs. 2,000

Amount available in shares forfeiture account = Rs. 3,000

The surplus amount to be transferred to capital reserve account = 3,000 – 2,000 = Rs. 1,000

43. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. When a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from the retrospective recomputation of depreciation in accordance with the new method would be adjusted in the accounts in the year in which the method of depreciation is changed.

The original cost of the machine = Rs. 10000

Depreciation of 2 years charged till now according to straight line method = 10,000 – 6,000 = Rs. 4,000

Rate of depreciation according to WDV method = 20%

Depreciation for the 1st year according to wdv method = 20% of 10,000 = 2,000

WDV as on 31-3-2011 will be = 10,000 – 2,000 = 8,000

Depreciation for the 2nd year = 20% of 8,000 = Rs. 1,600

Total depreciation for 2 years calculated according to wdv method = 2,000 + 1,600 = 3,600

Thus excess depreciation charged till now will be 4,000 – 3,600 = Rs. 400

44. The provision created to cover the next year's bad debt expense out of the current year's trade receivables is known as provision for bad debts. The provision for bad debt is calculated on the trade receivable' balance obtained after deducting the bad debt written off.

The provision created to cover the expense of discount that may be allowed to the trade receivable during the coming year when they pay their debt on time. The provision for discount on trade receivable is calculated on the trade receivable balance after deducting the bad debt and the provision for bad debt amount.

Thus provision for doubtful debt = 2% of (25,000 – 3,000) = 440

Provision for discount = 1% of (25,000 – 3,000 – 440) = 216

Net trade receivable to be shown in balance sheet = 25,000 – 3,000 – 440 – 216 = Rs. 21,344

45. Share of C = Rs.20, 000 × 2/10

Rs. 20,000 is the difference between policy value and surrender value, to be credited to partners.

46. In the absence of partnership deed No salary is given to any partner for participation in the work of partnership firm. Thus the claim of Y for getting salary is wrong and will not be allowed. Thus the profit of the firm will be distributed among the partners in their profit sharing ratio i.e.1:1:1. Amount payable to X, Y and Z will be 60,000/3 = Rs. 20,000 each.

47. The cost of the damaged TVs = 10,000 × 5 = 50,000

Cost of remaining TVs = 10,000 × 95 = Rs. 9,50,000

Since the cost of damaged TVs were adjusted with the remaining TVs thus the cost of the remaining TVs will be 9,50,000 + 50,000 = Rs. 10,00,000

So the cost per TV will be = 10,00,000/95 = Rs. 10,526

48. Discounting bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

On the maturity Rs. 30,000 is to be paid to the bank and thus A will send to B half of the total amount i.e. Rs. 15000.

49. **Joint Venture A/c**

Particulars	*Amount*	*Particulars*	*Amount*
To coventurers a/c-A-supplies	1,20,000	By coventurers a/c-B_sales	1,50,000
To coventurers a/c-A-repairs	10,000	{100/80 of 120000}	
To coventurers a/c-A-printing	10,000		
To coventurers a/c-profit	10,000		
	1,50,000		1,50,000

50. When debentures are issued at a premium , the amount of premium so received is credited in the debentures premium account.

Thus amount to be transferred to debenture premium account = 5,000 × 10 = Rs. 50,000

51. Capital Redemption Revere is an account to which is credited the nominal value of shares that have been redeemed insofar as the redemption was not paid for by the proceeds of a new issue of shares and was not a payment out of capital.

Thus the amount to be credited to the capital redemption reserve account = 10,000 × 10 = Rs. 1,00,000

52. Out of 25,000 shares Archit paid full value of 1,000 shares held by him with allotment. So at the time of first call money received and debited to bank account will be = (25,000 – 1,000) × 2 = Rs. 48,000

53. Value of furniture as on 1-1-2010 = Rs. 20,000

Book value of the furniture exchanged as on 1-1-2010 = Rs. 1,200

This furniture was sold during the year so depreciation for half year will be charged on it.

Thus depreciation for half year on the furniture exchanged = 10% of 1,200 × 6/12 = Rs. 60

Thus bookvalue of the furniture exchanged after depreciation will be = 1,200 – 60 = Rs. 1140

Thus the value of the new furniture = 1,140 + 500 = Rs. 1,640

Value of old furniture after depreciation will be = (20,000 – 1,200) × 9/10 = 16,920

The value of new furniture after charging half year depreciation = 1,640 – 1,640 × 10% × 6/12 = 1,558

Thus the total value of furniture shown in the balance sheet will be = 16,920 + 1,558 = Rs. 18,478

54. Direct Credits or Direct Deposits are amounts deposited directly by someone into an account of the company. The payer rather than the payee in this case initiate the deposit. Direct Credits are useful where regular receipts are expected from known parties (such as rent, interest on investment, royalties, etc) who can deposit the money without the involvement of the payee. The deposit may be made through cash, cheque or a fund transfer.

Bank records the amount received as soon as the transfer through direct credit is made but the business entity records the amount when it receives intimation by the bank through bank statement or otherwise. Therefore, the balance as per bank statement may be higher than the balance as per cash book due to direct credits not yet accounted for by the entity.

The difference needs to be added to the balance of the cash book when taken as the starting point in the preparation a bank reconciliation.

55. BRS as on 31-3-2012

Particulars	*Amount*	*Amount*
Balance as per cash book(dr)		1500
Add:		
Cheques issued but not presented	150	
Dividend collected by bank on behalf of ABC ltd	50	
Interest allowed by bank	50	+ 250
Less:		
Cheques deposited but not cleared	100	(100)
Balance as per the pass book		1650

56. If sales return has been wrongly posted to the credit of the purchase return account ,purchase return account (cr) will be over casted by Rs. 1500 and sales return account (dr) will be under casted by Rs. 1,500.

57. Cost of goods sold = sales – gross profit margin = x (say)

Thus x = sales – $33^{1}/_{3}$% of x

x + 100/3% of x = 13,00,000

x + 1/3x = 13,00,000

4/3x = 13,00,000

X = Rs. 9,75,000

Closing inventory = goods available for sale-cost of goods sold = 12,00,000 – 9,75,000 = Rs. 2,25,000

58. Total amount to be paid = Rs. 7,000

Amount paid after discount of 10% on 30-6-2009 = Rs. 1,800

The amount paid before discount will be = 1,800 × 10/9 = Rs. 2,000

Thus amount left to be paid = 7,000 – 2,000 = Rs. 5,000

Amount paid on 30-9-2009 after 5% discount = 2,850

The amount paid before discount = 2,850 × 100/95 = Rs. 3,000

Thus amount left to be paid in final installment without any discount = 5,000 – 3,000 = Rs. 2,000

59. Let the managerial commission be x

Profit before charging managerial commission = Rs. 44,000

Profit after charging managerial commission = 44,000 – x

Managerial commission = x = 10% of profit after charging managerial commission = 10% of (44,000 – x)

x = 10% of (44,000 – x)

x = 4,400 – x/10

x + x/10 = 4,400

11x/10 = 4,400

Managerial commission = x = 4,400 × 10/11 = Rs. 4,000

60. Recovered bad debt is revenue in nature.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 6

1. Transactions between owner and business are recorded as per Entity concept.

2. Salary is expense, Account payable is liability, sales is revenue, Trade Receivable is an asset.

3. Annual financial statements pertain to individual business entity.

4. An employee dismissed from job is not a transaction. All other three are transactions.

5. Accounting does not aim to provide details of personal assets and liabilities of owner. All other three are objectives of accounting.

6. Personal expenses of owners (paid by firm) are called drawings.

7. Purchase Journal records credit purchase of goods dealt in by firm.

8. Trial balance gives the list of balances of all accounts (given in ledger).

9. Dep. is calculated on original cost under SLM.

10. If date of maturity of a bill is a holiday, bill will mature preceding working date.

11. A promissory note is drawn by maker in favour of payee.

12. Consistency requires that same method should be used from one accounting year to next.

13. Left side of an account is Dr. whereas right side is Cr.

14. Every transaction affects at least 2 accounts.

15. All expenses and income accounts appearing in trial balance are Ist of either to Trading or Profit & Loss A/c.

16. Scrap value means amount realised at end of useful life of asset.

17. Petty cashier works on Imprest system.

18. Proforma invoice is prepared by consignor and sent to consignee to inform him about essential particulars of goods.

19. Carriage charges paid for new plant should be debited to Plant A/c. If debited to Carriage A/c, now rectification would affect both A/cs.

20. Amount due to retiring partner on account of goodwill is debited to the continuing partners in their gaining ratio.

21. Drawings should be recorded at cost price.

22. Concept of substance over form is applied in the given case.

23. Since C acquires 2/10th share from A and 1/10th share from B he acquires his share in the ratio 1/5:1/10 i.e. 2:1

Names	*Old ratio*	*Sacrifice/gain*	*New ratio*
A	3/5	3/10 x 2/3 = 1/5	3/5 – 1/5 = 2/5 = 4/10
B	2/5	3/10 x 1/3 = 1/10	2/5 – 1/10 = 3/10
C			3/10

The new ratio = 4:3:3

24. Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years.

Goodwill = Average Profits × Number of years of Purchase

Here average profit of last 4 years will be (40,000 + 50,000 + 60,000 + 50,000)/4 = Rs. 50,000

Agreed number of years = 3 years

Thus goodwill = 50,000 × 3 = Rs. 1,50,000

25. The shares are being issued at a premium thus the value of each share issued will be 10 + 5 = Rs. 15 Total value of assets acquired = Rs. 75,000

Number of shares issued = total value of shares acquired/value per share

= 75,000/15 = 5,000 shares

26. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm.

For adjustment of goodwill C's account will be debited by his share in the firm's goodwill.

The value of the firms goodwill = Rs. 1,50,000

Share of C in profit = 1/6

Thus C's account will be debited by 1,50,000 × 1/6 = Rs. 25,000

27. Profit = sales less return – purchase less return

Sales less return = sales – sales return = 40,000 – 5,000 = Rs. 35,000

Purchase less return = purchase – purchase return = 30,000 - 5,000 = Rs. 25,000

Thus amount of profit = 35,000 – 25,000 = Rs. 10,000

28. Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. a certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which shows a declining balance, weighted for earlier years, and lower and lower for later years, as the asset grows older.

Lets find the WDV as on 30-3-2010 of the furniture and fixture in question

Balance of furniture and fixture as on 1-4-2009 = Rs. 10,000

Original cost of furniture purchased on 1-10-2009 = Rs. 5,000

31-3-20 10 depreciation @10%pa on the opening balance = 10,000 × 10% = Rs. 1,000

31-3-2010 depreciation @10%pa on the furniture purchased on 1-10-2009 for half year

= 5,000 × 10% × ½ = Rs. 250

31-3-2010 total depreciation = 1,000 + 250 = Rs. 1,250

29. Cost of goods consigned to Mr. Ramesh = 100 × 100 = Rs. 10,000

Plus freight and carriage = Rs. 1,000

Total cost of 100 cases consigned = Rs. 11,000

Abnormal loss i.e. goods lost in transit = 11,000 × 10/100 = Rs. 1,100

30. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.

Forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Thus the amount received on such shares = 1,000 × 3.5 = Rs. 3,500

The shares forfeited account will be credited by Rs. 3,500

31. The debentures are being issued at a premium thus the value of each debenture will be 1,000 + 20% of 1,000 = 1,200

Total value of asset purchased = Rs. 60,00,000

Number of debentures issued in consideration = total value of asset purchased/value per debenture

= 60,00,000/1,200 = 5,000 debentures

32. Discount 4% of Rs. 1,00,00,000 = Rs. 4,00,000

Premium on repayment 6% of Rs. 1,00,00,000 = Rs. 6,00,000

Total loss on issue of debentures = 4,00,000 + 6,00,000 = Rs. 10,00,000

33. The retiring partner is entitled to his/her share of goodwill at the time of retirement because the goodwill is the result of the efforts of all partners including the retiring one in the past. The retiring partner is compensated for his/her share of goodwill. Therefore, in case of retirement of a partner, the goodwill is adjusted through partner's capital accounts. The retiring partner's capital account is credited with. His/her share of goodwill and remaining partner's capital account is debited in their gaining ratio.

Share of Om in goodwill = 5/10 of 50,000 = Rs. 25,000

Gaining ratio

Partners	*Old ratio*	*New ratio*	*Gaining ratio*
Jai	3/10	1/2	½ – 3/10 = 2/10
Jagdish	2/10	1/2	½ – 2/10 = 3/10

Thus Jai's account will be debited by = 25,000 × 2/5 = Rs. 10,000

And Jagdish's account will be debited by = 25,000 × 3/5 = Rs. 15,000

34. In case of Sudeten declaration of govt. holiday, the bill will mature on the next working day.

35. Cost of machinery as on 1st april 2007 = Rs. 1,00,000

Depreciation for 2 years = (10% of 1,00,000) × 2 = Rs. 20,000

Depreciation for half year till 30th sept 2009 = 10,000/2 = Rs. 5,000

Thus WDV as on 30th sept 2009 = 1,00,000 – 20,000 – 5,000 = Rs. 75,000

Sales consideration of the machine = Rs. 89,000

Thus profit on sale = 89,000 – 75,000 = Rs. 14,000

36. FIFO stands for first-in, first-out, meaning that the oldest inventory items are recorded as sold first but do not necessarily mean that the exact oldest physical object has been tracked and sold.

Closing inventory = 700 units

Since FIFO is followed the closing inventory 700 units will include the purchases made on Jan 30 and Jan 25th

Value of the closing inventory = 400 units @ Rs.10 + 300 units @ Rs. 9 = 4,000 + 2,700 = Rs. 6,700

37. In the books of Sen there is bills payable(dr.) in favour of Mohan of Rs. 5,000 and there is bills receivable(cr.) of Rs. 5,000 accepted by Tania.

So when promissory note in favour of Mohan was settled by Sen by sending him Tania's acceptance the journal entry will be-

Bill receivable	Dr.	Rs. 5,000	
To Bills payable			Rs. 5,000

38. Trail balance is the statement for all ledger balances. And it is used to measure the arithmetical accuracy of balances... here if trail balance is not equal then we have debit or credit side whichever is short with suspense account. If the mistake is detected before the preparation of the final accounts, the rectifying entry is passed.

Here purchase day book was under casted so the necessary entry will be:

Purchases A/c	Dr.	Rs. 500	
To Suspense A/c			Rs. 500

39. BRS as on 31-3-2010

Particulars	*Amount*	*Amount*
Balance as per cash book(dr.)		10000
Add:		
Cheques issued but not presented	4000	4000
Less:		
Cheques deposited but not cleared	3000	(3000)
Balance as per the pass book (cr.)		11000

If purchase journal is totaled short, it bill have effect on the trail balance.

40. Total of purchase journal, if cast short by Rs.1, 000, will affect trial balance. All other errors will not affect.

41. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period.

Total amount of the bill = Rs. 10,000

Amount paid in cash = Rs. 4,000

Amount due = Rs. 6,000

Interest for 2 months @ 12% pa = 6,000 × 12/100 × 2/12 = Rs. 120

42. Calculation of depreciation

	Machine	*Furniture*	
1.1.2010 cost	10,000	1.1.2010 cost	20,000

31.3.2010 depreciation	10% of 10,000 × 3/12 = 250	31.3.2010 depreciation	5% of 20,000 × 3/12 = 250

Total depreciation for the year ended 31.3.2010 will be 250 + 250 = Rs. 500

43. Accrued interest receivable occurs when interest on an outstanding receivable has been earned by the company, but has not yet been received. Here interest from February to March is earned by the company but received in April.

So the amount of accrued interest will be = 12% of 10,000 × 2/12 = Rs. 200

44. Cost of goods sent on consignment = Rs. 4,80,000

Invoice price = 125% of the cost price

Thus invoice price = 125% of 4,80,000 = Rs. 6,00,000

And the loading = invoice price – cost price = 6,00,000 – 4,80,000 = Rs. 1,20,000

45. Remuneration paid for services is called commission. Commission is always paid on sales.

Here B is entitled to commission of Rs. 500 per unit

Here total units sold by B = 150 units on credit + 75 units for cash = 225 units

Thus the amount of commission will be = 225 × 500 = Rs. 1,12,500

46. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the entire enterprise and consequently share revenues, expenses and assets.

Joint venture A/C

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To coventurers a/c-purchases	75,000		By coventurers a/c-sales	90,000
	To coventurers a/c-expenses	10,950		By coventurers a/c-	
	To coventurers a/c-profit	6,750		Ram-drawings	2,700
		92,700			92,700

47. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period.

Total amount of the bill = Rs. 10,000

Amount paid in cash = Rs. 4,000

Amount due = Rs. 6,000

Interest for 3 months @ 15%pa = 6,000 × 15/100 × 3/12 = Rs. 225

ANSWERS

48. The maturity date will be 25^{th} January, 2010 (after 1 month).

49. Discounting bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = Rs. 20,000

The bill was accepted by Renu on 1^{st} January but was discounted on 4^{th} February so,

Amount to be paid to bank on discounting at 15%pa = 20,000 × 15/100 × 2/12 = Rs. 500

50. When a new partner is admitted he/she acquires his/her share in profit from the existing partners.

At the time of admission of a partner, existing partners have to surrender some of their share in favour of the new partner. The ratio in which they agree to sacrifice their share of profits in favour of incoming partner is called sacrificing ratio. Some amount is paid to the existing partners for their sacrifice. The amount of compensation is paid by the new partner to the existing partner for acquiring the share of profit which they have surrendered in the favour of the new partner.

Sacrificing Ratio is calculated as follows:

Sacrificing Ratio = Existing Ratio – New Ratio

	Old ratio	*New ratio*	*Sacrificing ratio*
X	2/3	2/3 of ¾ = 1/2	2/3 – 1/2 = 1/6
Y	1/3	1/3 of ¾ = 1/4	1/3 – 1/4 = 1/12

Z's share in profit = 1/4 of 76,000 = Rs. 19000 which is less than Rs. 25,000 i.e. the guaranteed amount

So Z's share = Rs. 25,000

So remaining 76,000 – 25,000 = Rs. 51,000 will be distributed among X and Y in the ratio 2:1

X's share = 51,000 × 2/3 = Rs. 34,000

And Y's share = 51,000 × 1/3 = Rs. 17,000

51. When the value of goodwill is not given in the question then hidden goodwill is calculated with reference to the total capital of the firm and the profit sharing ratio.

Hidden goodwill is that goodwill the amount of which is not mentioned in the deed, but the amount of which has to calculated by capitalisation method or with the help profit sharing ratio.

This method is generally used when the new partner is unable to bring in his share of goodwill which is at the same time unknown. So to calculate the value of this hidden goodwill we will follow these steps:

1. First, we will multiply the capital brought by the new partner with his reciprocated ratio.
2. Secondly, we total up the actual capitals of all the partners including the capital brought by the new partner as well.
3. Then we deduct the total of actual capitals of all the partners from the assumed capital.

Assumed capital = 8,00,000 × 4 = Rs. 32,00,000

Actual capital = Dheeraj's capital + Gopal's capital + profit as on the date of admission + Deepak's capital = 5,00,000 + 5,00,000 + 4,00,000 + 8,00,000 = Rs. 22,00,000

Hidden goodwill = 32,00,000 – 22,00,000 = Rs. 10,00,000

52. Cash book is a financial journal that contains all cash receipts and payments, including bank deposits and withdrawals. In the cash book only the transactions which are either received or paid in cash/bank are recorded thus rent due but not received will not be recorded in the cash book.

53. Loss on redemption of debenture will be equal to the premium of 20% at which the debentures are redeemable after 5 years

Thus loss on redemption of debentures will be = 20% of 2,00,000 = Rs. 40,000

54. In case applications are received for more debentures than issued, it is known as over subscription. Application money received on over applied shares are returned by the company. Thus the amount to be credited to the debentures account will be the value of the debentures actually issued

Here the amount to be credited to the debentures account will be = 10,000 × 100 = Rs. 10,00,000

55. Total value of the redeemable preference shares to be redeemed = 9,000 × 10 = Rs. 90,000

Thus value of equity shares of Rs. 10 each to be issued = Rs. 90,000

The number of equity shares to be issued = 90,000/9 = 10,000 shares

56. Last-In, First-Out is one of the common techniques used in the valuation of inventory on hand at the end of a period and the cost of goods sold during the period. LIFO assumes that goods which made their way to inventory (after purchase, manufacture etc.) later are sold first and those which are manufactured or acquired early are sold last. Thus LIFO assigns the cost of newer inventory to cost of goods sold and cost of older inventory to ending inventory account. This method is exactly opposite to first-in, first-out method.

Since the firm is following LIFO method for valuation of inventory the closing inventory i.e.

15,000 units + 20,000 units – 30,000 units = 5,000 units will be valued @ of the opening inventory

Per unit value of the opening inventory = 1,50,000/15,000 = Rs. 10

Thus the value of the closing inventory will be = 5,000 × 10 = Rs. 50,000

57. Cost of acquisition includes the purchase cost plus any reasonable costs incurred in placing the asset into a position where it is ready for use.

So the amount debited to machinery account will be = purchase cost + shipping forwarding + import duty + carriage inwards + repair charges + installation charges + brokerage + iron pad

= 50,000 + 2,000 + 1,000 + 1,000 + 500 + 200 + 400 + 100 = Rs. 55,200

58. Interest on capital allowed = 12%

Capital invested = Rs. 1,00,000

Thus interest to be charged to P&L = 12% of 1,00,000 = Rs. 12,000

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 7

1. Assets should be recorded at price paid to acquire them on the basis of cost concept.
2. Cash book is in ledger form.
3. Adjusted cash book balance is considered for finalizing the accounts.
4. Material cost for erection of machinery and wages paid for it should be debited to Machinery A/c.
5. Diff. of totals of Dr. and Cr. Side of trial balance is B/F of to Suspense A/c.
6. Inventories should be issued in the sequence in which they are purchased on the basis of FIFO.
7. Value of an asset after deducting dep. is called Book Value.
8. Expenses incurred to retain title of building are revenue.
9. Carriage inward is debited to Trading A/c.
10. 93 days after 26.02.10 will be 30.05.2010 (Maturity date).
11. Balancing figure is placed on Cr. Side of the ledger account if total of Dr. is more than total of Cr. Side.
12. Cost of small calculator is accounted as expense due to Materiality concept.
13. Base stock is minimum quantity of inventory held as precaution.
14. M/s Surendran & Co. or bearer will be the payee in the given case.
15. Flucating Capital account is credited with interest on capital, profits of year and salaries of partners.
16. If incoming partner brings any additional amount other than capital, it is premium for goodwill.
17. Memorandum joint venture A/c is prepared when each co-venturer keeps records of all their own joint venture transactions.
18. In case del-credere commission provided by consignor to consignee, bad debts will be borne by consignee.
19. Sending party is consignor.
20. Discounting of bill is done with bank.
21. WDV method has been adopted in the given case.
22. The given transactions are in nature of consignment.

23. Capital contribution is an amount of money or assets given to a business or partnership by the owners or partners. The capital contribution increases the owner or partner's equity interest in the entity. here the partners will contribute capital in their agreed profit sharing ratio i.e. 5 : 3 : 2

Ajay's contribution = 6,00,000 × 5/10 = Rs. 3,00,000

Vijay's contribution = 6,00,000 × 3/10 = Rs. 1,80,000

Sanjay's contribution = 6,00,000 × 2/10 = Rs. 1,20,000

24. The demand for the shares is less than the number of shares issued by the company. Allotment of equity shares will be on the basis of shares subscribed by the public and not on the shares issued to the public for subscription.

Thus number of shares to be issued to the public will be 40,000 shares.

25. By issuing debentures means issue of a certificate by the company under its seal which is an acknowledgment of debt taken by the company.

When Debentures are issued for cash at par :

Following journal entries will be made :

(i) Application money is received

Bank A/c Dr

To Debentures Application A/c

(Application money received for Debentures)

(2) Transfer of debentures application money to debentures account on their allotment

Debentures Application A/c Dr

To Debentures A/c

(Application money transferred to debenture account on allotment)

Here the total amount is received with application so the amount to be transferred to the 10% Debenture account will be (5,000 × 100) = Rs. 5,00,000

26. Capital Redemption Revere is created when a company buys it owns shares which reduce its share capital.

Suppose, the fresh equity shares or preference shares are issued to redeem the old preference shares, in this case the difference between the face value of preference shares and fresh shares issued will be transferred to capital redemption reserve account.

Here the face value of preference shares redeemed = Rs. 1,00,000

And the face value of fresh shares issued = Rs. 50,000

Thus amount to be transferred to capital redemption reserve = 1,00,000 – 50,000 = Rs. 50,000

ANSWERS

27. When the company has the debentures in Financial statements with entitlement to interest. Interest will accrue on a timely basis e.g. Month to month or period to period.

However the so accrued will become accrued and due on the said due dates.

If the company has to prepare the financial statements, it has to provide for the interest expense up to that period and show it under interest accrued but not due.

Interest from 1-6-2010 to 30-9-2009 i.e. for 4 months from the date of issue of debentures = 9% of 4,00,000 × 4/12 = 12,000

Interest from 1-10-2009 to 31-3-2010 = 9% of 4,00,000 × 6/12 = 18,000

Total interest to be debited to profit and loss for the year ended 31-3-2010 will be = 12,000 + 18,000 = Rs. 30,000

28. If any amount has been called by the company either as allotment or call money and a shareholder has not paid that money, this is known as calls in arrears.

If any call has been made but while paying that call, some shareholders paid the amount of the rest of calls also, then such amount will be called as calls in advance.

Calls in advance and calls an arrears are not entitled for any dividend declared by the company.

Thus the dividend payable by the company will be 20% of called up capital-calls in arrear which is Rs. 3,00,000 – Rs. 15,000.

Dividend payable = 20% of 2,85,000 = Rs. 57,000.

29. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount per share = 10 – 9 = Rs 1

Total discount on the 1800 reissued shares = Rs. 1,800

Proportionate Amount available in shares forfeiture account for 1800 shares reissued = Rs. 5,000 × 1,800/3,000 = Rs. 3,000

The surplus amount to be transferred to capital reserve account = 3,000 – 1,800 = Rs. 1,200

30. When issue is over-subscribed, the company will have to allot to each applicant according to the number of share applied by him. The excess application money is adjusted towards the sum due on allotment. Pro rata actually means ‘in proportion’.

So the proportion in which the shares will be allted = total shares allotted/total shares applications received = 10,000/12,000 = 5/6

Total shares held by Kittu = 1,000

Thus total shares applied by Kittu = 1,000 × 6/5 = 1,200

So excess application money received from Kittu = (1,200 – 1,000) × 2 = Rs. 400

Total allotment money due from Kittu = 1,000 × 3 = Rs. 3,000

Allotment money adjusted with excess application money = Rs. 400

So her calls in arrear was = 3,000 – 400 = Rs. 2,600

31. Life policy is the Insurance taken by a partnership. Most often, this insurance is purchased to aid the business in continuing to operate in case of the death or dismemberment of one partner.

the total amount of the policies taken by the firm is = 50,000 + 1,00,000 + 1,50,000 = Rs. 3,00,000

the share of the partners in the total policy will be in their profit sharing ratio

thus share of Me in the policy will be = 3,00,000 × 2/10 = Rs. 60,000

32. In case of retirement and death, goodwill is adjusted through the partners' account in *Gaining Ratio* . The Journal entry for adjusting goodwill is:

Remaining or Continuing Partners' Capital Account Dr.

    To Retiring or Deceased Partner's Capital Account

(Goodwill adjusted in the gaining ratio)

Calculation of gaining ratio

Partners	*Old ratio*	*New ratio*	*Gaining ratio*
Vijay	3/6		
Vineet	2/6	2/3	2/3-2/6 = 2/6
Vivek	1/6	1/3	1/3-1/6 = 1/6

So the gaining ratio Vineet and Vivek is 2 : 1

Vijay's share in goodwill = 3/6 of 18,000 = Rs. 9,000

Thus Vijay's share of goodwill debited to Vineet capital account = 2/3 of 9,000 = Rs. 6,000

Vijay's share of goodwill debited to Vivek's capital account = 1/3 of 9,000 = Rs. 3,000

33. Calculation of new profit sharing ratio

Partners	*Old ratio*	*Gain*	*New ratio*
Amit	5/12	3/12 × 4/7 = 1/7	5/12 + 1/7 = 47/84
Rohit	4/12	3/12 × 3/7 = 3/28	4/12 + 3/28 = 148/336 = 37/84
Sumit	3/12		

Thus the new ratio between Amit and Rohit = 47:37

34. Calculation of new profit sharing ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
Rachna	1/2	1/3 × 1/2 = (1/6)	1/2-1/6 = 2/6 = 1/3
Sapna	1/2	1/3 × 1/2 = (1/6)	1/2-1/6 = 2/6 = 1/3
Ashna		1/3	1/3

Thus the new ratio between Rachna,Sapna and Ashna = 1 : 1 : 1

35. Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return, such capital is called capitalized value of average profits. After arriving at the capitalized average profit, Capital employed (assets-liabilities) of the firm is then subtracted from the capitalized value of average profits to arrive at the Goodwill. To calculate goodwill using average profit, the average net profit for a given number of past years are multiplied by an agreed number of years.

Mathematically, Capitalized Value of Average Profits = Average Profits × (100/Normal Rate of Return)

Goodwill = Capitalized Value of Average Profits – Capital Employed.

Here profit for the year = 12,00,000

Reasonable rate of return = 15%

Thus capitalized value of profit = 12,00,000 × 100/15 = 80,00,000

Capital employed = 80,00,000

Thus Goodwill = 80,00,000-80,00,000 = NIL

36. When goods are sent on approval basis then at the end of the financial year the goods lying with customers will be valued at cost or market price whichever is less.

On the closing date the cost of goods lying with customers is Rs. 6,000 which is less than the market value which is Rs. 12,000, so the cost of goods lying with customers will be Rs. 6,000.

37. On maturity date, Disha will send Rs. 3,000 (Rs. 6,000/2).

38. When a person or party is declared by court as insolvent or bankrupt he is considered to be unable to pay his liabilities. It means, the bills accepted by him will be naturally dishonored. Therefore, when it is known that a person has become insolvent, entry for the dishonor of the bill of exchange should be passed both in the books of the drawer and acceptor.

Later on something may be received from his estate. When the amount has been received cash account will be debited and the personal account of the person will be credited.

Here 30 p per rupee has been recovered . Thus amount recovered will be 30% of 10,000 = Rs. 3,000

And the amount of bad debt will be = 10,000 – 3,000 = Rs. 7,000

39. **Joint venture a/c**

Particulars	*Amount*	*Particulars*	*Amount*
To coventurers a/c-Ram-		By coventurers a/c-Shyam_sales	25,000
purchases	20,000	By Coventureres-shyam-drawings	2,000
To coventurers a/c-Ram-freight	1,000		
To coventurers a/c-shyam-carriage	500		
To coventurers a/c-profit	5,500		
	27,000		27,000

Amount to be paid to Ram by Shyam = cost of goods purchased + expenses incurred by Ram + share in profit on venture = 20,000 + 1,000 + 2,750 = Rs. 23,750

40. Cost price means original cost of the unsold inventory plus proportionate amount of the expenses which are necessary to put the goods. In their present value place and condition such as freight, octroi duty, insurance, forwarding charges, carriage up to consignee’s godown etc. Generally all expenses incurred till the goods reach consignee’s godown etc. Generally all expenses incurred till the goods reach consignee’s godown etc are treated as part of the cost whether incurred by the consignee or consignor. Expenses incurred in storage and selling the goods after the goods reach consignee’s godown are not to be considered in the cost of the unsold stock (closing stock).

So in the present case the expenses which are to be excluded will be

Godown charges = Rs. 600

Selling expenses = Rs. 1,200

Total = Rs. 1,800

41. Holder of debentures issued as collated security is entitled to interest on amount of loan only.

42. Gross profit is a company’s revenue minus its cost of goods sold. Gross profit is a company’s residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs.

Cost of goods sold in the above case = opening stock + purchases + carriage-closing stock = 20,000 + 1,00,000 + 2,000 – 25,000 = 97,000

Gross profit = sales – cost of goods sold = 1,50,000 – 97,000 = Rs. 53,000

43. A suspense account is an account in the general ledger in which amounts are temporarily recorded. The suspense account is used because the proper account could not be determined at the time that the transaction was recorded.

When the proper account is determined, the amount will be moved from the suspense account to the proper account.

(1) When return inward was undercast dr side of trial balance must be showing Rs. 150 less,thus suspense account would have been debited

(2) When return outward book was overcasted then also debit balance of the trial balance must be showing Rs. 1,000 less so suspense account would have been debited

(3) When salaries was posted twice the credit side of the trial balance must be showing Rs. 1,500 less and so suspense account would have been credited

Thus the balance of suspense account would be showing 1,500 (Cr) – 1,000 (Dr) – 150 (Dr) = 350 (Cr)

44. **Trial balance**

Partculars	*LF*	*Amount*	*Amount*
Capital			4,00,000
Computer		25,000	
Air conditioner and furniture		1,00,000	
Fixed Deposits		2,00,000	
Salaries		8,00,000	
Fee received			12,00,000
Travelling expenses		1,50,000	
Rent and office expenses		2,40,000	
Cash balances		1,80,000	
Bank overdraft			95,000
Total		16,95,000	16,95,000

45. Historical cost is a measure of value used in accounting in which the price of an asset on the balance sheet is based on its nominal or original cost when acquired by the company.

Here the historical cost of the closing inventory will be = 1,000 × 3.25 = Rs. 3,250

And the selling cost per unit = Rs. 4.25

So the selling price of the closing inventory will be = 1,000 × 4.25 = Rs. 4,250

46. Under the units-of-production method, useful life of the asset is expressed in terms of the total number of units expected to be produced:

$$\text{Annual Depreciation Expense} = \frac{\text{Cost of Fixed Asset} - \text{Residual Value}}{\text{Estimated Total Production}} \times \text{Actual Production}$$

Years	*Actual production*	*Depreciation = (11,00,000/30,00,000) × actual production*
1-3 year	5 lacs units	5,00,000 × 11/30 = 1,83,333
4-6 year	3 lacs units	3,00,000 × 11/30 = 11,000
7-10 year	1.5 lacs units	1,50,000 × 11/30 = 55,000

Thus Annual depreciation for 1-3 year, using production units method will be Rs. 1,83,333.

47. Bank reconciliation statement as on …

Particulars	*Amount*	*Amount*
Balance as per cash book (cr)		(2,000)
Add:		
Cheques issued but not presented for payment	200 + 150 + 175	525
Less:		
Cheques deposited but not cleared	600	(600)
Balance as per pass book (Dr)		(2,075)

48. Statement showing the value of physical inventory as on 31.3.2012

Particulars	Rs.	Rs.
Inventory as on 31.3.2012		2,80,000
Less inventory on consignment		(1,20,000)
Less goods damaged	25,000 – 5,000	(20,000)
Value of inventory as on 31.3.2012		1,40,000

49. According to annuity method, the purchase of the asset concerned is considered an investment of capital, earning interest at certain rate. The cost of the asset and also interest thereon are written down annually by equal installments until the book value of the asset is reduced to nil or its bread up value at the end of its effective life. The annual charge to be made by way of depreciation is found out from annuity tables. The annual charge for depreciation will be credited to asset account and debited to depreciation account, while the interest will be debited to asset account and credited to interest account.

Thus depreciation to be charged = lease value × the annuity = 1,00,000 × 0.282012 = Rs. 28,201

50. Outstanding interest means the interest which is accrued but not received during the current period.

Here the total interest due on 18% investment = 18% of 1,00,000 = Rs. 18,000

And the interest received = Rs. 15,000

Thus interest outstanding = 18,000 – 15,000 = Rs. 3000

51. Hypothecation is an established practice of a borrower pledging an asset as collateral for a loan, while retaining ownership of the assets and enjoying the benefits therefrom. With hypothecation, the lender has the right to seize the asset if the borrower cannot service the loan as stipulated by the terms in the loan agreement.

Here the bank has allowed the customer to overdraw 80% of the hypothecated value

And the hypothecation of stock has been done by the bank at 80% of the original closing stock value.

Let the closing stock be x (say)

Then the hypothecated value of stock will be 80% of x

And the customer can withdraw 80% of (80% of x) = Rs. 1,60,000

Or 0.64 x = 1,60,000

Or x = Rs. 2,50,000 which is the closing stock.

52. Manager's commission is calculated in two ways

1. On Profits before charging such commission:

   Manager's commission = Net Profits X (Percentage of commission / 100)

2. On Profits after charching such commission:

   Manager's commission = Net Profits X (Percentage of commission / 100 + % of commission)

Here the managers commission is 20% of net profit before charging such commission

So the managers commission will be = 1,20,000 × (20/100) = Rs. 24,000

53. Depreciation on an asset will be charged on that part only which is being used for business purposes and not for personal use.

Here out of four floors of the building 1 is used for residential purposes and 3 floors are used for official purposes. Thus depreciation in the business books will be charged on only 3 floors.

Total depreciation = 80,000

Depreciation to be charged in the business books = 80,000 × 3/4 = Rs. 60,000

54. Statement showing the value of closing inventory as on 31.3.2012

Particulars	*Rs.*	*Rs.*
Inventory as on 7.4.2012		1,80,000
Add sales during the period	Sales-gross profit (20% on sales) = (80/100) × 2,50,000	2,00,000
Less purchases during the period	1,50,000	(1,50,000)
Value of inventory as on 31.3.2012		2,30,000

Total application money received with application = 12,000 × 100 = Rs. 12,00,000

Nunber of debentures issued = 10,000

Amount received in excess to be refunded = 12,00,000 – 10,00,000 = Rs. 2,00,000

55. Discount Rs. 1,40,00,000 × .06 = Rs. 8,40,000

Premium on redemption Rs. 1,40,00,000 × .05 = Rs. 7, 00,000

Total Loss = Rs. 15,40,000

56. Rs. 12,000 × 90 – 10,000 × 90

Rs. 10,80,000 – 9,00,000 = Rs. 1,80,000

57. Capital Redemption Revere is an account to which is credited the nominal value of shares that have been redeemed insofar as the redemption was not paid for by the proceeds of a new issue of shares and was not a payment out of capital.

Since here all the shares redeemed was paid for by the proceeds of nea issue of equity shares thus amount to be transferred to the capital redemption reserve = nil

58. The drawer or holder of the bill may endorse (transfer) the bill in favor of his trades payable for the clearance of his own debts. A bill of exchange is a “negotiable instrument” i.e. a document which is transferable by delivery without notice to the party liable (drawee).

Amount due to Dinesh = 10,500

Amount settled by bill endorsement = 10,000

Discount = Rs. 500

Entry to be passed =

Dinesh A/c	Dr.	10,500	
To Bills receivable			10,000
To Discount received			500

The benefit of Rs. 500 earned by Ritesh was Credited to discount received account by Rs. 500.

ANSWERS

59. Share forfeiture is the process by which the directors of a company cancel the power of shareholder if he does not pay his call money when the company demands for it. Company will give 14 days' notice; after 14 days if shareholder did not pay then company will forfeit his shares and cut off his name from the register of shareholder. Company will not pay his received funds from shareholder.

On non-receipt of the first call and final call money from Rahul, calls in arrear account was debited and there was no money lying in the first call account or the final call account . Thus when the amount was forfeited no amount will be credited in the first call account.

60. Shares issued to promoters will be debited to Goodwill A/c.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 8

1. Going concern concept assumes that the business will continue for long and will not liquidate in near future.

2. Capital is equal to assets less liabilities.

3. Double column cash book records all cash and bank transactions.

4. Errors of commission donot permit trail balance to agree.

5. Wages, Trade receivable, goodwill all have Dr. balance. Bills payable (liability) has Cr balance.

6. ‘Depletion’ is used for natural resources.

7. A bill of exchange requires acceptance.

8. A promissory note cannot be made payable to bearer.

9. Expenditure for replacement of a part is revenue expenditure in the given case.

10. Outstanding salry is personal account as it is due to some person.

11. Drawings are deducted from capital balance.

12. Opening inventory is debited to Trading A/c.

13. Purchase returns are deducted from purchases.

14. Drawings will show a Dr. balance.

15. Purchase of fixed asset (on credit basis) is recorded in Journal Proper.

16. Recording of transactions and events is Accounting.

17. The ratio of sacrifice is same as old profit sharing ratio, unless otherwise agreed.

18. Continuing partners acquire the outgoing partner’s share in gaining ratio.

19. Bill of exchange is called Bill payable by one who is liable to pay.

20. Calls in arrear is deducted from called up capital to arrive at paid up.

21. In the given case, sale will be treated at time of delivery only.

22. Cost concept has been followed in the given case.

23. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation’s bank statement, as supplied by the bank, and the corresponding amount shown in the organization’s own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement as on 31st March 2012

Particulars	*Amount*	*Amount*
Balance as per cash book(dr)		1,00,000
Less:		
Cheques deposited but not cleared	10,000	10,000
Balance as per pass book(cr)		90,000

24. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = opening stock + purchases + carriage-closing stock = 1,00,000

Gross profit = sales-cost of goods sold = 1,25,000 – 1,00,000 = Rs. 25,000

25. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets. Profit on joint venture can be calculated in the following account

Joint venture a/c

Particulars	*Amount*	*Particulars*	*Amount*
To coventurers a/c-X-purchases	20,000	By coventurers a/c-X-sales	22,000
To coventurers a/c-Y-purchases	40,000	By coventurers a/c-Y-sales	39,000
To coventurers a/c-Y-expense	5,000	By coventureres-Y-drawings	2,000
		By coventurers a/c-loss	2,000
	65,000		65,000

26. Discounting bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

The amount of proceeds sent to Sohan will be:

Total bill amount = Rs. 2,000

Less:6% of 2,000 × 3/12 = 30

Amount received from bank by Mohan = 2,000 – 30 = 1,970

Amount sent to Sohan = 1/2 of 1,970 = Rs. 985

27. Sale or return basis is an arrangement by which a retailer pays only for goods sold, returning those that are unsold to the wholesaler or manufacturer. The customer do not pay for the goods until they confirm to buy. If they do not buy, those goods will return to us.

Goods on the 'sale or return' basis will not be treated as normal sales and should be included in the closing inventory unless the sales have been confirmed by customer.

Here as No confirmation has been received from Annu Ltd. till 31st March, 2012. So the goods will be included in the closing inventory at cost or market price whichever is lower. Here it will be included on cost i.e. Rs. 10,000.

28. Interest on capital will be provided as per the partnership deed . since the books were closed before providing for the same rectification entry will be passed.

Profit before interest proportioned to the partners as they are EQUAL PARTNERS are:

Somesh = 6,000 × 1/2 = Rs. 3,000

Ramesh = 6,000 × 1/2 = Rs. 3,000

The interest to be provided on capital = 5% of 1,20,000 = Rs. 6,000

Interest to be proportioned to the partners in the ratio of their capital i.e. 1:2. Thus:

Somesh's share = 1/3 × 6,000 = Rs. 2,000

Ramesh's share = 2/3 × 6,000 = Rs. 4,000

Thus for rectification Somesh's account will be debited by Rs 1,000.

29. Calculation of new profit sharing ratio

Partners	*Old ratio*	*New ratio*
A	3/6 = 1/2	(1-2/6) × 3/5 = 2/5 × 30 = 12
B	2/6 = 1/3	(1-2/6) × 2/5 = 4/15 × 30 = 8
C	1/6	1/6 × 30 = 5
D		1/6 × 30 = 5

Since C is retaining his old share in profit the remaining (1-1/6-1/6) will be shared by A and B in their mutual profit sharing ratio i.e. 3:2. Thus the new ratio between A, B, C and D = 12:8:5:5

30. Owner of enterprise pays interest on drawings due to entity concept.

31. Hidden goodwill is that goodwill the amount of which is not mentioned in the deed , but the amount of which has to calculated by capitalisation method or with the help profit sharing ratio.

Capitalisation of Average Profits Method:

Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return. Such capital is called capitalised value of average profits. The formula is:

Capitalised Value of Average Profits = Average Profits × (100 / Normal Rate of Return)

Capital Employed = Assets – Liabilities

Goodwill = Capitalised Value of Average Profits – Capital Employed

Here capitalized value of average profits = 1,10,000 × 1,000/10 = 11,00,000

Capital employed = 11,00,000 – 1,00,000 = 10,00,000

And goodwill = 11,00,000 – 10,00,000 = Rs. 1,00,000

32. Value of inventory as on 31st March 2012:

Cost of inventory as on 10th April		1,20,000
Add:		
Cost of goods sold between 1st April and 10th April	10,000	
Purchase returns between 1st April and 10th April	1,000	11,000
Less:		
Cost of goods purchased between 1st April and 10th April	10,000	(10,000)
Value of inventory as on 31st March 2012		1,21,000

33. Inventory must be recorded at the lower of cost or net realizable value.

Cost includes the purchase cost and any other costs necessary in bring the inventories to their present location and condition. These may include costs incurred directly in the production of inventory such as direct labor and production overheads (i.e. conversion costs) and other expenses such as transportation and handling charges, taxes and duties that may not be recoverable from tax authorities. However, costs do not include general and administrative costs which cannot reasonable attributed to the cost of inventory. Similarly, selling and distribution expenses, storage costs and excessive expenditure resulting from abnormal wastage shall not be included in the cost of inventory.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. This is simply the expected revenue from the sale of inventory after deducting any further costs that are necessary in order to sell the inventory.

Value of inventory item by item:

Item No.	*Units*	*Cost per unit*	*Realization value per unit (NRV)*	*Value at which recorded = lower of cost or NRV*	*Value recorded*
1	2	10	11	10	20
2	10	5	4	4	40
3	2	2	2	2	4
Value of closing inventory					64

34. Average Profits Method:

Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits × Number of years of Purchase

Before calculating the average profits the following adjustments should be made in the profits of the firm:

(a) Any abnormal profits should be deducted from the net profits of that year.

(b) Any abnormal loss should be added back to the net profits of that year.

(c) Non operating incomes e.g. Income from investments etc should be deducted from the net profits of that year.

Profit of the year 2010: profit less abnormal gain = 40,000 – 5,000 = Rs. 35,000

Profit for the year 2011: profit add abnormal loss = 50,000 + 10,000 = Rs. 60,000

Average profit of last 2 years = (35,000 + 60,000)/2 = Rs. 47,500

Goodwill = 47,500 × 1 = Rs. 47,500

35. Discounting bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = 1,00,000

The bill was accepted by Hari on 1st January and was discounted on 4th january so,

Amount to be paid to bank on discounting at 12%pa = 1,00,000 × 12/100 × 3/12 = Rs. 3,000

36. Capital as on 31st December 2011:

Opening capital as on 1st Jan 2011	45,000
Add profit during the year	15,000
Add interest on capital	2,000
Less drawings during the year	(14,000)
Less interest on drawings	(5,000)
Closing capital as on 31st Dec 2011	43,000

37. Since any amount paid for the personal expenses for the proprietor from the firm will be treated as drawings, the amount Rs. 10,000 paid for personal income tax of the proprietor will be treated as drawings and will be deducted from his capital.

38. The provision created to cover the next year's bad debt expense out of the current year's accounts receivables is known as provision for bad debts. The provision for bad debt is calculated on the accounts receivable' balance obtained after deducting the bad debt written off.

Calculation of additional provision required:

Amount of new provision for doubtful debt required	20,000
Less: Opening balance of provision of doubtful debt	(15,000 – 10,000)
Additional provision to be debited to P&L account	15,000

39. While recording salaries the amount of PF will be deducted from the salary and the balance amount will be shown in the profit and loss A/C.

The amount at which salaries expense will be shown in the Profit and Loss A/c is 16,000 – 1,000 = Rs. 15,000.

40. Straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the machinery = purchase price + installation expenses = 50,000 + 6,000 = Rs. 56,000

Depreciation = (56,000 – 6,000)/10 = Rs. 5,000

41. The equity shares are being issued at a premium of 20% thus the value of each share will be 10 + 2 = Rs. 12

Total value of assets purchased = Rs. 3,64,800

Number of shares issued in consideration = total value of assets purchased/value per share = 3,64,800/ 12 = 30,400 shares

To record this transaction share capital needs to be credited by the face value of the shares issued i.e. 30,400 × 10 = Rs. 3,04,000

42. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = Rs. 200 × 5 – 900 = Rs. 100

Amount available in shares forfeiture account = 200 × 2.5 = Rs. 500

The surplus amount to be transferred to capital reserve account = 500 – 100 = Rs. 400

43. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'calls in arrear A/C' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.

Here the amount due from the forfeited shares were = 1,000 × 2 + 1,000 × 3 = Rs. 5,000

44. Invoice value of the goods destroyed = 1,600 which is 25% above cost

Thus cost = (100/125) × 1,600 = 1,280

Insurance claim will be settled at the actual value of the goods destroyed

Thus insurance claim accepted will be 50% of 1,280 = Rs. 640

45. Expenses which have been incurred but not been paid for till the end of the accounting year are known as Accrued expenses or outstanding expenses. Outstanding expense amount is added to that particular expense account in the Profit and loss or Trading Account because it was the expense for that year. (Based on the matching principle)

Outstanding expenses are liabilities for the business. Thus they will appear under the Current Liabilities in the Balance Sheet.

Here Salary has been paid for 11 months from April 2011 to February, 2012 amounting Rs. 22,000.

So the salary for 1 month is outstanding

Salary for 11 months = 22,000

Salary for 1 month = 22,000/11 = Rs. 2,000

Thus outstanding salary shown in balance sheet will be Rs. 2,000.

46. Many times during the operation of business, the owner may take out some cash from the business for his personal use. These withdrawals from the business are considered as Drawings. Considering the fact that the business is a separate accounting entity, it charges an interest on the drawings to the owner. Where interest is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. In such case interest will be charged for 6 months.

Here drawings = Rs. 50,000

Interest on drawings = 10% of 50,000 × 6/12 = Rs. 2,500

47. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement as on 31st March 2012

Particulars	*Amount*	*Amount*
Balance as per cash book (Cr)		50,000
Add:		
Bank charges	500	500
Add:		
Cheques deposited but not cleared	20,000	20,000
Balance as per pass book (Dr)		70,500

48. Betterments, which extend the useful life or improve the efficiency of the asset and meet the capitalization threshold of the asset class to which it relates, must be added to the historical cost and amortized. A revenue expenditure which increases the utility or productive capacity of an asset, is treated as capitalized expenditure. Thus Rs.5,000 was spent by Saroj for addition to machinery in order to increase the production capacity. The amount is Capital in nature.

49. Total amount of sales = Rs. 10,20,000

Sale of damaged stock at loss = Rs. 20,000

Thus sales made at 25% profit on sale = 10,20,000 – 20,000 = Rs. 10,00,000

Gross profit = 25% on sale less loss on sale of damaged stock = 25% on 10,00,000 less (30,000 – 20,000) = 2,50,000 – 10,000 = Rs. 2,40,000

50. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account.

Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here the total of the debit and credit side of a trial balance of Mr. Rajiv as on 31st March, 2012 were Rs. 20,000 and Rs. 10,000 respectively. Thus suspense account will have a credit balance of Rs. 10,000.

Now purchase return book which has a credit balance was overcasted by Rs. 1,500 – Rs. 1,400 = Rs. 100. Thus we have to credit suspense account and debit purchase return account by rs 100. After crediting suspense account by Rs. 100 the balance of suspense account will be Rs. 10,100 (cr).

51. Statement showing closing capital of Mr A as on 31.3.2012:

Capital introduced as on 1.4.2011	3,00,000
Add:	
Further capital introduced during the year	50,000
Profit during the year	20,000
Less:	
Drawings during the year 2,000 × 12	(24,000)
Capital as on 31.3.2012	3,46,000

52. Goods are normally sent on cost price to the consignee but some time the consignor makes the invoice at the selling price i.e. proforma invoice price. The idea is that consignee should not know the actual cost of the goods. In such cases the entries are made by the consignor in his books at the invoice price.

Here the goods are sent to the consignee at cost + 25%

Cost of goods sent = Rs. 10,000

Invoice value of the goods sent = 10,000 + 25% of 10,000 = Rs. 12,500

53. On the death of a partner, the representatives are entitled to Share of profit upto the date of death. Profit till date will be calculated on the basis of last years profit.

Thus share in profits for the period 1st january 2012 to 30th June 2012 to be credited to C's Account will be calculated as follows:

Profit for the period on the basis of last year's profit will be 24,000 × 6/12 = Rs. 12,000

Share of C in profit = 2/4 of 12,000 = Rs. 6,000

54. Statement showing increase /decrease in assets and liabilities

	Assets		**Liabilities**	
	Increase	*Decrease*	*Increase*	*Decrease*
A purchased a car for Rs. 5,00,000	5,00,000			
Making a down payment of Rs. 1,00,000		1,00,000		
Signing a bill payable of Rs. 4,00,000			4,00,000	

Thus total increase in assets = 5,00,000 – 1,00,000 = Rs. 4,00,000

And total increase in liabilities = Rs. 4,00,000

Correct option is (d) i.e. Both (b) and (c)

55. On 1.4.2011 purchase of machinery for Rs. 50,000 will be capitalized as its an asset . Expenses which have been incurred but not been paid for till the end of the accounting year are known as outstanding expenses. Outstanding expense amount is added to that particular expense account in the Profit and loss or Trading Account because it was the expense for that year. (Based on the matching principle)

The expenses will include:

Electricity expenses	1,000
Salary	2,000
Outstanding Telephone expenses	200
Total	3,200

56. Here the cost of goods sold = 10,000

Invoice price will be = 10,000 + 10% of 10,000 = 11,000

Trade discount = 5% of 11,000 = Rs. 550
Sales = Invoice Price - Trade Discount
= 11,000 - 550 = 10,450

57. A debt from accounts receivable that is recovered either in whole or in part after it has been written off or classified as a bad debt is known as bad debt recovery . Because it generally generates a loss when it is written off, a bad debt recovery usually produces income.

In accounting, the bad debt recovery would credit the "bad debts" account and the net amount of the account is transferred to profit and loss account.So the bad debt recovered from Gauri will not effect the account of Gauri and the correct option is (c) nil.

58. The goods withdrawn by Ramesh for personal use will be debited to his salary Rs. 1,500 and the when he received Rs. 9,000 again in cash for salary he got Rs. 500 excess salary so it should be debited to salaries paid in advance as per the matching principle.

59. The original cost of an asset takes into consideration all of the costs that can be attributed to its purchase and to putting the asset to use. These costs can include such factors as the purchase price, repairs,commissions, transportation, appraisals, warranties and installation.

Thus repairs incurred to bring the old furniture bought to use will be capitalized and will be included in the total cost of the asset and will not be debited to repairs account.

Correct option is (d) nil

60. This is an error of commission where an amount is posted in the wrong account but on the same side so in this case there will be no effect on the trial balance since the amount is placed on the correct side though in the wrong account.

Option (b) is correct.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 9

1. Financial statements are prepared at points of time due to Periodicity.

2. Real accounts relate to assets of firm and not debts.

3. The purchase of typewriter is a transaction.

4. Profit leads to increase in capital as well as assets.

5. Vikas and Co. is a personal account.

6. Depreciation is charged due to physical wear and tear of asset.

7. A promissory note doesn't require acceptance.

8. Sales return, BR, carriage inwards all have debit balance. Outstanding wages has Cr. balance.

9. Total of sales journal not posted to sales account is an error of omission.

10. Prepaid salary has debit balance.

11. Equality of Dr. and Cr. of trial balance does not ensure accuracy of individual accounts.

12. Change in method of depreciation is change in accounting policy not estimate.

13. Cr. balance in cash book means overdraft as per pass book.

14. Sale of scraps of raw material are shown on Cr. side of Manufacturing A/c.

15. Goodwill is an intangible asset.

16. Joint venture account shows profit/loss, hence nominal in nature.

17. Abnormal loss on consignment is credited to consignment A/c but debited to P&L A/c.

18. Bank debits the account of customer when he withdraws money.

19. 3 days of grace are added in case of time bills for calculation of Maturity date.

20. Cash discount allowed should be credited to customer's A/c.

21. When a new stock (share) issue has more buyers than there are shares to satisfy their orders. This 'excess of demand over supply' occurrence is known as oversubscription of shares. Here 25,000 shares were issued whereas application was received for 75,000 shares. So this is the case of oversubscription.

'Pro-Rata' Used to describe a proportionate allocation. A method of assigning an amount to a fraction, according to its share of the whole. Pro-rata allotment accounting tells you the system of use surplus of over-subscription money for adjusting the allotment money and other calls. Here excess money was refunded to them after adjustment for further calls. So this is the case of prorate allotment.

Forfeited Shares are shares in a company that the owner loses (forfeits) by failing to meet the purchase requirements. Requirements may include paying any allotment or call money owed, or avoiding selling or transferring shares during a restricted period. When a share is forfeited, the shareholder no longer owes any remaining balance, surrenders any potential capital gain on the shares and the shares become the property of the issuing company. The issuing company can re-issue forfeited shares at par, a premium or a discount as determined by the board of directors. Here excess money was refunded to them after adjustment for further calls. So this is the case of forfeiture of shares.

Thus option (d) is the correct option.

22. On the death of a partner, the representatives are entitled to Share of profit upto the date of death, share in reserves of firm and share in JLP. Profit till date will be calculated on the basis of last years profit.

23. In case of revaluation, the depreciation is calculated on the total revalued amount over a period of balance useful lives assessed on the date of revaluation. New cost for the purpose of depreciation will be gross cost less accumulated depreciation on the date of revaluation. Along with this, the revaluation reserve is amortised to the income statement based on the useful life of the asset to which it relates. This is done to ensure that depreciation on the revalued amounts shouldn't inflate/ deflate the income statement.

Date	*Particular*	*Amount*	*Amount*
1.1.2008	Cost of machinery		15,00,000
	Less : Depreciation for 3 years on straight line basis	15,00,000/15 × 3 = 3,00,000	3,00,000
1.1.2011	Wdv of the machinery		12,00,000
1.1.2011	Revaluation of machinery		3,00,000
1.1.2011	New cost of the machinery		15,00,000

Depreciation = Rs. 15,00,000/12 = Rs. 1,25,000

24. The value of closing inventory will be Rs. 35,500 (A – Rs. 9,500, B – Rs. 12,000 and C – Rs. 14,000).

25. Trade discounts are generally ignored for accounting purposes in that they are omitted from accounting records. Therefore, purchases, along with any payables in the case of a credit purchase, are recorded net of any trade discounts offered.

Here the cost of goods purchased = 50,000

Invoice price will be = 50,000 + 50% of 50,000 = 75,000

Trade discount = 15% of 75,000 = Rs. 11,250

Thus purchases to be recorded before cash discount = invoice price –trade discount = 75,000 – 11,250 = Rs. 63,750.

26. In the books of M/S Chandini, receivable from M/S Nandini was Rs. 35,500. The cheque received from Nandini was for Rs. 35000 in full settlement of her account. So the discount allowed by Chandini was Rs.

500. And as cheque is being received on 1st of October and was deposited on 4th of October,

On 1st October the entry in the books will be:

Cash A/c ……………dr	35000
DiscountA/c………..dr	500
M/S Nandini A/c	35500

27. Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building .

Expenditures to be capitalized as improvements to buildings include

- Additions to buildings, such as expansions, extensions, enlargements, etc.
- Installation or upgrade of plumbing and electrical wiring.

Here cost of extension of building is Rs. 5,00,000 and cost of improvement in electric wiring system is Rs. 25,000. These 2 expenses will be capitalized.

And the amount to be expensed will be:

Repair cost	15,000
Whitewash	10,000

Total expenses = 15,000 + 10,000 = Rs. 25,000

28. A debt from accounts receivable that is recovered either in whole or in part after it has been written off or classified as a bad debt is known as bad debt recovery . Because it generally generates a loss when it is written off, a bad debt recovery usually produces income.

In accounting, the bad debt recovery would credit the "bad debts recovered" account and the net amount of the account is transferred to profit and loss account.So the bad debt recovered from Anshul will not effect the account of Anshul and the rectification entry to be passed will be:

Anshul's A/c Dr. Rs. 6,000

To Bad debts recovered A/c Rs. 6,000.

29. A transaction relating to bank has to be recorded in both the books i.e. Cash Book and Pass Book but sometimes it happens that a bank transaction is recorded only in one book and not recorded simultaneously in other book this causes difference in the two balances. The causes for difference may be interest charged directly by bank not entered in cash book. This difference can be adjusted in the bank reconciliation statement or before the preparation of the reconciliation statement. If this difference is adjusted before the preparation of the reconciliation statement then it will not effect the reconciliation statement.

Here the interest of Rs. 500 charged directly by the bank was not entered in the cash book and the same was adjusted in the cashbook before reconciliation statement. So now there is no difference between the books because of this particular transaction and this interest will be ignored while preparing bank reconciliation statement.

30. Lets look into the following:

Cost of Goods manufactured = Direct materials cost + Direct labor cost + Factory overhead cost + Opening work in process inventory – Ending work in process inventory

Cost of goods sold (COGS) = Cost of goods manufactured + Opening finished goods inventory – Ending finished goods inventory

Cost of sales means the price paid for the product, plus any additional costs required getting the goods into stock and ready for sale. It includes delivery and handling cost . The formula for calculating cost of sales is starting Inventory + Purchases – Ending Inventory.

Cost to Company (CTC) is the salary package of an employee. It indicates the total amount of expense an employer (organization) is spending for an employee in a year. CTC is not the actual salary of an employee, it also includes all the facilities an employee is getting during the service period.

Cost of goods sold involves finished goods and in the given question only details of raw materials are given so this cannot be cost of goods sold.

Cost of sales is similar to cost of goods sold. So this problem also not deal with same.

Cost to company has no relevance in the given problem .

So here 10,000 (opening raw material) + 50,000 (wages) + 5,000 (carriage) + 2,00,000 (purchases of raw materials) + 1,25,000 (factory overhead) – 15,000 (closing inventory of raw materials) = Rs. 3,75,000 will be transferred to cost of goods manufactured.

31. Remuneration paid for services is called commission. Commission is always paid on sales. 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.

Commission on goods sold on invoice price = 5% of 2,00,000 = 10,000

Commission on goods sold 10% above cost = 5% of 1,10,000 = 5,500

Total commission = 10,000 + 5,500 = Rs. 15,500

32. Loss of quantity of goods in the normal course of business and inherent and thus inevitable or unavoidable, such as loss because of loading and unloading of goods, leakage, evaporation or shrinkage is known as normal loss.

The treatment of normal loss is to charge it to consignment account. The total cost of goods sent is charged to the units remaining. Value of inventory is inflated to cover the normal loss. In other words such loss is absorbed by the remaining units.

Here total cost of the oranges = 1,000 × 8 + 925 = Rs. 8,925

Since 15% loss is unavoidable

The balance oranges left = 1,000 – 15% of 1,000 = 850 Kgs

Thus cost per orange after adjusting loss will be = 8,925/850 = Rs. 10.50

33. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. A joint venture takes place when two parties come together to take on one project.

Here the cost of goods sent on consignment = Rs. 20,000 which is the cost of consignment.

Ajay draws bill on Bijay for 80% of the cost of consignment, thus the amount of the bill drawn will be = 80% of 20,000 = Rs. 16,000.

34. Accounting Estimates involve management's judgment of expected future benefits and obligations relating to assets and liabilities (and associated expense and income) based on information that best reflects the conditions and circumstances that exist at the reporting date. By its nature, estimates are subjective and may require frequent revisions in future. Estimates must be revised when new information becomes available which indicates a change in circumstances upon which the estimates were formed. Changes in Accounting Estimates must be accounted for prospectively in the financial statements, i.e. the effects of the change must be incorporated in the accounting period in which the estimates are revised. Therefore, carrying amounts of assets and liabilities and any associated expense and gains are adjusted in the period of change in estimate. Prospective application of changes in estimates prevents frequent revisions in prior period comparative figures which might cause unnecessary complications in respect of financial statement balances that are expected to be revised in future due to availability of new information or the experience of new events.

Here the company should account for the change in estimate prospectively by allocating the net carrying amount of the machinery over its remaining useful life. No adjustment is required to restate the depreciation charge in previous accounting periods.

Depreciation expense for the machine would therefore be as follows:

Depreciation	*Expense*	*Accumulated Depreciation*	*Working*
31.3.2010	1,00,000	1,00,000	(10,00,000/10)
31.3.2011	1,00,000	2,00,000	(9,00,000/9)
31.3.2012	80,000	2,80,000	((10,00,000 – 2,00,000)/10)

Although expected useful life of the machine has increased at the end of second year, depreciation expense recorded in previous years is not affected. Instead, the depreciation expense is decreased accordingly in the remaining years.

35. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. Remuneration paid for services is called commission. Commission is always paid on sales. 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.

Here cost of the goods sent on consignment = 1,00,000

Invoice price = cost + 25% = 1,00,000 + 25% of 1,00,000 = 1,25,000

Invoice price of the goods sold = $3/5^{th}$ of the total invoiced goods = $3/5^{th}$ of 1,25,000 = 75,000

Commission on sales = 2% on sales = 2% of 85,000 = 1,700

Overriding commission = 20% on gross sales less all commission exceeding its invoice value

Let the overriding commission be x

Total commission = 1,700 + x

Gross sales less all commission = 85,000 – 1700 – x

Overriding Commission = 20% of (85,000 – 75,000 – 1,700 – x) = x

Or 1,660 – .2x = x

Or 1.2x = 1,660

Or x = 1,383

Total commission = 1,383 + 1,700 = Rs. 3,083

36. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. A joint venture takes place when two parties come together to take on one project.

Here cost of goods sent on consignment = Rs. 10000

Here we can find out amount to be remitted to Anuj by Bittu with the help of Consignee account in the books of Anuj and the consignment account

Consignment account

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment A/c	10,000	By Bittu A/c-sales	15,000
To bank-freight paid	1,000		

	To bank-discounting charges	500			
	To Bittu A/c-commission	500			
	To P&L–transfer to profit	1,500			
	To Bittu-profit share	1,500			
		15,000			15,000

Bittu account

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To consignment A/c	15000		By bills receivable	10,000
				By consignment A/c-profit share	1,500
				By consignment-commission	500
				By balance c/d-balance receivable	3,000
		15000			15,000

37. In the cases where a bill is payable at a fixed period after sight, the time is to be calculated from the date of the acceptance if it is accepted . If the instrument is made payable at the stated number of months after sight it becomes payable three days after the corresponding date of the month. If the month in which the period would change has no corresponding day, the period shall be liable to change on the last day of such month. Three days of grace must be added to it. In calculating the date at which promissory note or bill of exchange made payable a certain number of days after sight , the day of the date of presentment for acceptance or sight shall be excluded.

Thus the date which comes after adding stated number of days to the date of the bill,shall be the due date and the date of bill is excluded. And for finding the date of maturity 3 days as days of grace is added to the due date.

Here the bill was accepted on 8.12.2011. By adding 30 days to this date we get 7.1.2012.

Now by adding 3 days of grace we get 10.1.2012.

38. Bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = Rs. 30,000

The bill was accepted by Yash on 1st January but was discounted on 4th February so,

Amount to be paid to bank on discounting at 12% pa = 30,000 × 12/100 × 2/12 = Rs. 600

39. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period. When a bill of exchange is dishonored, the holder can get such fact noted on the bill by a notary public. The advantages of noting is that the evidence of dishonored is secured. The noting is done by recording the fact of dishonored, the date of dishonor, the reason of dishonor, if any. For doing all this the notary public charges his fees which is called noting charges.

In case the bill is renewed the interest will not be charged on the noting charges which will be treated separately and will not be clubbed with the amount of the bill.

Here Total amount of the Y's acceptance = 25,000

Amount paid in cash on maturity by Y = Rs. 5,000

Amount of the renewed bill = Rs. 20,000

Interest for 3 months @12%pa = 20,000 × 12/100 × 2/12 = Rs. 400

40. Consignment means the owner of the goods can consign the goods to an agent.The agent will sell the goods for him and receive a commission in return. Goods sent on consignment are the property of the consignor until the goods are sold.The consignor should include all the unsold goods on consignment in his closing stock.

Consignment account is a profit and loss account for the consignment. All the expenses and income are recorded in this account.

Consignment account

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment	2,00,000	By K-sales (4/5 of 200000	1,92,000
To bank-expenses	5,000	+ 20% of 4/5th of 200000)	
To K a/c–expenses	2,000	By closing stock	41,000
To k a/c-commission	5,000	(200000 + 5000) × 1/5	
To profit on consignment	21,000		
	2,33,000		2,33,000

Note: In valuation of closing stock consignee's expenses related to sales and commission is not taken in account.

41. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Goods bought on joint venture as well as expenses incurred in connection with the business are debited to the joint venture account and credited to the coventurers's account or the joint bank account. When the goods are sold, the amount thereof is debited to the coventurer's account or the joint bank account and credited to the joint venture account. If the parties have taken over plant or materials etc., the value will be debited to the account of the party concerned and credited to the joint venture account. The joint venture account will now show profit or loss which will be transferred to the personal accounts of the respective parties in their profit sharing ratio.

Joint venture with Vansh A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To purchases-supplies	10,000		By Vansh a/c-sales	15,000
	To bank-expenses	1,000		By Vansh a/c-drawings	2,000
	To Vansh A/c-carriage	1,000			
	To net profit transferred to- Profit and loss A/c 2,500				
	Vansh A/c 2,500	5,000			
		17000			17000

42. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures)For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. he cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. if the debentures were originally issued at a premium if the current balance of premium or the premium received on debentures originally issued is less than the premium on redemption then the case of loss on redemption of debentures arise.

Here Prakash Ltd. issued 15,000, 15% debentures of Rs.100 each at a premium of 10%, which are redeemable after 10 years at a premium of 20%.

The premium on redemption of debentures = 20% of 15,00,000 = 3,00,000

Loss on redemption of debentures = Rs. 3,00,000

The loss on redemption of debentures is to be written off in the period for which the debentures are being issued.

43. Sale or return is a term sale, where the seller sold goods on the basis of return, there might be a chance of return of goods, or acceptance of goods, or acceptance of part of goods. This method is also called the Sale on Approval basis.

When the transactions of sending the goods on sale or return basis are few, the seller may treat it as normal sale and record it in the books accordingly. However, if the goods are sent on sale or return basis, the unsold goods must be included in the stock at cost. When the goods sent on sale or approval basis are treated as sale, for the goods not yet approved, the sale entry is reversed at the year end.

Here Varun Ltd. sends goods to his customers on Sale or Return basis by recording it as a sale at the time of sending it for approval.When a letter of approval was received from a customer for Rs. 40,000 this transaction is already recorded in the books.

So No entry is required for receiving the letter of approval from the customer.

44. Super Profits are the profits earned above the normal profits. Under this method Goodwill is calculated on the basis of Super Profits i.e. the excess of actual profits over the normal profits. Steps for calculating Goodwill under this method are given below:

(i) Normal Profits = Capital Invested × Normal rate of return/100

(ii) Super Profits = Actual Profits – Normal Profits

(iii) Goodwill = Super Profits × No. of years purchased

Here:

Normal profits = 4,00,000 × 10% = 40,000

Average profit of the last three years = (42,000 + 39,000 + 45,000)/3 = 42,000

Super profits = 42,000 – 40,000 = 2,000

Goodwill = 2,000 × 3 = Rs. 6,000

45. When the company has the debentures in Financial statements with entitlement to interest. Interest will accrue on a timely basis e.g. Month to month or period to period.

However the so accrued will become accrued and due on the said due dates.

If the company has to prepare the financial statements, it has to provide for the interest expense up to that period and show it under interest accrued but not due.

Interest from 1-4-2010 to 31-12-2010 i.e. for 9 months from the date of issue of debentures is accrued and due = 14% of 1,00,000 × 3/12 + 14% of 1,00,000 × 6/12 = 1,05,000

Interest from 1-1-2011 to 31-3-2011 is the interest which is accrued but not due = 14% of 1,00,000 × 3/12 = 35,000.

46. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Goods bought on joint venture as well as expenses incurred in connection with the business are debited to the joint venture account and credited to the coventurers's account or the joint bank account. When the goods are sold, the amount thereof is debited to the coventurer's account or the joint bank account and credited to the joint venture account. If the parties have taken over plant or materials etc., the value will be debited to the account of the party concerned and credited to the joint venture account. The joint venture account will now show profit or loss which will be transferred to the personal accounts of the respective parties in their profit sharing ratio.

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To Anny A/c-supplies	20,000		By Bunny a/c-sales	25,000
	To Anny-commission	200			
	To Bunny A/c -commission	1,250			
	To net profit transferred to-	3,550			
	Anny A/c 1,775				
	Bunny A/c 1,775				
		25,000			25,000

47. Sometimes it is decided by the existing partners to change their Profit sharing ratio. This change may result in gain to a few partners and loss to others. The partners who are going to gain due to this change in the profit sharing ratio should compensate the sacrificing partner/partners. Hence for this purpose a few adjustments have to be made in the books of the firm. A Change in the profit sharing ratio of the firm means that gaining partner is going to purchase from the sacrificing partner his share of profits. The gaining partner must compensate the sacrificing partner by paying the sacrificing partner the proportionate share of goodwill which is equal to share gained by him.

Gaining/sacrificing ratio

Partners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A	4/9	1/3	4/9-1/3 = 1/9
B	3/9	1/3	3/9-1/3 = 0
C	2/9	1/3	2/9-1/3 = (1/9)

Here we see that A is gaining $1/9^{th}$ share and C is sacrificing $1/9^{th}$ share because of the change in the profit sharing ratio.

So A must compensate the C by paying him the proportionate share of goodwill which is equal to share gained by him.

48. Share of goodwill gained by A = 1/9 of 90,000 = Rs. 10,000

The journal entry for the same will be

A's capital account	dr	10,000	
To C's capital account	cr		10,000

When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm.

If the new partner brings in cash for his share of goodwill, in addition to his capital, it is known as premium method.

The premium brought in by Z in the above case = Rs. 4,500 which equals to his share in the firm which is 1/6

Thus the total value of goodwill of the firm will be 4,500 × 6 = Rs. 27,000

49. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Gaining/sacrificing ratio

Partners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
Hum	7/16	5/8	7/16-5/8 = (3/16)
Tum	5/16	3/8	5/16-3/8 = (1/16)
Woh	4/16		4/16

So the sacrificing ratio between Hum:Tum will be 3/16:1/16 = 3:1

50. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 150 × (75-65) = Rs. 1,500

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 150 × (75-50) = 150 × 25 = Rs. 3,750

The surplus amount to be transferred to capital reserve account = 3,750 – 1,500 = Rs. 2,250

51. Equity shares are issued at a premium of 10%. So the amount available in the securities premium account = 10% of 2,00,000 × 10 = Rs. 2,00,000

52. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due. forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here Manju paid application money @ Rs. 2 per share and allotment money @ Rs. 4 per share but did not pay the final call money so 300 shares held by her was forfeited.

Thus amount to be transferred to the shares forfeited account will be = 300 × 2 + 300 × 4 = Rs. 1,800

53. On the death of a partner, the representatives are entitled to Share of profit upto the date of death. Profit till date will be calculated on the basis of last years profit.

Here the profit of the accounting year 2011-2012 i.e. last year = 24,000

The profit sharing ratio of Raj, Jai and Hari is 7 : 5 : 4

Thus share in profits for the period 1st April 2012 to 30th June 2012 to be credited to Hari's Account will be calculated as follows:

Profit for the period on the basis of last year's profit will be Rs. 24,000 × 3/12 = Rs. 6,000

Share of Hari in profit = 4/16 of 6,000 = Rs. 1,500

54. Here 10,000 equity shares of Rs. 10 each were issued to public at a premium of Rs. 2 per share.

Applications were received for 12,000 shares. The excess application money and the premium money received will be shown in the current liabilities till the further course of action is decided.

So the amount of securities premium account will be number of shares issued × premium per share = 10000 × 2 = Rs. 20,000

55. When issue is over-subscribed, the company will have to allot to each applicant according to the number of share applied by him. The excess application money is adjusted towards the sum due on allotment. Pro rata actually means 'in proportion'.

So the proportion in which the shares will be alloted = total shares allotted/total shares applications

Here company offers to the public 10,000 shares for subscription and receives application for 12,000 shares.

So the proportion in which the shares are to be allotted = 10000/12000 = 5/6

i.e. 5 shares for every 6 shares applied

56. A redeemable preference share can be redeemed either –

Entirely out of fresh issue of new preference or equity shares

(but not debentures). Or

Entirely out of divisible profits. Or

Partly out of fresh issue and partly out of divisible profits.

Here the Board of Directors of a company decides to issue minimum number of equity shares and the maximum amount of divisible profits available for redemption is Rs. 3,00,000. So this is the case of redemption partly out of fresh issue and partly out of divisible profits.

Total value of preference shares to be redeemed = Rs. 5,00,000

Less: divisible profits available for redemption = Rs. 3,00,000

Total value of shares to be issued = 2,00,000

Value per equity share = Rs. 9

Thus shares to be issued = 2,00,000/9 = 22,223 shares

57. Whenever a company redeems its preference shares then the nominal value or face value of the shares is put into capital redemption reserve fund. There after this fund becomes the part of the paid capital of the company.

Capital Redemption Revere is also created when a company buys it owns shares which reduce its share capital.

Suppose, the fresh equity shares or preference shares are issued to redeem the old preference shares, in this case the difference between the face value of preference shares and fresh shares issued will be transferred to capital redemption reserve account.

The capital redemption reserve fund is transferred from undistributed profits i.e general reserves, profit or loss account.

A redeemable preference share can be redeemed entirely out of fresh issue of new preference or equity shares but not debentures.

Here the face value of the 12% Redeemable preference shares to be redeemed = 3000 × 100 = 3,00,000

Face value of the fresh equity shares issued for the purpose = 25,000 × 10 = 2,50,000

Thus amount to be transferred to the Capital Redemption Reserve Account = 3,00,000 – 2,50,000 = Rs. 50,000

58. When debentures are issued at a premium, the issue price is more than the par value. The premium is transferred to securities premium account.

Here 15,00,000, 12% debentures of Rs. 50 each are issued at premium of 10%

The face value of debentures issued is = 15,00,000 × 50 = 7,50,00,000

Thus the amount of premium will be = 10% of 7,50,00,000 = Rs. 75,00,000

59. In this problem G Ltd. purchased land and building from H Ltd. for a book value of Rs. 2,00,000 and the consideration was paid by issue of 12% Debentures of Rs. 100 each at a discount of 20%

the debentures are being issued at a discount thus the value of each share issued will be 100 – 20% of 100 = 100 – 20 = 80

Total value of land and building acquired = Rs. 2,00,000

Number of debentures issued = total value of assets acquired/value per debenture = 2,00,000/80 = 2,500 debentures

Thus the debentures account will be credited by 2,500 × 100 = Rs. 2,50,000

60. Loss on redemption of debenture will be equal to the premium at which the debentures are redeemable after number of years

Here loss on redemption of debenture will be equal to the premium of 20% at which the debentures are redeemable after 5 years

The face value of 8% debentures = Rs. 20,000 × 10 = Rs. 2,00,000

Thus loss on redemption of debentures will be = 20% of 2,00,000 = Rs. 40,000

This loss on redemption of debenture will be written off over the period for which the debentures are issued. Thus this loss will be written off for 5 years here.

The amount of loss on redemption of debentures to be written off every year will be 40,000/5 = Rs. 8,000

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 10

1. Expense will be Rs. 50,000 as per Accrual concept.

2. Loss leads to reduction in Capital.

3. Accounting standards are the set of broad accounting policies to be followed by an entity.

4. The given statement holds true for substance over form.

5. Amount of provision of doubtful debts is an accounting estimate.

6. The order of recording of accounting transactions and events is : Journal, Ledger, Profit & Loss A/c, Balance Sheet.

7. Expired portion of Capital expenditure is shown as an expense in financial statements.

8. Updation of computer is capital in nature.

9. Currency transactions and events are recorded in books of accounts in the ruling currency of country where books of account are prepared.

10. Compensating, complete omission, errors of principle don't affect trial balance. Only error of partial omission do affect trial balance.

11. Unintentional mistakes are errors.

12. Trial balance shows the Dr. Balance or Cr. Balance of all accounts.

13. It is easy to detect Errors than to Frauds.

14. The words 'To bal. b/d' are written on Dr. Side in case of Dr. Balance.

15. Amount spent on maintenance of plant and machinery is revenue expense.

16. Bank pass book is also called bank statement.

17. Capital expenditures are recorded in balance sheet as they are not revenue in nature(thus not charged to P& L A/c)

18. Account Receivable normally has Dr. Balance.

19. Account is a formal record of changes in items of similar nature.

20. Under fixed installment method, depreciation is of equal usage of asset over different years of its useful life.

21. Conservatism concept being followed in the given case.

22. Objection of auditor is justified due to reasons mentioned in option (C).

23. When owner withdraws money from a business for personal expenses it is known as drawings. Drawings accounting is used when an owner of a business wants to withdraw cash for private use. The book-keeping entries are recorded on the drawings account.

This drawings account is deducted from the capital account.

Here Mr. X spends Rs. 5,000 to meet his family expenses thus cash resources of the busi ness is going down by Rs. 5,000 and since drawings is deducted from the capital account the balance of the capital account goes down by Rs 5,000.

The balance of capital and cash accounts will be Rs. 6,95,000 and Rs. 1,95,000.

24. Realization concept in accounting, also known as revenue recognition principle, refers to the application of accruals concept towards the recognition of revenue (income). Under this principle, revenue is recognized by the seller when it is earned irrespective of whether cash from the transaction has been received or not. The accrual journal entry to record the sale involves a debit to the accounts receivable account and a credit to sales revenue; if the sale is for cash, debit cash instead. The revenue earned will be reported as part of sales revenue in the income statement for the current accounting period.

Here Mr. Mohan sold merchandise for Rs. 60,000. Customers paid him Rs. 50,000 cash and assured him to pay Rs. 10,000 shortly.

The amount of revenue earned by him is Rs 60,000.

25. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = 3,10,000

Gross profit = sales-cost of goods sold = 4,00,000 – 3,10,000 = Rs. 90,000

26. Cheques deposited but not credited: When cheques received from customer are deposited into the bank for collection, an entry is made on the debit side of the cash book in the bank column and thereby the bank balance as per Cash Book increases the amount whereas the bank credits the customer's account only after collecting the proceeds of the cheques. After the credit entry is made by the bank the balance as per Pass book will also increase and thus both the balances will agree. The process of collection of cheque requires time and due to this gap, some cheques deposited into the bank may remain uncredited by the bank. Hence the balances of both the books disagree.

Here out of the cheques amounting to Rs. 5,000 deposited, cheques aggregating Rs. 1,500 were credited in March and cheques aggregating Rs. 2,000 credited in April and the rest have not been collected. The cheques credited by bank till 31st march will be shown in the bank statement. Thus cheques amounting to 5,000 – 1,500 = 3,500 has not been credited in the bank statement and so this amount is to be subtracted from the balance of the cash book.

Thus the effect while preparing bank reconciliation statement when balance as per cash book (debit balance) as on 31st March is the starting point will be to subtract Rs. 3,500.

27. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Goods bought on joint venture as well as expenses incurred in connection with the business are debited to the joint venture account and credited to the coventurer's account or the joint bank account. When the goods are sold, the amount thereof is debited to the coventurer's account or the joint bank account and credited to the joint venture account. If the parties have taken over plant or materials etc., the value will be debited to the account of the party concerned and credited to the joint venture account. The joint venture account will now show profit or loss which will be transferred to the personal accounts of the respective parties in their profit sharing ratio.

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To purchases-land	30,000		By sales	60,000
	To net profit	30,000			
		60,000			60,000

28. A bill of exchange is said to be dishonoured when the drawee refuses to accept or make payment on the bill. A bill may be dishonoured by non-acceptance or non-payment.

If the drawee refuses to accept the bill when it is presented before him for acceptance, it is called dishonour by non-acceptance. When a bill is dishonoured by non-acceptance, an immediate right of recourse against the drawer and endorser accrues to the holder. In this case, presentment for payment is not necessary.

If the drawer has accepted the bill, but on the due date, he refuses to make payment of the bill, it is called dishonour by non-payment. In this case the holder has immediate right of recourse against each party to the bill.

Here the bill returned dishonored as Y became insolvent and 40 paise per rupee is recovered from his estate.

So the amount recovered is:

Total amount of the bill = 1,00,000

Amount recoverd per rupee = 40 p

So the amount of the bill recovered = 1,00,000 × 40/100 = Rs. 40,000

29. The amount of an asset or resource that exceeds the portion that is utilized. A surplus is used to describe many excess assets including income, profits, capital and goods. A surplus often occurs in a budget, when expenses are less than the income taken in, or in inventory when fewer supplies are used than were retained.

Here surplus will be:

Goods sold	1,47,000
Add goods in hand	15,000
Less purchases	1,15,000
Less rent paid	5,000
Surplus	42,000

30. Trade discounts are generally ignored for accounting purposes in that they are omitted from accounting records. Therefore, sales, along with any receivables in the case of a credit sale, are recorded net of any trade discounts offered.

Here the cost of goods sold = 600

Invoice price will be = 600 + 10% of 600 = 660

Trade discount = 5% of 660 = Rs. 33

Thus sales to be recorded = invoice price –trade discount = 660 – 33 = Rs. 627

31. When a credit sale involves the application of sales tax, the receivable balance includes the amount of sales tax since it will be recovered from the customer. Sales is recorded net of sales tax because any sales tax received on the sales will be returned to tax authorities and hence, does not form part of income. Sales tax account is credited since this is the amount of tax payable that will be paid to tax authorities.

The accounting entry to record a credit sale involving sales tax will therefore be as follows:

Debit	Receivable (Gross Amount)
Credit	Sales (Net Amount)
Credit	Sales Tax (Payable) (Net Amount)

Here Goods sold for cash Rs. 10,000, plus 10% sales tax. Sales will be credited net of sales tax i.e. Rs. 10,000.

32. The goods withdrawn by Ganesh for personal use will be debited to his salary Rs. 2,500 and the when he received Rs. 9,500 again in cash for salary he got Rs. 2,000 excess salary so it should be debited to salaries paid in advance as per the matching principle.

33. The loss on theft of cash and any other assets may be simply be expensed to the income statement net of any insurance claim received or receivable. Following accounting entries would therefore be required:

Debit	Cash embezzlement a/c
Credit	Cash A/c

Here Rs. 6,000 stolen from the safe of the firm will be recorded as:

Dr. Cash embezzlement a/c and Cr. Cash a/c Rs. 6,000.

34. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account.

Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here since after preparing the trial balance the accountant finds that the total of the debit side is short by Rs. 1,000.

This difference will be debited to suspense account to incease the balance of the debit side of the trial balance.

35. The difference in trial balance is due to wrong placing of Misc. Expenses A/c. It should come on Dr. side.

36. The amount of the profits (or loss) as arising to the partnership firm in a year or period is apportioned in accordance with the terms of the partnership agreement relating to the sharing of profits and losses.

Here Sita and Gita are partners sharing profits and losses in the ratio of 3 : 2 and during the year firm earned Rs. 7,800 after allowing interest on capital.

Profits apportioned among Sita and Gita is:

Sita's share = 3/5 of 7,800 = Rs. 4,680

Gita's share = 2/5 of 7,800 = Rs. 3,120

37. A sale to A recorded in Purchases book would affect sales, Purchases and A.

38. "Super Profit", means the excess of chargeable profit that has been earned by the company. The chargeable profits must be in excess of it deductions. In other words the excess of the chargeable profits must be in excess of its deduction of its chargeable profits. Super Profits are the profits earned above the normal profits

Steps for calculating super profit are given below:

(i) Normal Profits = Capital Invested × Normal rate of return/100

(ii) Super Profits = Average Profits – Normal Profits

Here capital employed = 1,00,000

Average profit = Rs. 25,000

Normal rate of return = 20%

So normal profit = 20% of 1,00,000 = Rs. 20,000

Thus super profits = 25,000 – 20,000 = Rs. 5,000

39. Capitalisation of Average Profits Method:

Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return. Such capital is called capitalised value of average profits. The formula is:

Capitalised Value of Average Profits = Average Profits × (100 / Normal Rate of Return)

Capital Employed = Assets – Liabilities

Goodwill = Capitalised Value of Average Profits – Capital Employed

Here capital employed = 1,00,000

Average profit = Rs. 20,000

Normal rate of return = 15%

Capitalised Value of Average Profits = 20,000/15% = Rs. 1,33,333

Goodwill = 1,33,333 – 1,00,000 = Rs. 33,333

40. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Gaining/sacrificing ratio

Partners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A	3/6	1/2	3/6-1/2 = (nil)
D	2/6	1/2	1/3-1/2 = (1/6)

So the sacrificing ratio between A : D will be 0 : 1/6

41. Sometimes it is decided by the existing partners to change their Profit sharing ratio. This change may result in gain to a few partners and loss to others. The partners who are going to gain due to this change in the profit sharing ratio should compensate the sacrificing partner/partners. Hence for this purpose a few adjustments have to be made in the books of the firm. A Change in the profit sharing ratio of the firm means that gaining partner is going to purchase from the sacrificing partner his share of profits. The gaining partner must compensate the sacrificing partner by paying the sacrificing partner the proportionate share of goodwill which is equal to share gained by him.

Gaining/sacrificing ratio

Partners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A	3/10	1/4	3/10-1/4 = 2/40
B	3/10	1/4	3/10-1/4 = 2/40
C	2/10	1/4	1/5-1/4 = (1/20)
D	2/10	1/4	1/5-1/4 = (1/20)

Here we see that D is sacrificing 1/20th share

42. If any amount has been called by the company either as allotment or call money and a shareholder has not paid that money, this is known as calls in arrears.

If any call has been made but while paying that call, some shareholders paid the amount of the rest of calls also, then such amount will be called as calls in advance.

Calls in advance and calls an arrears are not entitled for any dividend declared by the company.

Here Equity share capital called up = Rs. 5,00,000

Calls in arrear = Rs. 40,000

Calls in advance = Rs. 25,000

Thus the dividend will be payable by the company on called up capital-calls in arrear which is Rs. 5,00,000 – 40,000 = Rs. 4,60,000

Dividend payable = 15% of 4,60,000 = Rs. 69,000

43. Share forfeiture is the process by which the directors of a company cancel the power of shareholder if he does not pay his call money when the company demands for it.

When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here Mr C paid application money @ Rs.2 per share but did not pay the allotment money so 30 shares held by him was forfeited.

Thus amount to be transferred to the shares forfeited account will be = 30 × 2 = Rs. 60

44. Average Profits Method:

Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits × Number of years of Purchase

Here goodwill is to be calculated on purchase of two years profit.

Profits of last three years are Rs. 43,000; Rs. 38,000 and Rs. 45,000

Average profit = (43,000 + 38,000 + 45,000)/3 = Rs. 42,000

Goodwill = 42,000 × 2 = Rs. 84,000

45. Sale or return basis is an arrangement by which a retailer pays only for goods sold, returning those that are unsold to the wholesaler or manufacturer. The customer do not pay for the goods until they confirm to buy. If they do not buy, those goods will return to us goods on the 'sale or return' basis will not be treated as normal sales and should be included in the closing inventory unless the sales have been confirmed by customer . When goods are sent on approval basis then at the end of the financial year the goods lying with customers will be valued at cost or market price whichever is less.

Here Mohan sent goods costing Rs. 3,500 at profit of 25% on sale to Sohan on sale or return basis of which Sohan return goods costing Rs. 800. At the year end the remaining goods were neither returned nor approved by him.

Here as No confirmation has been received from Sohan till 31st Dec, 2011. So the goods will be included in the closing inventory at cost or market price whichever is lower.

Cost of goods sent by Mohan = Rs. 3,500

Cost of goods returned by Sohan = Rs. 800

So cost of goods still lying with Sohan = 3,500 – 800 = Rs. 2,700

46. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period.

Here A's acceptance to B for Rs. 2,500 is discharged by a cash payment of Rs. 1,000 and a new bill is drawn for the balance plus Rs. 50 for interest.

Total amount of the old bill = 2,500

Amount paid in cash = Rs. 1,000

Amount due = Rs. 1,500

Interest on renewable = Rs. 50

So the amount of the new bill = 1500 + 50 = Rs. 1550

47. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. A joint venture takes place when two parties come together to take on one project.

Here A bought goods of the value Rs. 10,000 and consigned them to B to be sold on joint venture

Here the cost of goods sent on consignment = Rs. 10,000 which is the cost of consignment.

A draws bill on B for 80% of the cost of consignment, thus the amount of the bill drawn will be = 80% of 10,000 = Rs. 8,000.

48. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. Consigning goods at invoice price aims to achieve the following merchandising objectives:

1. Increase turnover
2. Push old stocks
3. Clear old inventory for new ones
4. Promote another goods (tie up with consigned goods), and
5. Save storage space (producer/distributor pass storage/handling cost to wholesaler/retailer)

Here cost of goods sent on consignment = 1,80,000

Profit = 20% of invoice price

Let the invoice price be x

So profit = 20% of x

And cost of goods = x – 20% of x = 0.8x = 1,80,000

So invoice price = x = 1,80,000/0.8 = Rs. 2,25,000

49. The goods are consigned from one place to another. After receiving the goods by consignee, the goods are stored by the consignee before selling them to customers. It is natural that some loss to the goods may take place within that period. The goods may be lost, destroyed or damaged either in transit or in consignee's store. The loss which could be avoided by proper planning and care are abnormal loss. They are like theft, riots, accidents, fire, earthquake etc. These losses could occur in transit or in consignee's store and solely to be borne by consignor.

The abnormal loss should be adjusted before ascertaining the result of the consignment. The valuation of abnormal loss is done on the same basis as the unsold stock is valued.

Here 1,000 typewriters costing Rs. 250 each are sent on consignment basis and Rs. 10,000 is spent for freight etc., 20 typewriters are damaged in transit beyond repair.

The cost of the consignment of 1,000 typewriters = 1,000 × 250 + 10,000 = Rs. 2,60,000

The amount of loss = the cost of the 20 typewriters = (2,60,000/1,000) × 20 = Rs. 5,200

50. The goods are consigned from one place to another. After receiving the goods by consignee, the goods are stored by the consignee before selling them to customers. It is natural that some loss to the goods may take place within that period. The goods may be lost, destroyed or damaged either in transit or in consignee's store. The loss which is caused by unavoidable reasons is known as normal loss. For examples shrinkage, evaporation, leakage and pilferage. Such losses form part of cost of goods and no additional adjustment is required for this purpose. The normal loss is borne by goods units. The quantity of such loss is to be deducted from the total quantity sent by the consignor. The following formula may be used for the valuation of unsold stock.

Value of closing inventory = (Total value of goods sent/Net quantity received by consignee) X unsold quantity

Net quantity received = Goods consigned quantity - Normal loss quantity.

Here 1,000 Kg. of Mangoes were consigned to a wholesaler, the cost being Rs. 3 per kg. plus Rs. 400 freight. Loss of 15% of Mangoes is unavoidable i.e. the normal loss and 750 kgs were sold.

Total value of goods sent = 1,000 × 3 + 400 = Rs. 3,400

Net quantity received by the consignee = 1,000 – 15% of 1,000 = 850 kgs

So the remaining inventory is 100 kgs

Value of closing inventory = (3,400/850) × 100 = Rs. 400

51. Straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Here Cost of the machinery = purchase price + installation expenses = 10,00,000 + 1,00,000 = Rs. 11,00,000

Depreciation = 10% per annum = (11,00,000) × 10% = Rs. 1,10,000

52. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred. Consigning goods at invoice price aims to achieve the following merchandising objectives: 1. Increase turnover 2. Push old stocks 3. Clear old inventory for new ones 4. Promote another goods (tie up with consigned goods), and 5. Save storage space (producer/distributor pass storage/handling cost to wholesaler/retailer)Here cost of goods sent on consignment = 5,00,000 Profit = 25% of cost price Invoice value = 5,00,000 + 25% of 5,00,000 = Rs. 6,25,000

53. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.Cost of goods sold in the above case = opening inventory + purchases + carriage-closing inventory = 2,50,000 + 2,00,000 – 50,000 = Rs. 4,00,000. Gross profit = sales-cost of goods sold = 5,00,000 – 4,00,000 = Rs. 1,00,000

54. XYZ & Company employs a team of ten workers who were paid Rs.1,000 each in the yearending 31st December, 2010. So the total amount of salaries for the year 2010 will be = 10 × 1,000 = Rs. 10,000. At the start of year 2011, the company raised salaries by 10%. Thus the salaries for the year ended 31st december 2011 will be = 10,000 + 10% of 10,000 = 11,000.

55. A transaction relating to bank has to be recorded in both the books i.e. Cash Book and Pass Book but sometimes it happens that a bank transaction is recorded only in one book and not recorded simultaneously in other book this causes difference in the two balances. To reconcile the balances we prepare bank reconciliation statement. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Bank reconciliation statement of ABC Enterprise as on 31st March 2012

Particulars	*Amount*	*Amount*
Balance as per cash book(dr)		10,000
Add:		
Cheques issued but not presented for payment	2,000	2,000
Less:		
Cheques deposited but not cleared	1,000	(1,000)
Balance as per pass book (cr)		11,000

56. Closing inventory means the value and quantity of inventory on hand at the end of an accounting period.

Here goods purchased = Rs. 1,00,000

Sales = Rs. 90,000

Gross profit margin = 20% on sales = 20% of 90,000 = Rs. 18,000

Closing inventory = opening in ventory + purchases + gross profit – sales = Nil + 1,00,000 + 18,000 – 90,000 = Rs. 28,000

57. Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building .

Expenditures to be capitalized as improvements to buildings include

- Additions to buildings, such as expansions, extensions, enlargements, etc.
- Installation or upgrade of plumbing and electrical wiring.

- Installation or upgrade of window or door frames, upgrading of windows or doors, built-in closets and cabinets, etc.
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation, such as installation or replacement of siding, roofing, masonry, etc.

Here Mohan renovates some of the old cabins to increase some space. The amount spent for such renovation will be capitalized and thus the amount to be charged to profit and loss account will be NIL.

58. Money paid to MTNL Rs. 10,000 is one time payment for installation and this amount will be give benefit for more than one accounting period. Therefore, this will be treated as an asset.

59. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here company forfeited 1,000 shares of Rs.10 each held by Mr. John for non-payment of allotment money of Rs. 4 per share. The called-up value per share was Rs. 8. So the amount debited to share capital will be = number of shares forfeited × called up value per share = 1,000 × 8 = Rs. 8,000

60. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital :

closing capital =

opening capital + profit OR

opening capital + profit + additional capital – drawings OR

closing assets - closing liabilities

here opening capital = 300000

capital introduction during the year = 200000

drawings = 1500 × 12 = 18000

closing capital = 450000

profit/(loss) for the year = closing capital-opening capital-capital introduced during the year + drawings

= 4,50,000 – 3,00,000 – 2,00,000 + 18,000 = Rs. (32,000) loss.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 11

1. Errors of partial omission effect the trial balance. All others do not effect.

2. Financial statements are part of Accounting and not book-keeping.

3. For depreciation, valuation of inventories and investments, different accounting polices can be adopted.

4. Total of sales book is posted to sales account.

5. Amount of dishonoured bill wrongly debited to general expenses account, is an error of principle.

6. Bank account is personal account as it is in name of individual.

7. Cost of travel of sales manager is deferred revenue as it is incurred to develop new markets and the benefit will be for more than one year.

8. Advance received from customers is not considered sale due to accural.

9. Income includes received as well as receivable.

10. Mohan Stationers will not debit purchase of stationery in Stationery A/c but it will debit in purchases.

11. Advertisement exepnditure is revenue.

12. Cost of goods sold is calculated by Trading A/c.

13. Amount spent on newly purchased car is debited to car A/c only.

14. Suspense A/c (Dr. balance) in Trial Balance will be recorded in P&L A/c (dr. side) as it is nominal amount, it will be expensed off.

15. Liability for bill discounted is a contingent liability.

16. Direct expenses of consigneee are added in valuation of consignment inventory.

17. Premium on issue of shares is recoreded on equity and liabilities side of balance sheet.

18. Interest is calculated on face value of securities.

19. Income tax of sole trader is his personal expense.

20. Expense includes expenses payable also as per Accrual concept.

21. The valuation has been done as per conservation in the given case.

22. The given case is of over-subscription, pro-rate allotment and forfeiture of shares.

23. The direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. COGS appears on the income statement and can be deducted from revenue to calculate a company's gross margin.

Cost of goods sold (COGS) = Cost of goods manufactured + Opening finished goods inventory – Ending finished goods inventory

Or opening inventory + purchases – closing inventory

Here cost of goods sold = 3,700 + 20,800 – 2,500 = Rs. 22,000

24. Straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 25,000

Salvage value = Rs. 1,000

Depreciation = (25,000 – 1,000)/10 = Rs. 2,400

25. The cheques paid by bank recorded twice in Pass Book will be added while preparing Bank Reconciliation Statement in the given case.

26. In accounting, net profit is equal to the gross profit minus overheads minus interest payable for a given time period (usually: accounting period). Net profit is gross profit minus all operating costs not included in the calculation of gross profit, esp wages, overheads, and depreciation.

Here Net profit = gross profit – rent paid – salaries + provision for bad debt + apprentice premium = 50,000 – 6,000 – 5,800 + 2,000 + 4,000 = Rs. 4,4200

27. A trial balance is a list of all the General ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of the nominal ledger account and the value of that nominal ledger account. The value of the nominal ledger will hold either a debit balance value or a credit balance value. The debit balance values will be listed in the debit column of the trial balance and the credit value balance will be listed in the credit column. The profit and loss statement and balance sheet and other financial reports can then be produced using the ledger accounts listed on the trial balance.

Trial balance of …….as on …..

Particulars	*l/f*	*Amount (dr) Rs.*	*Amount (cr) Rs.*
Capital (cash + inventory)			31,000
Closing cash		5,000	
Opening inventory		11000	
Total sales			70,000
Total purchases		50,000	
Outstanding trades payables			15,000
Outstanding trades receivables		25,000	
Expenses		17,000	
Machine		10,000	
Outstanding payable for machinery			2,000
Total		1,18,000	1,18,000

28. Omission of posting of discount columns will affect the profits. It is not complete omission.

29. Closing inventory means the value and quantity of inventory on hand at the end of an accounting period.

Here goods purchased = Rs. 1,00,000

Sales = Rs. 90,000

Gross profit margin = 20% on sales = 20% of 90,000 = Rs. 18,000

Closing inventory = opening in ventory + purchases + gross profit – sales = nil + 1,00,000 + 18,000 – 90,000 = Rs. 28,000

30. A debt from accounts receivable that is recovered either in whole or in part after it has been written off or classified as a bad debt is known as bad debt recovery . Because it generally generates a loss when it is written off, a bad debt recovery usually produces income.

In accounting, the bad debt recovery would credit the "bad debts recovered" account and the net amount of the account is transferred to profit and loss account.Here Mohan paid Rs. 500 towards a debit of Rs. 2,500, which was written off as bad debt in the previous year which is the case of bad debt recovery. This bad debt recovery would credit the "bad debts recovered" account by Rs.500 and the net amount of the account is transferred to profit and loss account.So the bad debt recovered from Mohan will not effect his account and the correct option is (d).

31. When owner withdraws money from a business for personal expenses it is known as drawings. Drawings accounting is used when an owner of a business wants to withdraw cash for private use. The bookkeeping entries are recorded on the drawings account.

This drawings account is deducted from the capital account. since any amount paid for the personal expenses for the proprietor from the firm will be treated as drawings, the amount Rs. 1,200 paid for personal income tax of the proprietor from the petty cash will be treated as drawings and the journal entry will be Dr. drawings and Cr. Petty Cash Rs. 1,200.

32. The original cost of an asset takes into consideration all of the costs that can be attributed to its purchase and to putting the asset to use. These costs can include such factors as the purchase price, repairs, commissions, transportation, appraisals, warranties and installation.

Here an old machine was purchased for Rs. 60,000 then it was repaired for Rs. 5,000 and Rs. 5,000 paid on its installation.

Thus repairs incurred to bring the old furniture bought to use will be capitalized and will be included in the total cost of the asset and will not be debited to repairs account.

Correct option is (d)

33. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital:

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital – drawings OR

Closing assets – closing liabilities

Here opening capital = Rs. 20,000

Borrowings during the year = Rs. 3,000 = loan

Drawings = Rs. 5,000

Profit earned during the year = Rs. 10,000

Closing capital = opening capital + profits – drawings = 20,000 + 10,000 – 5,000 = Rs. 25,000

34. FIFO, which stands for "first-in-first-out," is an inventory costing method which assumes that the first items placed in inventory are the first sold. Thus, the inventory at the end of a year consists of the goods most recently placed in inventory. FIFO is one method used to determine Cost of Goods Sold for a business. In a period of rising prices, this method yields a higher ending inventory, a lower cost of goods sold, a higher gross profit (assuming constant price).

Date	*Particulars*	*Quantity*	*Cost per unit (Rs.)*	*Total cost (Rs.)*
March 1	Opening Inventory	15	400	6000
March 4	Purchases	20	450	9000

March 6	Purchases	10	460	4600
March 24	Sales	32 (Opening inventory 15 units + purchases on March 4^{th} 17 units)	15 units @ 400 17 units @ 450	6000 + 7650 = Rs. 13650
March 31st	Closing inventory	13	3 units @ 450 10 units @ 460	1350 + 4600 = 5950

35. Many times during the operation of business, the owner may take out some cash from the business for his personal use. These withdrawals from the business are considered as Drawings. Considering the fact that the business is a separate accounting entity, it charges an interest on the drawings to the owner. Where interest is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. In such case interest will be charged for 6 months.

Here drawings = Rs. 2,400

Interest on drawings = 5% of 2,400 × 6/12 = Rs. 55

Capital as on 31^{st} December 2011:

Opening capital as on 1^{st} Jan 2009	1,00,000
Add profit during the year	10,000
Add further capital introduced during the year	50,000
Less drawings during the year	2,400
Less interest on drawings	55
Closing capital as on 31^{st} Dec 2009	1,57,545

36. The rectifying entry will be to debit purchases and to credit sales and A.

37. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Here the carriage outward is expenses related to sales and will not be included in cost of goods sold and office rent is also indirect expense and will not be included in cost of goods sold.

Cost of goods sold in the above case = opening inventory + purchases + carriage inward – closing inventory = 20,000 + 85,800 + 2,300 – 18,000 = 90,100

Gross profit = sales – cost of goods sold = 1,40,700 – 90,100 = Rs. 50,600

ANSWERS

38. Remuneration paid for services is called commission. Commission is always paid on sales. 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.

Here Invoice value of goods sent out Rs. 2,00,000 and 4/5th of the goods were sold by consignee at Rs. 1,76,000

The invoice value of the goods sold = 4/5th of 2,00,000 = Rs. 1,60,000

So surplus above the invoice value = 1,76,000 – 1,60,000 = 16,000

Commission on goods sold upto invoice price = 2% of 1,60,000 = Rs. 3,200

Commission on surplus above invoice price@10% = 10% of 16,000 = Rs. 1,600

Total commission = 3,200 + 1,600 = Rs. 4,800

39. Here the cost of goods sold = 1,000

Invoice price will be = 1,000 + 10% of 1,000 = 1,100

Trade discount = 5% of 1,100 = Rs. 55

Thus sales to be recorded = invoice price –trade discount = 1,100 – 55 = Rs. 1,045

40. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Goods bought on joint venture as well as expenses incurred in connection with the business are debited to the joint venture account and credited to the coventurer's account or the joint bank account. When the goods are sold, the amount thereof is debited to the coventurer's account or the joint bank account and credited to the joint venture account. If the parties have taken over plant or materials etc., the value will be debited to the account of the party concerned and credited to the joint venture account. The joint venture account will now show profit or loss which will be transferred to the personal accounts of the respective parties in their profit sharing ratio.

Joint venture A/c

Date Particulars	*Amount*	*Date Particulars*	*Amount*
To joint bank-land purchased	60,000	By joint bank-sale of land	90,000
To net profit	30,000		
	60,000		60,000

41. The retiring partner is entitled to his share of goodwill at the time of retirement because the goodwill earned by the firm is the result of the efforts of all the partners including the retiring partners. Since a part of future profits will be accruing because of the present goodwill and the retiring partner will not share the future profits, it will be fair to compensate the retiring partner for the same. At the time of retirement of partner the goodwill is evaluated on the basis of agreement among the partners.

Goodwill can only be recorded in the books if some consideration in money or money's worth is paid for it. Hence goodwill account cannot be raised.

The adjustment for goodwill will be made through partner's capital accounts. The following entry is made:

Continuing partners capital account Dr. (in gaining ratio)

To retiring partners capital account (with his share of goodwill)

Thus the correct option is (b) gaining ratio

42. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures)For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. if the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.

Here A Co. issued Rs. 1,00,000 12% Debentures at 5% discount, redeemable at 5% premium after 10 years.

The discount on issue of debentures = 5% of 1,00,000 = Rs. 5,000

The premium on redemption of debentures = 5% of 1,00,000 = Rs. 5,000

Thus total loss on issue of debentures = 5,000 + 5,000 = Rs. 10,000

43. Super Profits are the profits earned above the normal profits. Under this method Goodwill is calculated on the basis of Super Profits i.e. the excess of actual profits over the normal profits. Steps for calculating Goodwill under this method are given below:

(i) Normal Profits = Capital Invested × Normal rate of return/100

(ii) Super Profits = Actual Profits – Normal Profits

(iii) Goodwill = Super Profits × No. of years purchased

Here: The capital investment in the firm throughout the above mentioned period has been Rs.1,00,000 and 15% is considered to be a fair return on capital.

Normal profits = 1,00,000 × 15% = Rs. 15,000

Average profit of the last three years = (15,000 + 20,000 + 25,000)/3 = 60,000/3 = Rs. 20,000

Super profits = 20,000 – 15,000 = 5,000

Goodwill = 5000 × 2 = Rs. 10,000

44. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Here A & B are partners in a business sharing profits and losses in the ratio of 7 : 3. They admit C as a partner. A sacrificed 1/7th share and B sacrificed 1/3rd of his share in favour of C. So the sacrificing ratio is given.

New profit sharing ratio

Partners	Old ratio	Old ratio Gain/(sacrifice)	New ratio
A	7/10	(1/7 of 7/10) = (1/10)	7/10 – 1/10 = 6/10 = 3/5
D	3/10	(1/3 of 3/10) = (1/10)	3/10 – 1/10 = 2/10 = 1/5
C		1/10 + 1/10 = 2/10	1/5

So the new profit sharing ratio between A : B : C will be 3/5 : 1/5 : 1/5 = 3 : 1 : 1

45. When a company acquires any asset, the purchase consideration can be settled either in cash or in any way as decided between the seller and the company. It may be settled by issuing shares in the company or debentures also.

In this problem G Ltd. purchased assets from H Ltd. for a book value of Rs. 7,50,000 and the consideration was paid by issue of shares of Rs. 100 each at a premium of 25%

The shares are being issued at a premium thus the value of each share issued will be 100 + 25% of 100 = 100 + 25 = Rs. 125

Total value of assets acquired = Rs. 7,50,000

Number of shares issued = total value of assets acquired/value per share = 7,50,000/125 = 6,000 shares

46. The combined capital of A and B = 10,000 + 8,000 = Rs. 18,000

This combined capital constitutes ¾th of the total capital

So total capital of the firm will be = 18,000 × 4/3 = Rs. 24,000

Thus C's capital will be = 24,000 – 18,000 = Rs. 6,000

C has bought Rs. 8,000 as his share of capital. That means the surplus brought by him is Goodwill

Thus C's share in Goodwill = 8,000 – 6,000 = Rs. 2000 which is the 1/3 rd of total goodwill.

And the total value of goodwill will be = 2,000 × 3 = Rs. 6,000

47. The original cost of an asset takes into consideration all of the costs that can be attributed to its purchase and to putting the asset to use. These costs can include such factors as the purchase price, repairs, commissions, transportation, appraisals, warranties and installation.

Thus repairs incurred to bring the second hand car bought to use and the registration cost together with dealers commission will be capitalized and will be included in the total cost of the asset .

So the amount debited to the car account will be 15,000 + 1,000 + 500 + 1,200 = Rs. 17,700

Correct option is (a)

48. Sometimes the capital of the new partner is not given. He/she is required to bring an amount proportionate to his/her share of profit. In such a case, new partner's capital will be calculated on the basis of adjusted capital of the existing partners.

Here the capital account of Ramesh and Suresh show the balance of Rs. 1,02,000 and Rs.73,000 respectively.

They admit Mahesh as a new partner for 1/5 share in the profits.

Mahesh's capital is calculated as follows:

Total share = 1

Mahesh's share in the profit = 1/5

Remaining share = 1 – 1/5 = 4/5

4/5 share of profit combined capital of Ramesh & Suresh

= Rs. 1,02,000 + Rs. 73,000 = Rs. 1,75,000

Total Capital of the firm = Rs. 1,75,000 × 5/4

= Rs. 2,18,750

Mahesh's capital for 1/5 share of profits = Rs. 2,18,750 × 1/5 = Rs. 43,750

Mahesh brings in Rs. 43,750 as his Capital

ANSWERS

49. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of Narayan Enterprises as on 28th Feb 2010

Balance as per cash book (dr)		15,000
Add:		
Cheques issued but not presented for payment	2,150	2,150
Less:		
Cheques deposited but not cleared	660	(660)
Balance as per pass book (cr)		16,490

50. Goods are normally sent on cost price to the consignee but some time the consignor makes the invoice at the selling price i.e. proforma invoice price. The idea is that consignee should not know the actual cost of the goods. In such cases the entries are made by the consignor in his books at the invoice price.

Here the goods are sent to the consignee at cost + $1/6^{th}$ of invoice price

Cost of goods sent = Rs. 33,000

Let Invoice value of the goods sent = x = 33,000 + 1/6 of x

Or $x - 1/6^{th}$ of $x = 33,000$

Or $5/6^{th}$ of $x = 33,000$

Or $x = 33000 \times 6/5 =$ Rs. 39,600

51. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment A/c (600 × 300)	1,80,000	By Naresh A/c-sales	1,80,000
To bank- freight paid	6,000	By stock A/c	31,250
To Naresh-octroi and freight	1,500		

To Naresh-godown rent and insurance	3,500		
To Naresh-commission (4% of 500 × 350 + 20% of 5000)	8,000		
To profit on consignment	12,250		
	2,11,250		2,11,250

Valuation of closing stock:

Cost of goods consigned = 1,80,000

Add: freight and insurance = 6,000

Add: octroi and cartage = 1,500

Total cost = 1,87,500

Cost of unsold goods = 1,87,500 × 1/6 = 31,250

52. **Y A/c**

Particulars	*Amount*	*Particulars*	*Amount*
To joint venture a/c	91,000	By joint venture a/c	5,000
		By bank a/c	86,000
	91,000		91,000

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To purchases-material supplied	70,000		By Y a/c-bal. fig	91,000
	To bank-expenses	6,000			
	To net profit transferred to-	15,000			
	X 10,000				
	Y 5,000				
		91,000			91,000

53. After making the Trading and Profit and Loss account of a Partnership firm the next step is to divide the profits or losses among the partners and to make other appropriations like interest on capital, salary, commission etc. For this purpose an another account is prepared i.e. profit and Loss appropriation account.

This account is prepared to show the division of profit and other appropriations among partners like salary, commission, interest on capital, interest on drawings etc.

Profit and Loss Appropriation Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Salaries of Partners	2,500	By Profit and Loss account	
To Interest on Partners' Capitals (3000 + 1800)	4,800	(Profit transferred from P & L account)	15,000
To Commission to manager (5% of 7,700)	385		
To Profit transferred to Partners capital or current account	7,315		
A 3/5 × 7,315 = 4,389			
B 2/5 × 7,315 = 2,926			
	15,000		15,000

54. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating new ratio:

New ratio = Old ratio – Sacrificing ratio

New ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	5/8	(1/10)	21/40
B	3/8	(1/10)	11/40
C		1/5	1/5

So the new ratio between A : B will be 21/40 : 11/40 = 21 : 11

55. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted, has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm. And this goodwill will be shared by the old partners in their profit sharing ratio.

Sacrificing ratio = Old ratio – New ratio

New ratio

Partners	*Old ratio*	*New ratio*	*(Gain)/sacrifice*
A	4/9	3/9	1/9
B	3/9	2/9	1/9
C	2/9	2/9	0

Since C is not sacrificing anything. Thus goodwill amount brought by D will be shared by A and B only.

56. Total of balance sheet will be 2,00,000 (20,000 × Rs. 10).

57. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.

Forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here total called up value of the shares is 100 × 10 = Rs. 1,000. Thus share capital account will be debited by Rs. 1,000

58. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 300 × (100 – 80) = Rs. 6,000

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 300 × (100 – 25) = 300 × 75 = Rs. 22,500

The surplus amount to be transferred to capital reserve account = 22,500 – 6,000 = Rs. 16,500

59. Sale or return basis is an arrangement by which a retailer pays only for goods sold, returning those that are unsold to the wholesaler or manufacturer. The customer do not pay for the goods until they confirm to buy. If they do not buy, those goods will return to us goods on the 'sale or return' basis will not be treated as normal sales and should be included in the closing inventory unless the sales have been confirmed by customer . When goods are sent on approval basis then at the end of the financial year the goods lying with customers will be valued at cost or market price whichever is less.

Here 100 articles were sent on sale or return basis which were recorded as actual sales on that price. The sale price was made cost plus 25%.

Firstly this should not be recorded as sales and is to be included in the inventory at cost or market price whichever is less.

Selling price of goods sent = 100 × 200 = Rs. 20,000

Thus cost price = 20,000 × 100/125 = Rs. 16,000

Thus The amount of inventory on approval will be Rs. 16,000.

60. Dividends payable are dividends that a company's board of directors has declared to be payable to its shareholders. Until such time as the company actually pays the shareholders, the cash amount of the dividend is recorded within a dividends payable account as a current liability. Dividend is not payable on the calls in arrear.

Here dividend payable will be 10% of (25,00,000 – 10,000) = Rs. 2,49,000

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 12

1. Book keeping is not sub-field of Account.
2. Capital brought by proprietor is example of increase in asset and increase in liability.
3. Cost of shifting is revenue expense.
4. Salary payable to clerk is credited to o/s salary A/c.
5. Total of purchase return book is posted to Cr. of Purchases Return A/c.
6. No journal entry is required for normal loss.
7. Inventory is valued at cost or market value, whichever is less, due to conservatism.
8. Account sale is sent by consignee to consignor.
9. If del-credere commission is allowed, bad debts will be borne by consignee and not debited to consignment A/c.
10. Profit and losses are shared equally unless otherwise agreed.
11. Loss on issue debentures for 5 years is other non-current asset.
12. Dividends are paid as percentage of paid up capital.
13. Balance sheet is prepared as per Part I of Schedule III as per Companies Act, 2013.
14. Inventory is valued at cost or market value whichever is less.
15. Main cause of depreciation include effluxion of time, obsolencence and physical wear & tear.
16. 'By balance b/d' are written on cr. side in case of cr. balance.
17. Prepaid insurance given in trial balance is recorded in Balance Sheet.
18. Present liability of uncertain amount is provision, if measured reliably by using estimation.
19. Dividends directly collected by bank will be added in the given case.
20. Revenue expenditures are for one year only.
21. Cost concept is being vilated by trader in the given case.
22. Accounting Standards reduce the vagueness and chances of misunderstandings by harmonizing varied accounting practices.
23. The direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good.

It excludes indirect expenses such as distribution costs and sales force costs. COGS appear on the income statement and can be deducted from revenue to calculate a company's gross margin.

Cost of goods sold (COGS) = Cost of goods manufactured + Opening finished goods inventory – Ending finished goods inventory

Or opening inventory + purchases + direct expenses– closing inventory

Here cost of goods sold = 8500 + 30700 + 4800 – 9000 = Rs. 35,000

24. Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which show a declining balance, weighted for earlier years, and lower and lower for later years, as the asset grows older.

Let's find the WDV as on 1-1-2010 of the plant and machinery in question

Balance of plant and machinery as on 1-1-2010 = 1,47,390

Let Original cost of plant and machinery purchased on 1-1-2007 = x(say)

1-1-2007	Cost of machinery	X
31-12-2007	depreciation	15% of x = 0.15x
1-1-2008	wdv	x – 0.15x = 0.85x
31-12-2008	depreciation	15% of 0.85x = 0.1275x
1-1-2009	wdv	0.85x – 0.1275x = 0.7225x
31-12-2009	depreciation	15% of 0.7225x = 0.108375x
1-1-2010	wdv	0.7225x – 0.108375x = 0.614125x = 147390

We got 0.614125 x = 1,47,390

So x = Rs. 2,40,000

Thus cost of machinery on 1.1.2007 will be Rs. 2,40,000.

25. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = purchases during the year + carriage inward + wages – closing inventory = 19,500 + 400 + 1,000 – 12,000 = 8,900

Gross profit = sales – cost of goods sold = 25,000 – 8,900 = Rs. 16,100

26.

	Dr.	Cr.
COGS	1,50,000	
Closing inventory	40,000	
Trade Receivables	60,000	
Fixed assets	50,000	
Sundry expenses	20,000	
Sales		2,00,000
Capital		90,000
Trade payable		30,000
	3,20,000	3,20,000

Total of corrected trial balance will be Rs. 3,20,000.

27. The original cost of an asset takes into consideration all of the costs that can be attributed to its purchase and to putting the asset to use. These costs can include such factors as the purchase price, repairs, commissions, transportation, appraisals, warranties and installation.

Thus here installation of machinery will be included in the purchase cost of the asset and the journal entry will be

Dr. Machinery A/c and Cr. Cash A/c Rs. 20,000

28. Net worth method is also called statement of affairs method or capital comparison method. According to this method profit or loss of the business is determined by making comparison between the capital of two dates of a period. If there are other capital related items such as drawing, additional capital, interest on capital etc. are to be adjusted to ascertain the amount of profit or loss.

These items include:

Drawing: If the drawing is made during the year, it should be added to the amount of closing capital.

Additional capital: If additional capital is introduced in the business during the year, it should be deducted from the amount of closing capital.

Interest on capital: If the interest is provided on capital, it should be deducted from the amount of closing capital.

Profit for the year = Closing capital – Opening capital – additional capital + drawings

Profit or loss for the year = 53,600 – 40,000 – 1,000 + 2,400 = 15,000 (profit)

29. Closing inventory is the amount of inventory that a business still has on hand at the end of a reporting period. This includes raw materials, work-in-process, and goods inventory. The amount of closing inventory can be ascertained with a physical count of the inventory. It can also be determined by using a perpetual inventory system and cycle counting to continually adjust inventory records to arrive at ending balances.

The amount of closing inventory is used to arrive at the cost of goods sold in a periodic inventory system with the following calculation:

Opening inventory + Purchases – Closing inventory = Cost of goods sold

SO closing inventory = opening inventory + purchases – cost of goods sold

Cost of goods sold = sales –margin on sales = 80,000 – 20% of 80,000 = 64,000

Closing inventory = 1,00,000 – 64,000 = Rs. 36,000

30. Securities premium amount may be applied by the company for all the purposes mentioned in the options given in the question.

31. Dividends payable are dividends that a company's board of directors has declared to be payable to its shareholders. Until such time as the company actually pays the shareholders, the cash amount of the dividend is recorded within a dividends payable account as a current liability.

Here dividend payable will be 5% of (4,60,000 – 7,500) = Rs. 22,625

32. The shares issued to promoters will be debited to goodwill account.

33. Number of shares will be calculated as 9,00,000/125 = 7,200.

34. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here total called up value of the shares is 100 × (3 + 2 + 2) = 700rs. Thus share capital account will be debited by Rs. 700.

35. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 500 × (10 – 9) = Rs. 500

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 500 × (10 – 4) = 500 × 6 = Rs. 3,000.

The surplus amount to be transferred to capital reserve account = 3,000 – 500 = Rs. 2,500.

36. Forfeited share A/c will be credited with total shares × amount received up to the time of forfeiture = 600 × (10 – 2 – 3) = Rs. 3,000.

37. Cheques sent to bank (not collected) will be deducted in the given case.

38. Straight line method depreciates cost evenly throughout the useful life of the fixed asset. Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 5,000

Salvage value = Rs. 500

Depreciation = (5,000 – 500)/10 = Rs. 450

Rate of Depreciation = 450/5,000 × 100 = 9%

39. Cost price is also known as cp is the original price of any item. The cost is the total outlay required to produce a product or carry out a service. Cost price is used in establishing profitability in the following ways:

Selling price (excluding tax) less cost results in the profit in money terms.

Here selling price = cost + 60% = Rs. 16,000

Let the cost price be x

Then x + 60% of x = 16,000

Or 1.6x = 16,000

Or x = 16,000/1.6 = Rs. 10,000

40. The sales price (SP) of goods or commodities is the price at which a particular product or commodity is sold across channels or markets.

Here profit percentage on sales 25%

Let x be the sale price of goods

Then profit = 25% of x = 0.25x

Cost price = x – 0.25x = 0.75x = 34,200

x = 34,200/0.75 = Rs. 45,600

41. A commission is a fee that a business pays to a manager in exchange for his or her services in either facilitating or completing a sale. Manager's commission is calculated in two ways

1. On Profits before charging such commission:

   Manager's commission = Net Profits X (Percentage of commission / 100)

2. On Profits after charching such commission:

   Manager's commission = Net Profits X (Percentage of commission / 100 + % of commission)

3. Or in any other manner agreed through agreement

   Here the managers commission is 5% of sales

   Sales = cost + 20% on sales

   Let the sales = x

   So x = 40,000 + 20% of x

   Or 0.8x = 40,000

   Or x = Rs. 50,000

So the commission = 5% of 50,000 = Rs. 2,500

42. A commission is a fee that a business pays to a manager in exchange for his or her services in either facilitating or completing a sale. Manager's commission is calculated in two ways

1. On Profits before charging such commission:

   Manager's commission = Net Profits × (Percentage of commission / 100)

2. On Profits after charging such commission:

   Manager's commission = Net Profits × (Percentage of commission / 100 + % of commission)

3. Or in any other manner agreed through agreement

   Here gross profit = Rs. 48,000

   Net profit = 48,000 – 6,000 = Rs. 42,000

   Managers commission = 42,000 × 5/105 = Rs. 2,000

43. Payment of wages is a transaction.

44. Amount of stationery used for own business will be credited to purchases.

45.

	Rs.
Sale value (4,200 –450)	3,750
Book value (3,000 – 400)	2,600
Profit on sale	1,150

46. The inventory adjustments in respect of opening and closing inventory appear in the Cost of Goods Sold as follows:

Opening Inventory

Add: Purchases

Less: Closing Inventory

Cost of Goods Sold

Note that the cost of goods sold is not simply the cost of purchases during the period. This is the application of the Matching Concept which requires expenses to be recognized against periods from which associated revenue from the expense is expected to be earned. Therefore, as closing inventory is not consumed at any given accounting period end, it must not be part of expense which is why it is deducted from the cost of sale. Similarly, as opening inventory is consumed in the current accounting period, it must therefore be added to the cost of goods sold.

So here purchases = cost of goods sold + closing inventory – opening inventory = 1,58,600 + 25,400 – 44,000 = Rs. 1,40,000

47. Net worth method is also called statement of affairs method or capital comparison method. According to this method profit or loss of the business is determined by making comparison between the capital of two dates of a period. If there are other capital related items such as drawing, additional capital, interest on capital etc. are to be adjusted to ascertain the amount of profit or loss.

These items include:

Drawing: If the drawing is made during the year, it should be added to the amount of closing capital.

Additional capital: If additional capital is introduced in the business during the year, it should be deducted from the amount of closing capital.

Interest on capital: If the interest is provided on capital, it should be deducted from the amount of closing capital.

Closing capital = Profit for the year –income tax + Opening capital + additional capital – drawings + interest on capital – interest on drawings

Profit or loss for the year = 2,770 – 550 + 5,000 – 650 + 500 – 120 = 6,950 (profit)

48. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost. Salaries and wages given here will not be included in cost of goods sold as it is assumed to be an indirect cost.

Cost of goods sold in the above case = opening inventory + purchases during the year + carriage inward – closing inventory = 9,600 + 11,850 + 200 – 3,500 = 18,150

Gross profit = sales – cost of goods sold = 24,900 – 18,150 = Rs. 6,750

49. The provision for doubtful debts is identical to the allowance for doubtful accounts. The provision is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. The provision is used under accrual basis accounting, so that an expense is recognized for probable bad debts

An increase in provision for bad debts is recorded as follows:

DEBIT the difference (new provision minus old one) to Income Statement

CREDIT provision for bad debts

Here opening Provision for Bad Debts is Rs. 2,500

Closing Provision for Bad Debts = 5% on (trade receivables – bad debts) = 5% on 20,000 = 1,000

Opening provision less bad debts = 2,500 – 1,870 = 630

increase in provision for bad debts = 1,000 – 630 = 370

Provision for bad debts in Profit and Loss A/c will be Rs. 370.

50. Calim receivable will be shown as asset in balance sheet.

51. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To Goods sent on consignment a/c	7,500		By Anil A/c-sales	10,500
	To Bank- expenses	600		By Inventory A/C	1,860
	To Anil-octroi	1,200			
	To Anil-commission	775			
	To Profit on consignment	2,285			
		12,360			12,360

Valuation of closing stock:

Cost of 100 units of goods consigned = 7,500

Add:freight and insurance = 600

Add:octroi and cartage = 1,200

Total cost of 100 units = 9,300

Cost of unsold goods = 9,300 × 20/100 = 1,860

52. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as operating expenses ,distribution costs and sales force cost.

Cost of goods sold in the above case = 3,10,000

Gross profit = sales – cost of goods sold = 4,00,000 – 3,10,000 = Rs. 90,000

53. In this case the amount due to retiring partner is paid in instalments. Usually, some amount is paid immediately on retirement and the balance is transferred to his loan account. This loan is paid in one or more instalments

The loan amount carries some interest. An instalment consists of two parts :

(i) Principal Amount of instalment due to retiring partner.

(ii) Interest at an agreed rate,

Interest due on loan amount is credited to retiring partners' loan account. Instalment inclusive of interest then is paid to the retiring partner as per schedule agreed upon.

Here it was agreed that he should be paid Rs. 4,950 in cash on retirement and the balance in three equal yearly instalments with interest at 6% per annum.

So the balance will be = 10,950 – 4,950 = Rs. 6000

Amount of three equal instalments = Rs. 6,000/3 = Rs. 2,000

Interest @ 6% pa. = Rs. 6,000× 6/100

= Rs. 360

1st Instalment at the end of 1st Year = Rs. 2,000 + Rs. 360

= Rs. 2,360

Interest @ 6% pa. = Rs. 4,000×6/100 = 240

2nd Instalment at the end of 2nd Year = 2,000 + 240 = Rs. 2,240

Interest @ 6% pa. = 2,000×6/100 = Rs. 120

3rd Instalment at the end of 3rd Year = 2,000 + 120 = Rs. 2,120

54. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – New ratio

Gaining/sacrificing ratio

Partners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A	5/12	3/6	5/12 – 1/2 = (1/12)
B	4/12	2/6	4/12 – 1/3 = (nil)
C	2/12	1/6	1/12 – 1/6 = nil
D	1/12		

So the sacrificing ratio between A:B:C will be 1/12:nil:nil

55. Amount spent on painting new factory is capital expense.

56. Closing inventory is the amount of inventory that a business still has on hand at the end of a reporting period. This includes raw materials, work-in-process, and goods inventory. The amount of closing inventory can be ascertained with a physical count of the inventory. It can also be determined by using a perpetual inventory system and cycle counting to continually adjust inventory records to arrive at ending balances. The amount of closing inventory is used to arrive at the cost of goods sold in a periodic inventory system with the following calculation:

Opening inventory + Purchases – Closing inventory = Cost of goods sold

So closing inventory = total goods available for sales – cost of goods sold

Cost of goods sold = x(say) = sales –margin on sales = 13,00,000 – 1/3of x

Or x + 1/3x = 13,00,000

Or 4/3x = 13,00,000

Or x = 13,00,000 × 3/4 = 9,75,000

Closing inventory = 12,00,000 – 9,75,000 = Rs. 2,25,000

57. **Step 1**

Total all cash received from credit customers during the period. The formula for calculating credit sales is cash received minus receivables at the start ofthe period, plus receivables at the end of the period.

Step 2

Deduct the total accounts receivable at the start of the period from the cash received from customers.

Step 3

Add amounts owed from customers at the end of the period to the previous figure calculated.

Credit sales = closing receivables + cash received from receivables + bad debts + return inwards – opening receivables = 13,800 + 30,400 + 2,700 + 1,200 – 10,200 = Rs. 37,900

Total sales = credit sales + cash sales = 28,400 + 37,900 = Rs. 66,300

Trade Receivable A/c

	Rs.		Rs.
To balance b/d	10,200	By cash	30,400
To credit sales	37,900	By returns	2,700
		By bad debts	1,200
		By balance c/d	13,800
	48,100		48,100

Total sale = Cash (28,400) + Credit (37,900) = 66,300

58. Let the selling price be x

Thus the profit margin in 20% of x

And the cost price will be x – 20% of x = 80% of x

So the profit margin on cost will be = 20% of x/80% of x × 100 = 0.2x/0.8x × 100 = 25%

59. The 12% debentures are being issued at a premium thus the value of each debenture will be 100 + 10 = Rs. 110

Total value of building purchased = 99,00,000

Number of debentures issued in consideration = total value of building purchased/value per debenture = 99,00,000/110 = 90,000 debentures

Thus the actual value of the debentures issued = 90,000 × 100 = Rs. 90,00,000 should be credited to debentures account and the balance amount is the premium

Thus premium amount will be 99,00,000 – 90,00,000 = Rs. 9,00,000

60. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures)For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. If the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.

Here Green Ltd. issued 5,000, 6% debentures of Rs.100 each at a discount of 5% repayable after 5 years at a premium of 5%.

The discount on issue of debentures = 5% of 5,00,000 = Rs. 25,000

The premium on redemption of debentures = 5% of 5,00,000 = Rs. 25,000

Thus total loss on issue of debentures = 25,000 + 25,000 = Rs. 50,000

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 13

1. Consignment account is nominal.
2. Bank overdraft has credit balance (liability).
3. Customers (Debtors) are acceptors of bills of exchange.
4. Journal proper records opening entries.
5. FIFO is the basis for the sequence mentioned in the question.
6. Closing inventory is shown in trial balance and not opening inventory if adjusted purchase is shown in trial balance.
7. As per entity concept, business unit is separate from providers of capital.
8. All expenses and receipts of revenue nature go to P&L A/c or Trading A/c.
9. This type of entry is called compound journal entry.
10. Management is internal user. All others are external.
11. In compensating errors, effect of one error is cancelled by effect of some other error.
12. General reserve is transferred to partner's capital account at time of retirement of partner.
13. Interest on partner's capital is appropriation and not expense.
14. Noting charges are paid at time of dishonour of bill.
15. Credit note is sent when customer returns goods.
16. A known liability is provision if its amount and due date are indeterminate.
17. Left side is debit side and right side is credit side of an account.
18. Expenses paid but not incurred during current accounting period are prepaid.
19. Profit/loss on realization is shared among partners in old profit sharing ratio.
20. Correct profit will be Rs. 7,70,000 (Rs. 7,00,000 + 1,00,000 less Rs. 30,000).
21. In the given case, capital profit will be rs. 40,000 (1,40,000 – 1,00,000) and revenue profit will be Rs. 60,000 (1,00,000 –40,000).
22. The executor of deceased partner will get share in JLP, reserves, profit up to date of death along with his capital balance.
23. In case when a bill of exchange matures on a public holiday then the due date will be the preceding business day.

In this question A bill of exchange matures on 16th July. It is a public holiday. Bill will mature on the preceding day i.e. 15 th July.

24. LIFO is not recommended by AS 2.

25. As per balance method, Trial balance will be prepared as follows:

Cash A/c	3,180	
Capital		10,000
Bank	6,900	
Purchases	725	
Sales		950
Salary		5
Rent	150	
	10,955	10,955

26. By profit sharing ratio in a partnership firm, we mean the ratio in which the profits and losses of the firm are to be distributed amongst the partners.

In the absence of a partnership deed and where there is no indication as to the agreement between the partners in this aspect, it should be considered as equal share for all partners.

Here A B and C shared the profit in the ratio of 2 : 2 : 1

Which is A 18,000 × 2/5 = 7,200

B 18,000 × 2/5 = 7,200

C 18,000 × 1/5 = 3,600

But the correct distribution would have been

A 18,000/3 = 6,000

B 6,000

And C 6,000

So Necessary adjustment will be:

A	Dr.	1,200	
B	Dr.	1,200	
To C			2,400

27. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital:

Closing capital =

Opening capital + profit   OR

Opening capital + profit + additional capital – drawings   OR

Closing assets – closing liabilities

Here closing assets = inventory + cash at bank + plant and machinery + debtors + investments = 2,400 + 1,800 + 1,000 + 500 + 2,000 = 7,700

Closing liabilities = bills payable + creditors + loan from Raja Ram = 400 + 800 + 1,500 = 2,700

So capital = Closing assets – closing liabilities = 7,700 – 2,700 = Rs. 5,000

28. Goods used by proprietor for his personal use should be credited to Purchases A/c and debited to drawings.

29. P&L A/c shows not profit/loss earned by the firm during an accounting period.

30. Trial balance checks arithmatical accuracy of the books and not honesty of book keeper.

31. Capital reserves are credited out of capital profits and not revenue profits. Provisions are charges against profits. P&L A/c balance is revenue in nature.

32. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = opening inventory + purchases – closing inventory = 4,000 + 20,000 – 3,000 = Rs. 21,000

Profit = sales – cost of goods sold = Rs. 30,000 – 21,000 = Rs. 9,000

33. We know that Credit sales = closing receivables + cash received from receivables + bad debts + return inwards – opening receivables

Thus cash received from customers = credit sales – closing receivables – bad debts – return inwards + opening receivables

Here Total sales during the year amounted to Rs. 70,000; Cash sales Rs. 10,000; Balance of trade receivables at the end of the year Rs. 25,000.

So credit sales = 70,000 – 10,000 = Rs. 60,000

Cash received from customers = 60,000 – 25,000 = Rs. 35,000

34. Machinery is a Capital asset, not to be included in current assets.

35. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per pass book (cr)		2,430
Less:		
Cheques issued but not presented for payment	1,710	(1,710)
Add:		
Bank charges	260	
Cheques deposited but not cleared	1,390	1,650
Balance as per cash book (dr)		2,370

36. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per cash book (cr)		6,340
Less:		
Cheques issued but not presented for payment	2,368	(2,368)
Add:		
Cheques deposited but not cleared	2,360	2,360
Balance as per pass book (dr)		6,332

37. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = opening inventory + purchases + carriage inward + wages – goods sent on consignment = 14,500 + 75,995 + 1,700 + 825 – 20,000 = 73,020

Gross profit = sales – cost of goods sold = 93,750 – 73,020 = Rs. 20,730

38. Sale of plant and machinery is a capital receipt, not reserve.

39. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset as on Jan 1 2007 = Rs. 5,200

Salvage value = Rs. 200

Depreciation/year = (5,200 – 200)/10 = Rs. 500

Depreciation for 3 years = 500 × 3 = Rs. 1,500

So balance of furniture account at the end of third year = 5,200 – 1,500 = Rs. 3,700

40. According to annuity method, the purchase of the asset concerned is considered an investment of capital, earning interest at certain rate. The cost of the asset and also interest thereon are written down annually by equal installments until the book value of the asset is reduced to nil or its bread up value at the end of its effective life. The annual charge to be made by way of depreciation is found out from annuity tables. The annual charge for depreciation will be credited to asset account and debited to depreciation account, while the interest will be debited to asset account and credited to interest account.

Thus depreciation to be charged = lease value × the annuity = Rs. 9,996.55

Balance of lease A/C at the end of the first year will be = 60,000 – 9,996.55 = Rs. 50,003.45

41. The defference of trial balance will be credited to suspense account in the given case.

42. When the bill is payable at a stated number of days then the due date will be that day which comes after adding the specified number of days to the date of the bill plus 3 more days of grace. Note that here the date of bill is excluded.

The date of accepting the bill is 8.12.09.

Add 30days will give us 7.01.10

Add 3 days of grace gives us 10.01.10

Thus Jan 10th is the due date.

43. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital – drawings OR

Closing assets – closing liabilities

Here opening capital = 16,080

Further introduction of capital = 2,000

Drawings in cash = 3,000

Life insurance premium = 250

Closing capital = 21,925

Closing capital = opening capital + profits – drawings

Profit = closing capital – opening capital + drawings = 21,925 – 16,080 – 2,000 + 3,000 + 250 = Rs. 7,095 (profit)

44. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here the total of the debit and credit side of a trial balance of Mr. Raja as on 31st March, 2010 were Rs.20,000 and Rs.10,000 respectively. Thus suspense account will have a credit balance of Rs. 10,000.

Now it was found that the total of sales book was carried forward as 5,000 instead of 4,000 i.e. the sales account has been overcasted by 1000Rs.Thus we have to debit sales account and credit suspense account by Rs. 1,000. After crediting suspense account by Rs. 1,000 the balance of suspense account will be 10,000 (cr) + 1,000 (cr) = Rs. 11,000 (cr).

45. Rectifying entry for the given error will be to debit discount by Rs. 250 with corresponding credit to suspense a/c.

46. The journal entry to transfer net income to owner's equity is a debit to Income Summary, and a credit Capital.

The balance of Income Summary is reduced to zero; the owner's capital account is increased by the amount of net income.

The entry will be P/L A/c Dr. Rs. 6,300; To Capital A/c Rs. 6,300

47. Cross profit is difference between sales and cost of goods sold.

48. Credit balance in leger will either be a revenue or a liability not an expense or asset.

49. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment A/c (1000 × 900)	9,00,000	By gita A/c-sales	9,00,000
To bank- freight paid	7,000	By P/L-abnormal loss	45,545
To bank-carriage	650	By inventory A/c	1,84,391
To bank insurance	3,250		
To Gita A/c-expenses	13,000		
To Gita a/c-commission	54,000		
To profit on consignment	1,52,036		
Total	11,29,936	Total	11,29,936

Valuation of loss:

Cost of total goods consigned = 9,00,000

Add: Freight = 7,000

Add: Carriage = 650

Add: Insurance = 3,250

Cost of 1000 units = 9,10,900

Thus cost of 50 units = 9,10,900 × 50/1,000 = 45,545

50. Amount spent on structural alteration will be capital in nature. It will be revenue as it is under pressure of law.

ANSWERS

51. Average Profits Method:

Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits × Number of years of Purchase

Profit of the year 1 : 6,000

Profit for the year 2 : 6,000 × 2 = 12,000

Profit for year 3 : 12,000 × 1.5 = 18,000

Average profit of last 3 years = (6,000 + 12,000 + 18,000)/3 = Rs. 12,000

Goodwill = 12,000 × 1 = Rs. 12,000

52. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating new ratio:

New ratio = Old ratio – Sacrificing ratio

New ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	3/6	(1/6)	3/6 – 1/6 = 2/6
B	2/6		2/6
C	1/6		1/6

So the new ratio between A : B : C : D will be 1/3 : 1/3 : 1/6 : 1/6

53. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

New ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	3/6	5/12	3/6 – 5/12 = 1/12
B	2/6	4/12	2/6 – 4/12 = 0
C	1/6	2/12	1/6 – 1/6 = 0
D		1/12	

So the sacrificing ratio between A : B : C will be 1/12 : nil : nil

54. **Joint venture A/c**

Particulars	*Amount*	*Particulars*	*Amount*
To Joint bank-purchases	66,600	By joint bank-sales	89,000
To Joint bank-expenses	6,629		
To C-commission	5,340		
To Net profit transferred to-ABC	**10,431**		
	89,000		89,000

55. Here Gopal was holding 100 shares of 10 each of a company on which he had paid Rs. 3 on application and Rs. 2 allotment, but could not pay Rs. 2 on first call.

So amount received per share = 3 + 2 = 5

Here total amount received for the shares is 100 × 5 = Rs. 500. Thus Forfeited shares a/c will be credited with Rs. 500.

56. Consignment inventory will be recorded in consignor's balance sheet at invoice value less stock reserve on it.

57. Insurance charges will not be included in the cost of inventory. The charges till the point of arrival in consignee's godown will only be considered.

58. When a company acquires any business, the purchase consideration can be settled either in cash or in any way as decided between the seller and the company. It may be settled by issuing shares in the company or debentures also.

In this problem X Ltd. purchased the business of Y Ltd. for Rs. 90,000 payable in fully paid shares of 10 each; shares were issued at a premium of 25%.

The shares are being issued at a premium thus the value of each share issued will be 10 + 25% of 10 = 10 + 2.5 = Rs. 12.5

Total value of business acquired = Rs. 90,000

Number of shares issued = total value of business acquired/value per share = 90,000/12.5 = 7,200 shares.

59. Here a company on non-receipt of First Call money of Rs. 2 per share and Final Call money of Rs. 3 per share from Rahul, debited Call-in-Arrears account by Rs. 2,000 and Rs. 3,000 respectively. After due notice 1,000 shares of Rs.10 each were forfeited from Rahul.

Since already the amount due on forfeited shares has been transferred to 'Unpaid Calls A/c'.

So the amount to be credited to First Call Account at the time of entry for forfeiture will be NIL.

60. When a company acquires any asset, the purchase consideration can be settled either in cash or in any way as decided between the seller and the company. It may be settled by issuing shares in the company or debentures also.

In this problem X Ltd. purchased Plant and machinery of Rs. 20,00,000 at Rs. 18,00,000; Land and building of Rs. 30,00,000 at Rs. 42,00,000 for purchase consideration of Rs. 55,00,000 and paid Rs. 10,00,000 in cash and remaining by issue of 8% debentures of 100 each at a premium of 20%.

Total consideration to be paid = Rs. 55,00,000

Consideration paid in cash = 10,00,000

Consideration to be paid by issue of debentures = Rs. 45,00,000

The debentures are being issued at a premium thus the value of each debentures issued will be 100 + 20% of 100 = 100 + 20 = Rs. 120

Number of debentures issued = total value of assets acquired/value per debenture = 45,00,000/120 = 37,500 debentures.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 14

1. Commission received in advance will have credit balance as it is liability.

2. Insurance unexpired is a personal account (belonging to Insurance company).

3. Purchase is transaction and loader's existence as on 31st March, 2010 is an event.

4. Stock outflow is in both cases — sales and consignment.

5. The correct order is Journal Entries, Ledger positngs, P&L A/c and preparation of balance sheet.

6. Rs. 112 need to be subtracted while preparing Bank Reconciliation to arrive at the balance as per pass-book.

7. Bills receivable is a current asset. It is not fixed, fictitious and intangible.

8. Loan to contractor (receivable) will have a debit balance. All others will be having credit balances.

9. Wages paid to Ram debited wrongly to his account is an error of principle. All others are errors of commission.

10. the maturity date will be 93 (90 + 3 days of grace) days after 26.2.2010. Thus 30.5.2010 will be maturity date.

11. Balance of goods sent on consignment A/c is transferred to Trading A/c. all purchases, sales and transfers of goods are recorded in Treading A/c.

12. Memorandum joint venture is prepared in case each co-venturer wants to keep records of their own transactions of joint venture.

13. If an estimate of probable outflow of resources for settlement of present obligation can be made, it is recognised as contingent liability not provision.

14. The party who sends goods is consignor and to whom goods are sent is consignee.

15. Any additional amount is premium for goodwill.

16. Drawer i.e. the payee does discounting, endorsement and collection of bills.

17. Sales return are reduced from sales to arrive at net sales.

18. Drawings are deducted from capital balance of owners.

19. Closing inventory (if given in Trial balance) will appear only in Balance Sheet and not in Trading A/c.

20. Purchase of fixed asset is recorded in journal proper. Purchase of goods (in trade) on credit basis are recorded in purchase book.

ANSWERS

21. Securities premium is not free for distribution as dividend. It can be used for all other purposes.

22. Sale will be presumed to have been made at time of delivery of goods and not production of goods or receipt of order.

23. When the bill is payable at a stated number of days then the due date will be that day which comes after adding the specified number of days to the date of the bill plus 3 more days of grace. Note that here the date of bill is excluded.

The date of drawing the bill is 25th Jan

Add 45 days will give us 11th of March

Add 3 days of grace gives us 14th of March

Thus March 14th is the due date.

24. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period. When a bill of exchange is dishonored, the holder can get such fact noted on the bill by a notary public. The advantages of noting is that the evidence of dishonored is secured. The noting is done by recording the fact of dishonored, the date of dishonor, the reason of dishonor, if any. For doing all this the notary public charges his fees which is called noting charges.

In case the bill is renewed the interest will not be charged on the noting charges which will be treated separately and will not be clubbed with the amount of the bill.

Here Total amount of the Satyapal's acceptance = 5,000

Amount of the renewed bill = Rs. 5,000

Interest for 1 months @12% pa = Rs. 5,000 × 12/100 × 1/12 = 50

Total amount of the renewed bill = 5,000 + 50 = Rs. 5,050

25. Retiring a bill means making payment before the date of maturity. When the acceptor of a bill is prepared to make the payment of the bill before the due date, he may ask the holder to accept the payment, provided he receives some rebate or discount for the unexpired period. Such a rebate or discount is an expense to the party receiving the payment and gain to the party making the payment.

Here Preet accepted a 90 days bill of Rs. 10,000 drawn by Jeet on 05.02.2010. On 13.03.2010, Preet wished to retire the bill. Jeet offered rebate @ 12% p.a.

So the due date of the bill is 6th may

The bill was retired on 13.3.2010

So the period for which rebate will be allowed = 54 days

The rebate = 10,000 × 12% × 54/360 = Rs. 180

26. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment Account

To Goods sent on consignment		By Consignee A/c (Sales)	1,50,000
(at cost price) 1,00,000 × 100/125	80,000	By Inventory at cost	
To Consignee's A/c(indirect expenses)	40,000	Price 10,000 × 100/125	8,000
To Profit	38,000		
	1,58,000		1,58,000

27. The abnormal loss should be adjusted before ascertaining the result of the consignment. The valuation of abnormal loss is done on the same basis as the unsold stock is valued.

Here X consigned 100 packets of cosmetics each costing Rs. 300 to his agent at Bareilly. He paid Rs. 500 towards freight and insurance. 15 packets were destroyed in the way. So this is abnormal loss.

Valuation of damage

Cost of 100 packets sent = 30,000

Add:freight and insurance = 500

Total cost of 100 packets sent = 30,500

So the cost of 15 packets destroyed = 30,500 × 15/100 = Rs. 4,575

28. Here X consigned 100 packets of cosmetics each costing Rs. 300 to his agent at Bareilly. He paid Rs. 500 towards freight and insurance. 15 packets were destroyed in the way. So this is abnormal loss.

Valuation of damage

Cost of 100 packets sent = 30,000

Add:freight and insurance = 500

Total cost of 100 packets sent = 30,500

So the cost of 15 packets destroyed = 30,500 × 15/100 = Rs. 4,575

Value of Stock just before being unloaded at the consignees godown

= Cost of Goods + Consignors Direct Expenses + Proportionate Consignee Direct Expenses

The cost of the goods/stock implies the value at which the goods are consigned by the consignor to the consignee. Since the goods have reached the consignees godown, we can consider the consignor expenses on the goods to have been incurred. Moreover any direct expenses incurred by the consignee in relation to the transportation of the goods, octroi duties, insurance in transit etc., would also have to be considered as having been incurred on the goods.

Therefore, the direct expenses incurred till that point would include the consignor expenses and that part of the consignee expenses which relate to the expenses incurred on the stock before being unloaded.

Now the cost of the 85 packets received by the consignee = 30,500 – 4,575 = Rs. 25,925

Add: Clearing charges = 1,000

Total cost = 26,925

Total units sold = 70 units

Units remaining in inventory = 15 packets

So the value of inventory = 26,925 × 15/85 = Rs. 4,751

29. **Joint venture A/c**

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To Elder-goods	2,500		By Large-sales	6000
	To Elder-expenses	200			
	To Large-goods	2,000			
	To Large-expenses	150			
	To Large-commission	300			
	To Net profit	850			
		6,000			6,000

30. Here Hardcore Computers Ltd. issued to public 15,000 shares of Rs. 10 each at a premium of Rs. 2. Applications were received for 10,000 shares. The amount payable was as follows:

On application	Rs. 3 per share
On allotment	Rs. 4 per share (including premium)
On first and final call	Rs. 5 per share

Mr. Perfect holder of 100 shares did not pay allotment and call money. The company forfeited all the shares of Mr. Perfect.

The amount called up per share = 3 + 2 + 5 = Rs. 10

Total amount called up for the forfeited shares = 100 × 10 = Rs. 1,000

So Share Capital a/c will be debited by Rs. 1,000.

31. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Goods bought on joint venture as well as expenses incurred in connection with the business are debited to the joint venture account and credited to the coventurer's account or the joint bank account. When the goods are sold, the amount thereof is debited to the coventurer's account or the joint bank account and credited to the joint venture account. If the parties have taken over plant or materials etc., the value will be debited to the account of the party concerned and credited to the joint venture account. The joint venture account will now show profit or loss which will be transferred to the personal accounts of the respective parties in their profit sharing ratio.

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To joint bank-material	1,62,000		By joint bank-contract price	2,00,000
	To joint bank-wages paid	60,000		By B-drawings	6,000
				By loss on joint venture	16,000
		2,22,000			2,22,000

32. Here J and R are equal partners U is admitted as a partner for ¼ share of profits but is unable to contribute premium for goodwill in cash amounting to Rs. 8,000 and so it is decided to raise a loan A/c in the name of U. So here U's loan will be raised for crediting goodwill to sacrificing partners loan account.

Journal entry will be

U's Loan A/c	Dr.	8,000	
To J			4,000
To R			4,000

33. In case of retirement and death, goodwill is adjusted through the partners' account in Gaining Ratio .

New ratio = old ratio + gaining ratio

Calculation of gaining ratio

Partners	*Old ratio*	*Gaining ratio*	*New ratio*
Amit	5/12	4/7 of 3/12 = 12/84	5/12 + 12/84 = 47/84
Rohit	4/12	3/7 of 3/12 = 9/84	4/12 + 9/84 = 37/84

Thus the new ratio between Amit and Rohit will be 47 : 37.

34. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating new ratio:

New ratio = Old ratio – Sacrificing ratio

Calculation of new profit sharing ratio

Partners	*Old ratio*	*Gaining ratio*	*New ratio*
Rachna	½	1/3 × 1/2 = (1/6)	½ – 1/6 = 2/6 = 1/3
Sapna	½	1/3 × 1/2 = (1/6)	½ – 1/6 = 2/6 = 1/3
Ashna		1/3	1/3

Thus the new ratio between Rachna,Sapna and Ashna = 1 : 1 : 1

35. Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return, such capital is called capitalized value of average profits. After arriving at the capitalized average profit, Capital employed (assets – liabilities) of the firm is then subtracted from the capitalized value of average profits to arrive at the Goodwill,. To calculate goodwill using average profit, the average net profit for a given number of past years are multiplied by an agreed number of years.

Mathematically, Capitalized Value of Average Profits = Average Profits × (100 / Normal Rate of Return)

Goodwill = Capitalized Value of Average Profits – Capital Employed.

Here profit for the year = 12,00,000

Reasonable rate of return = 15%

Thus capitalized value of profit = 12,00,000 × 100/15 = 80,00,000

Capital employed = 80,00,000

Thus Goodwill = 80,00,000 – 80,00,000 = NIL.

36. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = Rs. 30,000

Profit = sales – cost of goods sold = 40,000 – 30,000 = Rs. 10,000

37. **Bank reconciliation statement of …..**

Particulars	*Amount*	*Amount*
Balance as per cash book (cr)		13,500

Less:		
Cheques issued but not presented for payment	6,000	(6,000)
Add:		
Cheque deposited but not credited	3,000	3,000
Balance as per pass book (dr)		10,500

38. To write off the trade payables, we will charge the amount to P&L A/c with corresponding credit to suppliers.

39. Net salary account is the salary payable account which is paid to employee. The entry will be basic salary account Dr. 50,000

Income tax	Cr.	1,000
professional tax	Cr.	200
EPF	Cr.	2,000
SWF	Cr.	100
Recovery of Loan	Cr.	1,700
Salary payable account	Cr.	45,000

So salary account will be debited by Rs. 50000

40. Dividend A/c will be credited with gross amount of Rs. 10,000 (9,200 + 800).

41. Purchases was under casted thus profit was overcasted resulting in distribution of overcasted profit among partners. Thus partner's capital accounts are overcasted. Again since purchases are not booked trade payables are also under casted.

So for rectification following entry will be passed:

A's Capital	Dr.	20,000	
B's Capital	Dr.	20,000	
C's Capital	Dr.	20,000	
To Suppliers (creditors) A/c			60,000

42. Dismantling and demolition charges are revenue in nature.

43. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here there was an error in the trial balance. Difference was put to Suspense A/c. Later on, it was found that the opening inventory of Rs. 1,080 was brought into the books as Rs. 1,800.

Thus the suspense a/c has a credit balance of Rs. 720 i.e. the difference.

So the rectification entry to be passed will be

Suspense A/c	Dr.	720	
To Opening inventory			720

44. Under average profit method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits × Number of years of Purchase

Profit of the year 2006: 40,000

Profit for the year 2007: 50,000

Profit for year 2008: 60,000

Profit for the year 2009: 50,000

Average profit of last 4 years = (40,000 + 50,000 + 60,000 + 50,000)/4 = Rs. 50,000

Goodwill = 50,000 × 3 = Rs. 1,50,000

45. When a company acquires any asset, the purchase consideration can be settled either in cash or in any way as decided between the seller and the company. It may be settled by issuing shares in the company or debentures also. In this problem G Ltd. purchased assets from AB Ltd. for a book value of Rs. 1,50,000 and the consideration was paid by issue of shares of Rs. 10 each at a premium of Rs. 5. The shares are being issued at a premium thus the value of each share issued will be 10 + 5 = Rs. 15. Total value of assets acquired = Rs. 1,50,000 Number of shares issued = total value of assets acquired/value per share = 1,50,000/15 = 10,000 shares.

46. Under WDV method, depreciation is charged at a fixed rate every year, ON THE REDUCING BALANCE. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, WHICH SHOW A DECLINING BALANCE, WEIGHTED FOR EARLIER YEARS, AND LOWER AND LOWER FOR LATER YEARS, as the asset grows older.

Let's find the WDV as on the end of the third year of the furniture in question

Balance of furniture as on 1.1.2006 = 10,000

1-1-2006	Cost of machinery	10,000
31-12-2006	Depreciation	25% of 10,000 = 2,500
1-1-2007	WDV	7,500
31-12-2007	Depreciation	1,875

1-1-2008	WDV	5,625
31-12-2008	Depreciation	1,406
1-1-2009	WDV	4,219

At the end of the third year it was sold for Rs. 1,000.

Loss on sale will be wdv – sale proceeds = 4,219 – 1,000 = Rs. 3,219

47. Under WDV method, depreciation is charged at a fixed rate every year, ON THE REDUCING BALANCE. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, WHICH SHOW A DECLINING BALANCE, WEIGHTED FOR EARLIER YEARS, AND LOWER AND LOWER FOR LATER YEARS, as the asset grows older.

Let's find the WDV as on 1-1-2006 of the plant and machinery in question

Balance of plant and machinery as on 1-1-2009 = 1,47,390

Let Original cost of plant and machinery purchased on 1-1-2006 = x (say)

1-1-2006	Cost of machinery	X
31-12-2006	Depreciation	15% of x = 0.15x
1-1-2007	WDV	x-0.15x = 0.85x
31-12-2007	Depreciation	15% of 0.85x = 0.1275x
1-1-2008	WDV	0.85x – 0.1275x = 0.7225x
31-12-2008	Depreciation	15% of 0.7225x = 0.108375x
1-1-2009	WDV	0.7225x – 0.108375x = 0.614125x = 147390

We got 0.614125 x = 1,47,390

So x = Rs. 2,40,000

Thus Cost of machinery on 1.1.2007 will be Rs. 2,40,000.

48. Manager's commission is calculated in two ways

1. On Profits before charging such commission:

   Manager's commission = Net Profits × (Percentage of commission / 100)

2. On Profits after charging such commission:

   Manager's commission = Net Profits × (Percentage of commission /100 + % of commission)

Here the managers commission is 10% of net profit after charging such commission

So the managers commission will be = 22,000 × (10/110) = Rs. 2,000

49. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures)For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. If the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.

Here X Co. issued Rs. 1,00,000 Debentures at 4% discount, redeemable at 6% premium after 10 years.

The discount on issue of debentures = 4% of 1,00,00,000 = Rs. 4,00,000

The premium on redemption of debentures = 6% of 1,00,00,000 = Rs. 6,00,000

Thus total loss on issue of debentures = 4,00,000 + 6,00,000 = Rs. 10,00,000

50. Interest on drawings is also charged like interest on capital, if it is provided in the partnership agreement. Since drawings are affected by partners often in irregular amounts and on varying dates, it is considered advisable to calculate interest on drawings to adjust the rights of partners. In many cases, however, drawings are made by mutual agreement and no interest is charged at all.

Where interest is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed.

Calculation of interest on drawings

Date of drawings	*Number of months*	*Amount*
Feb 1	11	12,000
Apr 30	8	6,000
Jun 30	6	9,000
Aug 31	4	12,000
Oct 1	3	8,000
Dec 31	0	7,000

12,000 × 11 + 6,000 × 8 + 9,000 × 6 + 12,000 × 4 + 8,000 × 3 × 9/100 × 1/12

51. Interest on capital is allowed to the owner on the concept of separate entity where the capital invested in the business is considered to be the loan from the proprietor.

Here Interest on capital at 6% p.a. is to be allowed. Capital in the beginning was Rs. 3,00,000.

Interest amount will be 6% of 3,00,000 = Rs. 18,000

52. The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.

Calculation of depreciation

Assets	*Value*	*Depreciation rate*	*Depreciation*
Office furniture	8,000	5%	400
Plant and machinery	80,000	10%	8,000
Factory building	2,00,000	5%	10,000
Total	18,400		

53. Gaining ratio is calculated when a partner retires/dies.

54. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 100 × 3 = Rs. 300

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 100 × (10 – 2) = 100 × 8 = Rs. 800

The surplus amount to be transferred to capital reserve account = 800 – 300 = Rs. 500

55. In this problem Z Ltd. purchased land and building from H Ltd. for a book value of Rs. 2,00,000 and the consideration was paid as Rs. 65,000 in cash and the balance by issue of 6% Debentures of Rs. 1,000 each at a discount of 10%

the debentures are being issued at a discount thus the value of each share issued will be 1,000 – 10% of 1,000 = 1,000 – 100 = Rs. 900

Total value of land and building acquired = Rs. 2,00,000

Cash paid = 65,000

Balance to be paid by issue of debentures = 1,35,000

Number of debentures issued = total value of assets acquired/value per debenture = 1,35,000/900 = 150 debentures

Discount on issue of debentures will be 150 × 100 = Rs. 15,000

56. For recording unrecorded investment in the faks, the entry will be debit investment by giving credit to Revaluation A/c.

57. The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

   Amount of discount to be written off annually

   = Total amount of Discount/Number of years

2. Debentures are redeemed in instalments. Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

   Here company issued debentures of the face value of Rs. 1,00,000 at a discount of 6% on Jan. 1, 2009. These debentures are redeemable by annual drawings of Rs. 20,000 made on 31st Dec. each year. The directors decided to write off discount based on the debentures outstanding each year.

   Total discount = 6% of 1,00,000 = Rs. 6,000.

Calculation of discount to be written off every year

Date	*Debentures to be redeemed*	*Discount written off*
31.12.2009	1,00,000	6000 × 5/15 = 2000
31.12.2010	80,000	6000 × 4/15 = 1600
31.12.2011	60,000	6000 × 3/15 = 1200
31.12.2012	40,000	6000 × 2/15 = 800
31.12.2013	20,000	6000 × 1/15 = 400

58. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = (250 × 10 – 2000) = Rs. 500

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 250 × (10 – 7) = 250 – 3 = Rs. 750

The surplus amount to be transferred to capital reserve account = 750 – 500 = Rs. 250

59. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures). For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. If the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.

Here a Co. issued Rs. 2,00,000 Debentures at 5% discount, redeemable at 10% premium after 10 years.

The discount on issue of debentures = 5% of 2,00,000 = Rs. 10,000

The premium on redemption of debentures = 10% of 2,00,000 = Rs. 20,000

Thus total loss on issue of debentures = 10,000 + 20,000 = Rs. 30,000

60. Any partner paying firms liability out of his private funds will be treated as capital introduction by that partner. Here A, B & C are partners sharing profits & losses in equal ratio. A paid firm's liability of Rs. 10,000 out of his private funds.

So the entry to record this transaction will be

Liability A/c	Dr.	Rs. 10,000	
To A's Capital			Rs. 10,000

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 15

1. It would be convenient to record the tranaction in Bills payable book if firm makes numerous promissory notes.

2. Carriage outward is debited to P&L A/c but carriage inward is debited to Trading A/c.

3. The expenditure should be capitalized as it is necessary for construction of Cinema house.

4. Material and wages for erection of machinery should be debited to Machinery A/c.

5. Difference in trial balance is transferred to suspense A/c.

6. Capital is difference of assets and liabilities.

7. Wages o/s is a liability and has credit balance.

8. Profits and losses are shared equally unless otherwise agreed among partners.

9. In case of debt becoming bad, the amount should be debited (not credited) to bad debts.

10. The opening entry will be to recognise prepaid insurance (2,400 × 9/12) i.e. Rs. 1,800. Thus entry will be debit insurance premium by giving corresponding credit to prepaid account.

11. Accomodation bills are drawn to finance the parties.

12. Payment of tax under dispute is contingent liability.

13. Consignee will debit bad debts amount to his commission as he has to bear bad debts in case of del-credere commission.

14. 6% is the rate as per Partnership Act.

15. Dividends are paid up on paid up capital.

16. Posting means writing of transaction in leger.

17. Commission to promote credit sales is Del-credere commission.

18. Joint Venture a/c is a nominal A/c as it shows the profit/loss on joint venture.

19. In ledger, there are 8 columns (4 on Dr. and 4 on Cr. side).

20. The error would effect both Plant and Carriage accounts.

21. Cost concept has been violated in the given case.

22. Journal entry will be to debit computer by 11,500, bad debts by Rs. 13,500 (25,000 – 11,500) by giving corresponding credit to A.

23. The goods are consigned from one place to another. After receiving the goods by consignee, the goods are stored by the consignee before selling them to customers. It is natural that some loss to the goods may take place within that period. The goods may be lost, destroyed or damaged either in transit or in consignee's store. The loss which could be avoided by proper planning and care are abnormal loss. They are like theft, riots, accidents, fire, earthquake etc. These losses could occur in transit or in consignee's store and solely to be borne by consignor.

The abnormal loss should be adjusted before ascertaining the result of the consignment. The valuation of abnormal loss is done on the same basis as the unsold stock is valued.

Here Sharma of Allahabad sends goods costing Rs. 1,00,000 at an invoice price of the Rs. 1,20,000 to Kalapil of Katak. Sharma incurs some expenditure in relation to such consignment:

1/10th of the consignment is damaged in transit.

The cost of the consignment = 100000 + 5000 + 10000 + 5000 = 120000

The amount of loss = 1/10 of 120000 = Rs. 12,000.

24. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Particulars	*Amount*	*Particulars*	*Amount*
To goods sent on consignment A/c (600 × 300)	1,80,000	By Naresh A/c-sales	1,80,000
To bank- freight paid	6,000	By stock A/c	31,250
To Naresh-octroi and freight	1,500		
To Naresh-godown rent and insurance	3,500		
To Naresh-commission (4% of 500 × 350 + 20% of 5,000)	8,000		
To profit on consignment	12,250		
	2,11,250		2,11,250

Valuation of closing stock:

Cost of goods consigned = 1,80,000

Add: freight and insurance = 6,000

Add: octroi and cartage = 1,500

Total cost = 1,87,500

Cost of unsold goods = 1,87,500 × 1/6 = 31,250

ANSWERS

25. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 1,26,000

Salvage value = Rs. 6,000

Depreciation/year = (1,26,000 – 6,000)/6 = Rs. 20,000

26. Accural concept states that all expenses due (wheather paid or not) should be provided for in the accounting period.

27. Under diminishing balance method, depreciation decreases every year.

28. LIFO is based on the issues as per latest prices i.e. current replacement cost.

29. Balance sheet represents assets = liabilities and capital.

30. Total of purchase book is posted in purchases A/c.

31. Legal expenses for a suit for breech of contract of goods is revenue expenditure.

32. Capital is needed to create a balance between assets and liabilities. capital is the difference between the liabilities and assets.

Opening capital = opening assets – opening liabilities

Here assets = cash in hand + cash at bank + inventory + land and building + plant and machinery + prepaid insurance + owing from Mr X = 1,000 + 5,000 + 20,000 + 1,00,000 + 50,000 + 12,500 + 500 = Rs. 1,89,000

And liabilities = owing to Z Ltd. + interest received in advance = 3,750 + 250 = 4,000

So capital = 1,89,000 – 4,000 = Rs. 1,85,000

33. Sales returns book is also called returns inwards book. It is used for recording goods returned to us by our customers.

Sales Returns Book

Date	*Particulars*	*C/N*	*L.F.*	*Amount*
Jan 17	Goyal & Co			250
Jan. 10	Garf & Co.			100
Jan. 17	Mittal and Co.			650
				1,000

Note: Since Jindal & co. are saree dealers the return of typewriter is not related to trade and so will not find place in the sales return book.

34. Preparing a trial balance for a company serves to detect any mathematical errors that have occurred in the double-entry accounting system. Provided the total debits equal the total credits, the trial balance is considered to be balanced, and there should be no mathematical errors in the ledgers.

Corrected trial balance

	Dr. Balance (Rs.)	*Cr Balance (Rs.)*
Sen Gupta's Capital	–	1,556
Sen Gupta's Drawings	564	–
Leasehold premises	750	–
Sales	–	2,750
Dues from customers	530	
Purchases	1,259	
Purchases return		264
Loan from Bank		256
Trade payables		528
Trade expenses	700	
Cash at Bank	226	
Bills payable		100
Salaries and wages	600	
‘Opening inventory	264	
Rent and taxes	463	
Sales return	98	
Total	5,454	5,454

35. Whenever a company redeems its preference shares then the nominal value or face value of the shares is put into capital redemption reserve fund. There after this fund becomes the part of the paid capital of the company.

Capital Redemption Revere is also created when a company buys it owns shares which reduce its share capital.

Suppose, the fresh equity shares or preference shares are issued to redeem the old preference shares, in this case the difference between the face value of preference shares and fresh shares issued will be transferred to capital redemption reserve account.

The capital redemption reserve fund is transferred from undistributed profits i.e general reserves, profit or loss account.

A redeemable preference share can be redeemed entirely out of fresh issue of new preference or equity shares but not debentures.

Here the face value of the 10% Redeemable preference shares to be redeemed = 10000 × 100 = 1000000

Face value of the fresh equity shares issued for the purpose = 1000000

Thus amount to be transferred to the Capital Redemption Reserve Account = 1000000 – 1000000 = nil

36. The benefit of Rs. 500 earned by Ritesh should be credited to discount received account (income).

37. In case of normal loss, the loss is spread over the entire lot of good units, no entry is required.

38. The amount of loss will be Rs. 6,00,000 only as it is restricted to the amount of insured value.

39. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases – closing inventory

Thus purchases = cost of goods sold + closing inventory – opening inventory = 80,700 + 6,000 – 5,800 = Rs. 80,900

40. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases + direct expenses – closing inventory

Cost of goods sold = 8,500 + 30,700 + 4,800 – 9,000 = Rs. 35,000

41. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = 70,800

Profit = sales – cost of goods sold = 1,30,200 – 70,800 = Rs. 59,400

42. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost. In the above case lets find out gross profit with the help of trading account.

Trading account as on…

Particulars		*Amount*	*Particulars*	*Amount*
To Opening inventory		2,400	By SalesLess return	20,000
To PurchasesLess returns		15,020	By Loss due to fire	1,000
To Carriage inward		524	By Closing inventory	3,840
To Manufacturing wages	2,800			
Add: Outstanding	96	2,896		
To gross profit		4,000		
Total		24,840	Total	24,840

43. The balance sheet equation is that total assets equals liabilities plus owner's equity. Looking at the equation in this way shows how assets were financed: either by borrowing money (liability) or by using the owner's money (owner's or shareholders' equity).

Thus total of balance sheet will be equal to total of all assets or total of liabilities plus owner's equity.

Total assets = cash in hand + prepaid expenses + cash at bank + inventories + investments + bills receivables = 1,24,000 + 2,000 + 2,90,000 + 16,000 + 2,000 + 80,000 = Rs. 5,14,000

44. Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which show a declining balance, weighted for earlier years, and lower and lower for later years, as the asset grows older.

Here Depreciation on motor car, whose cost is Rs. 58,000 with an accumulated depreciation reserve of Rs.11,600, at 20% p.a. on diminishing balance will be = 20% of (58,000 – 11,600) = Rs. 9,280

45. The provision for doubtful debts is identical to the allowance for doubtful accounts. The provision is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. The provision is used under accrual basis accounting, so that an expense is recognized for probable bad debts

An increase in provision for bad debts is recorded as follows

DEBIT the difference (new provision minus old one) to Income Statement ×

CREDIT provision for bad debts

Here opening Provision for Bad Debts is Rs. 1,250

Closing Provision for Bad Debts = 5% on (trade receivables – bad debts) = 5% on 10,000 = 500

Opening provision less bad debts = 1,250 – 300 = 950

Decrease in provision for bad debts = 950 – 500 = 450

Provision for bad debts credited to Profit and Loss A/c will be Rs. 450.

46. In units of production method of depreciation, depreciation is charged according to the actual usage of the asset. In units of production method, higher depreciation is charged when their is higher activity and less is charged when there is low level of operation. Zero depreciation is charged when the asset is idle for the whole period. The following formula is used to calculate depreciation under this method:

$$\text{Depreciation} = \frac{\text{Number of Units Produced}}{\text{Life in Number of Units}} \times (\text{Cost} - \text{Salvage Value})$$

Life in Number of Units

Here Number of Units Produced in 1-3 years = 5 + 5 + 5 = 15 lakhs

Life in number of units = 30 lakhs

Cost of the machine = 11,00,000

Salvage value = nil

So depreciation for 1-3 year will be = (5 + 5 + 5)/30 × (11,00,000) = Rs. 5,00,000

Depreciation for one year = 1,83,333

47. A joint venture takes place when two parties come together to take on one project.

Here we can find out Profit on venture with the help of B account in the books of A and the joint venture account

Joint venture A/c

Particulars	*Amount*	*Particulars*	*Amount*
To bank A/c-purchase	2,00,000	By B A/c-sales	2,50,000
To bank- expenses	2,000		
To bills receivable- discounting charges	5,000		

To B A/C-expenses	3,000		
To B A/c-commission	25,000		
To A A/c-interest on capital	12,000		
To P/L-profit	3,000		
	2,50,000		2,50,000

B A/C

Particulars	*Amount*	*Particulars*	*Amount*
To joint venture A/c	2,50,000	By bills receivable	1,00,000
		By joint venture A/c-expenses	3,000
		By joint venture-commission	25,000
		By balance c/d-balance receivable	1,22,000
	2,50,000		2,50,000

48. For rectifiction, Ajit needs to be debited by Rs. 500 with corresponding credit to Bad debts recovered.

49. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Here cheques issued for payment Rs. 400 was wrongly credited by Bank as Rs. 900. If the balance as pr cash book is the starting point then in the bank reconciliation statement cash balance will be added by 400 + 900 = Rs. 1,300

50. **Bank reconciliation statement of …..**

Particulars	*Amount*	*Amount*
Balance as per pass book (dr)		10,000
Add:		
Cheques deposited in the Bank but not recorded in Cash Book Rs. 100	100	100

Add:

Cheques drawn but not presented for payment	6,000	6,000
Bank charges recorded twice in cash book		30
Balance as per pass book (cr)		16,130

51. After making the Trading and Profit and Loss account of a Partnership firm the next step is to divide the profits or losses among the partners and to make other appropriations like interest on capital, salary, commission etc. For this purpose an another account is prepared i.e. profit and Loss appropriation account.

This account is prepared to show the division of profit and other appropriations among partners like salary, commission, interest on capital, interest on drawings etc.

Profit and Loss Appropriation Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To karan's capital a/c-Salaries of Partner (Karan)	3,000	By Profit and Loss account (Profit transferred from P & L account)	8,848
To Interest on Partners' Capitals (1,200 + 800)	2,000	To interest on drawings (64 + 88)	152
To Profit transferred to Partners capital or current account	4,000		
Ratan			
Karan			
	9,000		9,000

Note: Calculation of interest on drawings

Ratan

Date of drawings	*Number of months*	*Amount*	*Interest @8%*
Jun 30	9	600	36
Sept 30	6	500	20
Dec 31	3	400	8

Karan

Calculation of interest on drawings

Date of drawings	*Number of months*	*amount*	*Interest @8%*
Jun 30	9	800	48
Sept 30	6	700	28
Dec 31	3	600	12
Total			88

52. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating new ratio:

New ratio = Old ratio – Sacrificing ratio

New ratio

Partners	*old ratio*	*Gain/(sacrifice)*	*New ratio*
A	5/8		5/8
B	3/8	(1/8)	3/8 – 1/8 = 2/8
C		1/8	1/8

So the new ratio between A:B:C will be 5:2:1.

53. Hidden goodwill is that goodwill the amount of which is not mentioned in the deed , but the amount of which has to calculated by capitalisation method or with the help profit sharing ratio.

the combined capital of A and B = 18,000 + 12,000 = Rs. 30,000

C brings Rs. 14,000 for 1/5th share.

This total capital should be 14,000 × 5 = 70,000

Existing capital = 14,000 + 30,000

Hidden G/W = 70,000 – 44,000 = 26,000

54. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted, has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm. And this goodwill will be shared by the old partners in their profit sharing ratio.

Sacrificing ratio = Old ratio –new ratio

New ratio

Partners	*Old ratio*	*New ratio*	*(Gain)/sacrifice*
A	4/9	3/9	1/9
B	3/9	2/9	1/9
C	2/9	2/9	0

Since C is not sacrificing anything . Thus goodwill amount brought by D will be shared by A and B only and equally.

55. The retiring partner is entitled to his share of goodwill at the time of retirement because the goodwill earned by the firm is the result of the efforts of all the partners including the retiring partners. Since a part of future profits will be accruing because of the present goodwill and the retiring partner will not share the future profits, it will be fair to compensate the retiring partner for the same. At the time of retirement of partner the goodwill is evaluated on the basis of agreement among the partners.

Goodwill can only be recorded in the books if some consideration in money or money's worth is paid for it. Hence goodwill account cannot be raised.

The adjustment for goodwill will be made through partner's capital accounts. The following entry is made:

Continuing partners capital account Dr. (in gaining ratio)

To retiring partners capital account (with his share of goodwill)

Gaining ratio

Partners	*Old ratio*	*New ratio*	*(Gain)/sacrifice*
Y	3/10	½	3/10 – 1/2 = (2/10)
Z	2/10	½	2/10 – 1/2 = (3/10)

Thus their gaining ratio is 2:3 in which they will share X's share.

56. Discount will be 60 paise (Rs. 10 × 0.06) per debenture.

57. Here A company makes an issue of 5000 equity shares of Rs. 100 each at par. The net amount is

On application and allotment	50
On first call	25
On final call	25

But A shareholder holding 100 shares did not pay final call money.

Thus share capital account will be debited by total called up value of the shares but discount account has to be credited.

Here total called up value of the shares is 100 × (50 + 25 + 25) = Rs. 10,000. But discount account will be credited by Rs. 1,000 (100 × 10)

58. A company may issue shares without cash to the promoters of the company for the services rendered by them by debiting goodwill account. Here 1,000 shares of Rs. 100 each were issued to a promoter of the company for their legal services, rendered in the formation of the company. For this, company credited Share Capital Account and debited Goodwill account by Rs. 1,00,000.

59. The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

   Amount of discount to be written off annually

   = Total amount of Discount/Number of years

2. Debentures are redeemed in instalments

   Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

   Here 10% Mortgage Debentures are rs. 1,00,000 (Payable after five years) and Discount allowed on issue of debentures Rs. 2,000.

   Amount of discount to be written off annually

   = Total amount of Discount/Number of years = 2,000/5 = Rs. 400

60. Dividends payable are dividends that a company's board of directors has declared to be payable to its shareholders. Until such time as the company actually pays the shareholders, the cash amount of the dividend is recorded within a dividends payable account as a current liability.

Here dividend payable will be 5% of (4,60,000 – 7,500) = Rs. 22,625

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 16

1. Owner capital increase is done by crediting capital account.
2. Suppliers, creditors, lenders all are users of accounting information.
3. Accounting standards in India are issued by ICAI in India.
4. Cost of advertisement for the existing products is revenue in nature.
5. Personel accounts belong to persons, trade receivables or payables. Machninery, cash etc. are real whereas expenses, losses, gains, revenue etc. are nominal.
6. Nominal account is governed by Debit all expenses, losses and credit all incomes, gains.
7. Adoption of same accounting policies over period of time is due to consistency.
8. Cash column in cash back always has debit balance. Bank column may have credit balance.
9. Depletion method of depreciation is used in natural resources (mines etc.).
10. Goods purchased from A wrongly passed through sales book. Rectification of this error will decrease gross profit.
11. The drawings account is on debit side of trial balance.
12. Unpaid salary is a liability, can't be recorded in purchases, purchases returns or bills receivable book. It will be recorded in journal proper.
13. Capital expenditures are recorded in balance sheet. All revenue expenditures are reflected in P&L A/c or Trading A/c.
14. 'To Balance b/d' are written on the debit side in case of Dr. balance.
15. Outstanding wages in trial balance is a liability, to be recorded in balance sheet. It should have been adjusted (already) from wages.
16. Amount spent on replacement of a part of machine is revenue in nature.
17. Contingent liability is disclosed by way of footnote only, not added in total of balance sheet.
18. All the errors given in the question will not affect trial balance as same amount has been posted in both accounts in the given entries.
19. Secret reserve is not shown in the balance sheet.
20. Capital expenditures provide benefit for a long period of time.
21. The statement sent by agent to consignee is called Account Sales.

22. the concept of conservatism was not followed in given case. As per conservatism, valuation should be done at lower of cost or market value.

23. For bringing prepaid rent in the faks at the beginning of year, prepaid rent should be debited by corresponding credit to Suspense A/c.

24. Credit sales = Rs. 1,30,000 + 5,000 – 10,000

= Rs. 1,25,000

Cash sales = Rs. 50,000

Total = Rs. 1,75,000

25. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 25,000

Salvage value = Rs. 5,000

Depreciation/year = (25,000 – 5,000)/10 = Rs. 2000

Depreciation rate = (2,000/25,000) × 100 = 8%

26. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases less purchase return + direct expenses – closing inventory = 5,570 + 13,816 – 390 + 1,650 – 8,880 = 11,766

And gross profit = sales less sales return – cost of goods sold = 15,248 – 524 – 11,766 = Rs. 2,958

27. Journal Entry for the given case should be to debit salary (expense) and to credit purchases (goods).

28. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases – closing inventory

Thus purchases = cost of goods sold + closing inventory – opening inventory = 1,00,000 + 10,000 – 5,000 = Rs. 1,05,000

29. Expenses which have been incurred but not been paid for till the end of the accounting year are known as Accrued expenses or outstanding expenses.

Here Rent has been paid for 11 months from April to February 2010 amounting Rs. 55,000.

So total rent for 11 months = 55,000

Thus total rent for 1 month = 55,000/11 = Rs. 5,000

And the outstanding rent for march 2010 will be Rs. 5,000

30. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital:

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital –drawings – interest on drawings

Where interest on drawings is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. The amount of interest is debited to partners drawings accounts and is credited to the interest on drawings amount. At the close of the accounting period the interest on drawings accounts is closed by transfer to the profit and loss account.

It may, however, be noted that if the withdrawals are of uniform amount and are made at regular intervals, then interest on drawings can be calculated on the total of the amount drawn, for the average of the periods applicable to first and last installment. Therefore, if drawings are made at the beginning of each month, interest should be calculated on the whole amount for 6 and half months.

So interest on drawings will be = 5% of (2000 × 12) × 6.5/12 = Rs. 650

Closing capital = 3,00,000 + 20,000 + 50,000 – 24,000 – 650 = Rs. 3,45,350

31. For rectification we have to debit Ramesh (for making him debtor again) and to credit sales return as it was wrongly debited.

32. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To A- purchases	42,500		By B-sale	50,000
	To net profit transferred to-AB	11,500		By A-goods taken over	4,000
		54,000			54,000

33. In case of revaluation, the depreciation is calculated on the total revalued amount over a period of balance useful lives assessed on the date of revaluation. New cost for the purpose of depreciation will be gross cost less accumulated depreciation on the date of revaluation. Along with this, the revaluation reserve is amortised to the income statement based on the useful life of the asset to which it relates. This is done to ensure that depreciation on the revalued amounts shouldn't inflate/ deflate the income statement.

Date	*Particulars*	*Amount*	*Amount*
	Cost of machinery		1,35,000
	Less: Depreciation for 5 years on straight line basis		
	(1,35,000 – 5,000)/10 × 5 =	65,000	
End of 5th year Wdv of the machinery			70,000
6th year depreciation		(70,000 – 5,000)/8	8,125

34. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Gaining/sacrificing ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
Mohan	½	(1/4 × 1/2) = (1/8)	½ – 1/8 = 3/8
Krishna	½	(1/8)	3/8
Ram		¼	2/8

So the sacrificing ratio between Mohan : Krishna : Ram will be 3 : 3 : 2.

35. Value of inventory just before being unloaded at the consignees godown

= Cost of Goods + Consignors Direct Expenses + Proportionate Consignee Direct Expenses

The cost of the goods/inventory implies the value at which the goods are consigned by the consignor to the consignee. Since the goods have reached the consignees godown, we can consider the consignor expenses on the goods to have been incurred. Moreover any direct expenses incurred by the consignee in relation to the transportation of the goods, octroi duties, insurance in transit etc., would also have to be considered as having been incurred on the goods.

Therefore, the direct expenses incurred till that point would include the consignor expenses and that part of the consignee expenses which relate to the expenses incurred on the stock before being unloaded.

Here Expenses incurred by the consignor on sending goods to consignee are Rs. 1,000 for packing,

Rs. 1,500 on freight and Rs. 500 for insurance, while expenses incurred by the consignee on behalf of consignment are Rs. 300 on Octroi, Rs. 800 Godown rent and Rs. 1,000 selling expenses.

So Expense amount to be excluded while calculating consignment inventory will be = godown rent + selling expenses = 800 + 1,000 = Rs. 1,800

36. In case of retirement and death, goodwill is adjusted through the partners' account in Gaining Ratio .

New ratio = Old ratio + Gaining ratio

Calculation of gaining ratio

Partners	*Old ratio*	*New ratio*	*Gaining ratio*
A	4/9	5/8	5/8 – 4/9 = 13/72
B	3/9		
C	2/9	3/8	3/8 – 2/9 = 11/72

Thus the gaining ratio between A and C is 13 : 11.

37. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 20 × 15 = Rs. 300

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 20 × (20) = Rs. 400

The surplus amount to be transferred to capital reserve account = 400 – 300 = Rs. 100

38. Remuneration paid for services is called commission. Commission is always paid on sales. 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.

Here Consignee is entitled to get a commission of Rs. 25 per article sold plus one fourth of the amount by which gross sale proceeds less his total commission thereon exceeded a sum at the rate of Rs. 125 per articles sold.

Articles sold = 450

So basic commission = 450 × 25 = Rs. 11,250

Let the total commission be x (say)

Extra commission = 1/4(sales proceeds – x – 125 × articles sold) = 1/4 of (73,800 – x – 125 × 450)

Or $x - 11{,}250 = 1/4\ (17{,}550 - x)$

Or $4\ (x - 11{,}250) = 17{,}550 - x$

Or $4x - 45{,}000 = 17{,}550 - x$

Or $5x = 62{,}550$

Or x = Rs. 12,510 = total commission.

39. Goods distributed for charity should be credited to purchases.

40. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures)For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. If the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.

Here A company issued Rs. 1,00,000 15% Debentures at a discount of 5% redeemable after 10 years at a premium of 10%.

The discount on issue of debentures = 5% of 1,00,000 = Rs. 5,000

The premium on redemption of debentures = 10% of 1,00,000 = Rs. 10,000

Thus total loss on issue of debentures = 5,000 + 10,000 = Rs. 15,000

ANSWERS

41. Amount spent for reduction in working expenses will give benefit for more than one accounting period, thus it is capital in nature.

42. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 2,500 – 2,000 = Rs. 500

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 250 × (10 – 3-4) = Rs. 750

The surplus amount to be transferred to capital reserve account = 750 – 500 = Rs. 250

43. The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount to be written off annually

= Total amount of Discount/Number of years

2. Debentures are redeemed in instalments. Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

Here company issued debentures of the face value of Rs. 1,00,000 at a discount of 6% on Jan. 1, 2009. These debentures are redeemable by annual drawings of Rs. 20,000 made on 31st Dec. each year. The directors decided to write off discount based on the debentures outstanding each year.

Total discount = 6% of 1,00,000 = Rs. 6,000

Calculation of discount to be written off every year

Date	*Debentures to be redeemed*	*Discount written off*
31.12.2009	1,00,000	6,000 × 5/15 = 2,000
31.12.2010	80,000	6,000 × 4/15 = 1,600
31.12.2011	60,000	6,000 × 3/15 = 1,200

31.12.2012	40,000	$6,000 \times 2/15 = 800$
31.12.2013	20,000	$6,000 \times 1/15 = 400$

44. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Gaining/sacrificing ratio

Partners	***New ratio***	***Old ratio***	***Gain/(sacrifice)***
A	4/9 of 2/3 = 8/27	4/9	8/27 – 4/9 = – 4/27
B	3/9 of 2/3 = 6/27	3/9	6/27 – 3/9 = – 3/27
C	2/9 of 2/3 = 4/27	2/9	4/27 – 2/9 = – 2/27
D	1/3		

So the sacrificing ratio between A B and C is 4 : 3 : 2

45. The maximum amount of discount allowed at the time of reissue implies the maximum amount of discount that a company can allow at the time of reissue of the forfeited shares. The maximum discount on the reissue of shares depends upon the following two circumstances.

Whether the forfeited shares were originally issued at par or at premium .

Whether the forfeited shares were originally issued at discount .

If the forfeited shares were originally issued at par or at premium , then these forfeited shares can be reissued with the maximum discount equal to the amount received (or paid by) the original shareholder. On the other hand, if the forfeited shares were originally issued at discount, then these forfeited shares can be reissued with the maximum discount equal to the amount received (or paid by) the original shareholder plus discount allowed at the time of original issue. Thus option (d) is the correct option.

46. After making the Trading and Profit and Loss account of a Partnership firm the next step is to divide the profits or losses among the partners and to make other appropriations like interest on capital, salary, commission etc. For this purpose an another account is prepared i.e. profit and Loss appropriation account.

This account is prepared to show the division of profit and other appropriations among partners like salary, commission, interest on capital, interest on drawings etc.

Profit and Loss Appropriation Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To B's capital a/c-Salaries of Partner	3,600	By Profit and Loss account (Profit transferred from P & L account)	8,000
To Interest on Partners' Capitals (6% of 16000)	960		
To Profit transferred to partners capital or current account A : 1/2 of 3,440 = 1,720 B : 1/2 of 3,440 = 1,720	3,440		
	8000		8000

47. Profit and Loss Appropriation Account
(for the year ending on 31st March 2008)

Particulars		*Particulars*	
To Interest on Capital: A 15,000 B 10,000 C 7,500	32,500	By Profit before adjustments	1,60,000
To net Profit transferred A. (51,000 – 1,750) = 49,250 B. (1,27,500 × 3/10) = 38,250 C. (38,250 + 1,750) = 40,000	1, 27,500		
	1,60,000		1,60,000

C's share in the profit before adjustment comes to 38,250.

So the amount to be sacrificed by A to make C's profit as Rs. 40,000 will be = 40,000 – 38,250 = Rs. 1,750

48. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – New ratio

Gaining/sacrificing ratio

Oartners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A	5/10	6/10	5/10 – 6/10 = (1/10)
B	3/10	4/10	3/10 – 4/10 = (1/10)
C	2/10		

So the sacrificing ratio between A and B is 1:1.

49. When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due forfeited shares account will be credited by the amount which has been received in respect of forfeited shares.

Here Shveta holding 100 shares did not pay final call money.

Thus amount received in respect of the shares forfeited will be = 100 × (20 + 20 + 25) = Rs. 6,500

50. In case of retirement and death, goodwill is adjusted through the partners' account in Gaining Ratio.

New ratio = old ratio + gaining ratio

Calculation of gaining ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	½	6/10 of ½ = 3/10	
B	½	4/10 of ½ = 2/10	
C	½		

Thus the gaining ratio between A and B will be 3:2.

51. On admission of a partner, unrecorded investments worth Rs. 5,000 and unrecorded liability towards suppliers for Rs. 1,500 will be recorded in Revaluation A/c because old partner will only get profit or loss through all business activities were done before coming of new partner. If there is any increase or decrease in these unrecorded assets and liabilities through revaluation account, it will be distributed between old partners.

52. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per cash book (dr)		3,000
Add:		
Cheques issued but not presented for payment	500	
Interest collected by bank	400	
Cheque deposited by customer direct into the bank	250	1,150
Balance as per pass book (cr)		4,150

53. **Average Profits Method:** Under this method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits × Number of years of Purchase

Before calculating the average profits the following adjustments should be made in the profits of the firm:

(a) Any abnormal profits should be deducted from the net profits of that year.

(b) Any abnormal loss should be added back to the net profits of that year.

(c) Non operating incomes e.g. Income from investments etc should be deducted from the net profits of that year.

Profit of the year 1 : 20,000

Profit for the year 2 : 18,000

Profit for year 3 : 9,000

Loss for the year 4 : 2,000

Loss for the year 5 : 5,000

Average profit of last 5 years = (20,000 + 18,000 + 9,000 – 2,000 – 5,000)/5 = Rs. 8,000

Goodwill = 8,000 × 1.5 = Rs. 12,000.

54. Calculation of cash balance at the end:

Opening balance		10000
Add:		
Cash sales	5,000	
Collection from receivables (50,000 – 5,000 – 10,000)	35,000	40,000
Cash balance at the end		50,000

55. The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.

Calculation of depreciation

Assets	*Value*	*Depreciation rate*	*Depreciation*
Office furniture	8,000	5%	400
Plant and machinery	80,000	10%	8,000
Factory building	2,00,000	5%	10,000
Total	18,400		

56. Assets such as automobiles, computer equipments, and office furniture, are customarily traded in for new assets of the same kind. The trade-in-allowance (commonly known as exchange value) granted by the dealer or manufacturer differs from the book value of the old asset. If the dealer grants an exchange value greater than the book value, then a gain is realized on exchange of the asset. If the dealer grants an exchange value lesser than the book value, then a loss is realized on exchange of the asset. As per prudent and accepted accounting practices, the loss will be taken to the profit and loss account of the year concerned, and profit on exchange will be deducted from the value of the new asset.

Here The old machinery has been valued at Rs. 800 for exchange purpose.

Thus loss on exchange will be book value of asset less exchange value = 5,000 – 800 = Rs. 4,200

57. Sale or return is a term sale, where the seller sold goods on the basis of return, there might be a chance of return of goods, or acceptance of goods, or acceptance of part of goods. This method is also called the Sale on Approval basis.

When the transactions of sending the goods on sale or return basis are few, the seller may treat it as normal sale and record it in the books accordingly. However, if the goods are sent on sale or return basis, the unsold goods must be included in the inventory at cost.

The sale price of the goods sent = Rs. 600

Let the cost price be x

So sales price = 600 = x + 20% of x = 1.2x

Or x = Rs. 500

58. Errors of principle, omission and commission all types may occur at time of recording transactions in journal.

59. Entry for dishonour should be to reduce the bank balance and to make reversal of discount allowed. further we have to make Hari Ram debit again for Rs. 720.

60. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here paid rent to landlord Rs. 2,400, debited to Land Lord's A/c by Rs. 2,004. Thus the land lords account is undercasted by 2,400 – 2,004 = Rs. 396

So the rectifying entry will be

Rent A/c	Dr.	2,400	
To Landlord			2,004
To Suspense			396

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 17

1. Ledger posting is function of book-keeping not accounting.

2. If revenue earning capacity is increased, it will be treated as capital.

3. Recovered bad debts will be credited to bad debts recovered A/c not P&L A/c or Trade Receivables.

4. Total of sales return book is posted to debit of Sales Return A/c.

5. Bill payable is in name of some individual, thus personal.

6. Due to Money measurement concept, all assets which can be measured in money terms, are recorded. Human asset can't be measured in monetary terms.

7. Sales Returns book records returns of credit sales only not cash sales.

8. Average profit (simple or weighted) is multiplied with no. of years under Average profit method for calculation of goodwill.

9. Rent is an expense or if received (income). It is a nominal account.

10. Parties to bill of exchange are Drawer (who draws), drawee (on whom bill is drawn) and payee (to whom payment is to be made). Thus all are parties.

11. Financial transaction involves transfer of money or money's worth.

12. Income is reflected in form of inflow of assets or decrease of liabilities.

13. Location of business, nature of business, technical know-how all affect goodwill except management efficiency.

14. Profit/loss on revaluation is shared among partners in old profit sharing ratio.

15. 'Closing inventory' means goods lying unsold at the end of previous accounting period or at beginning of current accounting period.

16. General reserve will be transferred to old partners in the old profit sharing ratio.

17. Depreciation on machinery is recorded in P&L A/c as it is an expense.

18. For rectification, we need to credit Insurance company (receipt of claim) and debit drawings a/c as proprietor has deposited this cheque in his personal account.

19. Fixed capital account is not credited with interest, profit or salary of partner. Fluctuating capital account is credited with all these items.

20. Interest on capital is an expense but interest on drawings is an income/gain for the firm.

21. Old bill should be considred as cancelled in the given case.

22. Auditor objected as consistency in method of depreciation should be observed and change should be done only if required by statute or change would result in appropriate presentation of financial statement.

23. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the asset = Rs. 5,000

Salvage value = Rs. 500

Depreciation/year = (5,000 – 500)/10 = Rs. 450

Depreciation rate = (450/5,000) × 100 = 9%

24. Net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year). also called net income or net earnings.

Here net profit = gross profit – Carriage Outwards – Rent paid – Bad Debts + Apprentice premium – Printing & Stationery = 51,000 – 5,800 – 6,400 – 2,600 + 1,500 – 1,000 = Rs. 36,700.

25. Calculation of cash balance at the end:

Opening balance		10,000
Add:		
Cash sales	5,000	
Collection from receivables(50000 – 5000 – 10000)	35,000	40,000
Less:		
Cash purchases	10,000	
Payment to suppliers	15,000	
Expenses paid	19,300	(44,300)
Cash balance at the end		5,700

26. Where interest on drawings is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. The amount of interest is debited to proprietor's drawings accounts and is credited to the interest on drawings amount. At the close of the accounting period the interest on drawings accounts is closed by transfer to the profit and loss account.

It may, however, be noted that if the withdrawals are of uniform amount and are made at regular intervals, then interest on drawings can be calculated on the total of the amount drawn, for the average of the periods applicable to first and last installment. Therefore, if drawings are made at the beginning of each month, interest should be calculated on the whole amount for 6 and half months.

Here Ram Gopal withdrew Rs. 2,000 on the first day of each month interest on drawings is provided @ 10%.

So interest on drawings will be = 10% of $(2000 \times 12) \times 6.5/12$ = Rs. 1,300

27. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification.

Here bills receivable passed through bills payable thus bills payable account is overcasted and bills receivable is undercasted.

So the rectifying entry will be

B/P A/c	Dr.	500	
B/R A/c	Dr.	500	
To A			1,000

28. Cost Price: The price, at which an article is purchased, is called its cost price, abbreviated as C.P.

Selling Price: The price, at which an article is sold, is called its selling prices, abbreviated as S.P.

Profit or Gain: If S.P. is greater than C.P., the seller is said to have a profit or gain.

Here Goods costing Rs. 7,500 were sold at 25% profit on selling price.

Let the sales = x (say)

Then profit = 25% of x = .25x

Sales = cost + profit

Or x = 7,500 + .25x

Or 0.75x = 7,500

Or x = Rs. 10,000.

ANSWERS

29. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases less purchase return + direct expenses – closing inventory = 80,000 + 3,00,000 – 6,000 + 12,000 + 4,000 + 8,000 – 60,000 = 3,38,000

And gross profit = sales less sales return – cost of goods sold = 4,10,000 – 10,000 – 3,38,000 = Rs. 62,000

30. Preparing a trial balance for a company serves to detect any mathematical errors that have occurred in the double-entry accounting system. Provided the total debits equal the total credits, the trial balance is considered to be balanced, and there should be no mathematical errors in the ledgers.

	Dr. (Rs.)	*Cr. (Rs.)*
Purchases	60,000	
Reserve Fund		20,000
Sales		1,00,000
Purchase return		1,000
Sales Return	2,000	
Opening Inventory	30,000	
Closing Inventory		
Sundry Expenses	20,000	
Outstanding Expenses		2,000
Cash at Bank	5,000	
Fixed Assets	50,000	
Trade receivables	80,000	
Trade payables		30,000
Capital		94,000
	2,47,000	2,47,000

31. **Bank reconciliation statement of …..**

Particulars	*Amount*	*Amount*
Balance as per cash book(cr)		2,500
Add:		
Cheques deposited in the Bank but not cleared	1,000	1,000

Less:		
Cheques drawn but not presented for payment	1,400	(1,400)
Balance as per pass book(dr)		2,100

32. Consistency has been violated in the given case.

33. **Balance Sheet**

Capital	70,000		Inventory	40,000
Profit	18,000		Debtors	40,000
	88,000		Bill receivables	5,000
(–) Drawings	12,000	76,000	Cash at bank and hand	11,000
			Machinery	20,000
Bill payables		3,000		
Creditors		30,000		
Liability for expenses		3,000		
Dep. provision		4,000		
		1,16,000		1,16,000

34. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To goods sent on consignment A/c(100 × 150)	15,000		By Ram Ji Lal-sales (90 × 180)	16,200
	To bank- packing and dispatch	500		By closing inventory	1,620
	To Ram Ji Lal-freight	500			
	To Ram Ji Lal-carriage and octroi	200			
	To Ram Ji Lal-godown rent	100			
	To Ram Ji Lal-insurance	150			
	To Ram Ji Lal-commission	1,215			
	To profit on consignment	155			
		17,820			17,820

Valuation of closing stock:

Cost of goods consigned = 15,000

Add: packing and dispatch = 500

Add:freight = 500

Add: Carriage = 200

Total cost = 16,200

Cost of unsold goods = 16,200 × 10/100 = 1,620

35. Loss of quantity of goods in the normal course of business and inherent and thus inevitable or unavoidable, such as loss because of loading and unloading of goods, leakage, evaporation or shrinkage is known as normal loss.

The treatment of normal loss is to charge it to consignment account. The total cost of goods sent is charged to the units remaining. Value of inventory is inflated to cover the normal loss. In other words such loss is absorbed by the remaining units.

No separate entry is made in the books of consignor in case of normal. such loss is considered while calculating the cost of inventory left unsold with the consignee. The value of unsold stock on consignment is increased because the value of stock is the proportion of the cost of the goods consigned and direct expenses that the quantity of inventory bears to the total quantity of goods consigned as diminished by the normal loss of goods.

Here Bharti consigned to Bhawna 1,500 Kg of flour costing Rs. 4,500. She spent Rs. 307 as forwarding charges. 5% of the consignment was lost in weighing and handling. Bhawna sold 1,350 Kg of flour at Rs. 4 per kg.

Units lost = 5 % of 1,500 = 75 kgs

Closing inventory = 95% of 1,500 – 1,350 = 75 kgs

Cost of goods consigned = 4,500 + 307 = Rs. 4,807

Value of closing inventory = units of unsold inventory × (original cost of goods consigned + direct expenses)/(total units-units lost)

= 75 × 4,807/(1,500 – 75) = Rs. 253.

36. Furniture and fittings is a fixed asset not current.

37. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 30 × 15 = Rs. 450.

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 30 × (20) = Rs. 600

The surplus amount to be transferred to capital reserve account = 600 – 450 = Rs. 150

38. Dividends payable are dividends that a company's board of directors has declared to be payable to its shareholders. Until such time as the company actually pays the shareholders, the cash amount of the dividend is recorded within a dividends payable account as a current liability.

Here dividend payable will be 5% of (Equity share capital called up - Calls in arrear) = 5% of (10,00,000 – 40,000) = Rs. 48,000.

39. Plant and machinery is fixed asset. all others are current.

40. Loss on reissue will be Re. 1 per share. The total amount of Rs. 200 will be loss.

41. The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation. The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. When a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from the retrospective recomputation of depreciation in accordance with the new method would be adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged to the profit and loss account. In case the change in the method results in surplus, it is recommended that the surplus be initially transferred to the 'Appropriations' part of the profit and loss account and thence to General Reserve through the same part of the profit and loss account.

Computation of depreciation by both methods

Year	*WDV*	*Depreciation by diminishing balance method*	*Depreciation by fixed installment method*	
1.12006	20,000			
31.12.2006	17,000	3,000	3,000	
31.12.2007	14,450	2,550	3,000	
31.12.2008	12,282	2,168	3,000	
Total depreciation		7,718	9,000	Deficiency = 1,282

Thus Adjusted amount will be: Rs. 1,282

42. The provision for doubtful debts is identical to the allowance for doubtful accounts. The provision is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. The provision is used under accrual basis accounting, so that an expense is recognized for probable bad debts

An increase in provision for bad debts is recorded as follows

DEBIT the difference (new provision minus old one) to Income Statement*

CREDIT provision for bad debts

***Note :** In the Income Statement this is recorded as an increase in provision for bad debts and listed in expenses

Here opening Provision for Bad Debts is Rs. 6,500

Closing Provision for Bad Debts = 5% on (trade receivables – bad debts) = 4% on (1,95,000 – 4,200) = 7632

Opening provision less bad debts = 6,500 – 4,200 = 2,300

Increase in provision for bad debts = – 7,632 – 2,300 = 5,332

Provision for bad debts debited to Profit and Loss A/c will be Rs. 5,332.

43. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold in the above case = purchases less returns = 60,000 – 10,000 = 50,000

Profit = sales less return – cost of goods sold = 80,000 – 10,000 – 50,000 = Rs. 20000

44. Under average profit method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits X Number of years of Purchase

Before calculating the average profits the following adjustments should be made in the profits of the firm:

(a) Any abnormal profits should be deducted from the net profits of that year.

(b) Any abnormal loss should be added back to the net profits of that year.

(c) Non operating incomes e.g. Income from investments etc should be deducted from the net profits of that year.

Profit of the year 1 : 40000

Profit for the year 2 : 50000

Profit for year 3 : 60000

Profit for year 4 : 50000

Average profit of last 4 years = (40,000 + 50,000 + 60,000 + 50,000)/4 = Rs. 50,000

Goodwill = 50,000 × 3 = Rs. 1,50,000

45. The adjustment of insurance claim will be reflected in all three-trading A/c, P&L and balance sheet.

46. Loan amount = 10,000

Interest payable = 6% of 10,000 = Rs. 600

Interest on loan paid = 300

Thus interest outstanding = 600 – 300 = Rs. 300

47. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

1-7-2006	Cost of machinery	20,000
31-12-2006	Depreciation (10% of 20000) for 6 months	1,000
1-1-2007	wdv	19,000
31-12-2007	depreciation	2,000
1-1-2008	wdv	17,000
31-12-2008	depreciation	2,000
1-1-2009	wdv	15,000
31.12.2009	depreciation	2,000
31.12.2009	wdv	13,000

At the end of the year 2009 it was sold for Rs. 15,000.

Profit on sale will be sale proceeds – WDV = 15,000 – 13,000 = Rs. 2,000

48. Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which show a declining balance, weighted for earlier years, and lower and lower for later years, as the asset grows older.

Cost includes the initial and any subsequent capital expenditure.

Here A boiler was purchased from abroad for Rs. 10,000, shipping and forwarding charges amounted to Rs. 2,000, Import duty Rs. 7,000 and expenses of installation amounted to Rs. 1,000.

Thus cost of asset = 10,000 + 2,000 + 7,000 + 1,000 = Rs. 20,000

Cost of machinery	20,000
1st year depreciation	2,000
1st year wdv	18,000
2nd year depreciation	1,800
2nd year wdv	16,200
3rd year depreciation	1,620
3rd year wdv	14,580

49. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here Syam prepared a trial balance for his factory on 31st March, 2010. The debit total of trial balance was short by Rs. 500. He transferred the deficiency to suspense A/c. After a close examination he found that the purchase day book for Sept. 2009 was undercast by Rs. 500.

Since purchases has debit balance Necessary Journal entry to rectify the error will be:

Purchases A/c	Dr.	500	
To Suspense			500

50. If purchases journal is short by Rs. 1,000, it will affect trial balance.

51. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period. When a bill of exchange is dishonored, the holder can get such fact noted on the bill by a notary public. The advantages of noting is that the evidence of dishonored is secured. The noting is done by recording the fact of dishonored, the date of dishonor, the reason of dishonor, if any. For doing all this the notary public charges his fees which is called noting charges.

In case the bill is renewed the interest will not be charged on the noting charges which will be treated separately and will not be clubbed with the amount of the bill.

Here Total amount of the A's acceptance = 8,000

Amount paid = 4,000

Amount of the renewed bill = Rs. 4,000

Interest for 3 months @12%pa = 4,000 × 12/100 × 3/12 = Rs. 120

52. Total value of machine purchased = Rs. 1,15,000

Payment made by cheque = 10,000

Remaining amount to be paid by issue of shares = 1,05,000

Value per share including premium = Rs. 10.5

Thus number of shares to be issued = 1,05,000/10.5 = 10,000 shares

Face Value of shares issued = 10,000 × 10 = Rs. 1,00,000

Thus securities premium = 1,05,000 – 1,00,000 = Rs. 5,000

53. Remuneration paid for services is called commission. Commission is always paid on sales. 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.

Here B sold 50 televisions at Rs. 15,000 per television. He was entitled to commission of Rs. 500 per television sold plus one fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of Rs. 12,500 per television sold.

Articles sold = 50

So basic commission = 500 × 50 = 25000Rs.

Let the total commission be x(say)

Extra commission = 1/4 (sales proceeds – x – 12,500 × articles sold) = 1/4 of (7,50,000 – x – 12,500 × 50)

Or x – 25,000 = 1/4 (1,25,000 – x)

Or 4 (x – 25,000) = 1,25,000 – x

Or 4x – 1,00,000 = 1,25,000 – x

Or 5x = 2,25,000

Or x = Rs. 45,000 = total commission.

54. In case when a bill of exchange matures on a public holiday then the due date will be the preceding business day.

In this question A bill of exchange matures on 19th July. It is a public holiday. Bill will mature on the preceding day i.e.18 th july.

55. Rs. 36,400 = (1,12,000 + 6,200) less (65,000 + 6,000 + 3,000 + 6,170 + 1,630)

56. The expired portion of capital expenditure is expense, unexpired is asset.

57. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital:

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital – drawings OR

Closing assets – closing liabilities

Here opening capital = 15,200

Further introduction of capital = 2,000

Drawings in cash = 4,800

Closing capital = 16,900

Closing capital = opening capital + profits – drawings

Profit = closing capital – opening capital – capital introduced during the year + drawings = 16,900 – 15,200 – 2,000 + 4,800 = Rs. 4,500 (profit)

58. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Here interest collected by bank Rs. 500 and direct deposit by a customer into his bank Rs. 2,500 will be added to the balance as per cash book.

59. Recovery of bad debts is a revenue receipt.

60. Discounting bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice – with right of recourse to you – and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = 50,000

Thus amount received from bank on discounting = Rs. 48,000

The charges of the bank is borne by A and B equally and on maturity A will send Rs. 25,000 to B.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 18

1. Capital reduces due to loss.

2. Balance sheet inform the picture of assets and liabilities i.e. financial position.

3. Determination of expenses for accounting period is based on matching concept.

4. Rent payable (liability) will be credited to outstanding rent a/c.

5. Entry for bad debts is passed in Journal not in sales or cash book.

6. Goods sold on credit basis will be recorded in sales book.

7. Compensation paid to retrenched employee is revenue in nature.

8. Petty cash book is meant for petty expenses paid in cash.

9. Maturity date is three days after 2 months i.e. June 4.

10. Furniture and fittings is fixed asset not current.

11. Maintenance of capital asset is revenue expense.

12. Creation of provision for discount is based on conservatism.

13. Interest on capital will be paid to partners only from current profits.

14. Policy amount is received from insurance company against JLP taken jointly for all partners at time of death of a partner.

15. Revaluation A/c is opened at admission and retirement of a partner.

16. Interest debited in pass book will be added in cash book.

17. Inventory is a current asset (realizable in cash in short period of time).

18. The rate is 6% p.a. as per Partnership Act.

19. Fluctuating capital account is credited with interest on capital, profit of year and remuneration to partners.

20. Additional amount is called premium for goodwill.

21. Conservatism has been followed in the given case.

22. Conservatism will be violated if we count the way given in the question.

23. Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which show a declining balance, weighted for earlier years, and lower and lower for later years, as the asset grows older.

Let's find the WDV as on 1-1-2006 of the plant and machinery in question

Balance of plant and machinery as on 1-1-2010 = 145800

Let Original cost of plant and machinery purchased on 1-1-2006 = x (say)

1-1-2007	Cost of machinery	X
31-12-2007	depreciation	10% of x = 0.10x
1-1-2008	wdv	x – 0.10x = 0.9x
31-12-2008	depreciation	10% of 0.9x = 0.09x
1-1-2009	wdv	0.9x – 0.09x = 0.81x
31-12-2009	depreciation	10% of 0.81x = 0.081x
1-1-2010	wdv	0.81x – 0.081x = 0.729x = 1,45,800

We got 0.729x = 1,45,800

So x = Rs. 2,00,000

Thus Cost of machinery on 1.1.2007 will be Rs. 2,00,000.

24. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost. In the above case lets find out gross profit with the help of trading account.

Trading account as on…

Particulars	*Amount*	*Particulars*	*Amount*
To Opening inventory	80,000	By Sales (1,60,000 + 2,50,000)	
To Purchases (1,00,000 + 2,00,000)		Less return (10,000)	4,00,000
Less returns (6,000)	2,94,000	By Closing inventory	60,000
To Carriage inward	12,000		
To wages	12,000		
To gross profit	62,000		
Total	4,60,000	Total	4,60,000

25. A trial balance is a list of all the General ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of the nominal ledger account and the value of that nominal ledger account. The value of the nominal ledger will hold either a debit balance value or a credit balance value. The debit balance values will be listed in the debit column of the trial balance and the credit value balance will be listed in the credit column. The purpose of a trial balance is to prove that the value of all the debit value balances is equal the total of all the credit value balances.

	Dr. Balance (Rs.)	*Cr Balance (Rs.)*
Capital		12,000
Sales		50,000
Purchases	30,000	
Cash	5,700	
Trade receivable	10,000	
Trade payables(30000 – 10000 – 15000)		5,000
Expenses	19,300	
Furniture	2,000	
Total	67,000	67,000

Calculation of cash balance at the end:		
Opening balance		10,000
Add:		
Cash sales	5,000	
Collection from receivables (50000 – 5000 – 10000)	35,000	40,000
Less:		
Cash purchases	10,000	
Payment to suppliers	15,000	
Expenses paid	19,300	(44,300)
Cash balance at the end		5,700

26. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here new machine was purchased for Rs. 1,00,000 but the amount was wrongly posted to furniture account as Rs. 10,000 and cash received from customers Rs. 11,200 was omitted to be posted in the ledger. The fixed asset account is undercasted by 1,00,000 – 10,000 = Rs. 90,000. And since cash received from customers 11200 was omitted to be posted so the asset side is undercasted by Rs.11200.

Thus the difference in trial balance due to such errors will be 90,000 – 11,200 = Rs. 78,800.

27. Purchase cost = 10,000

Add: repairing expenses = 1,000

Add: miscellaneous expenses = 500

Total cost = 11,500

Selling price = x (say)

Margin = 20% of x = 0.2x

Cost = x – 0.2x = 0.8x = 11,500

or x = Rs. 14,375.

28. Interest on calls in arrear is charged at 10% as per Table F under Companies Act, 2013.

29. A company cannot issue irredeemable preference shares.

30. The cost of a fixed asset includes all amounts incurred to acquire the asset and any amounts that can be directly attributable to bringing the asset into working condition.

Directly attributable costs may include:

– Delivery costs

– Costs associated with acquiring the asset such as stamp duty and import duties

– Costs of preparing the site for installation of the asset

– Professional fees, such as legal fees and architects' fees

Here A second hand car is purchased for Rs. 10,000.00 the amount of Rs. 1,000.00 is spent on its repairs, Rs. 500.00 is incurred to get the car registered in owner's name and Rs. 1,200.00 is paid as dealer's commission.

The amount debited to the car account = purchase price + repair + registration charges + dealers commission = 10,000 + 1,000 + 500 + 1,200 = Rs. 12,700.

31. Where interest on drawings is charged it is usually calculated at fixed rate percent from the date of each drawing to the date the accounts are closed. If the dates on which the amounts are drawn are not given, interest is calculated on the whole amount on the assumption that the money was drawn evenly throughout the year. The amount of interest is debited to partners drawings accounts and is credited to the interest on drawings amount. At the close of the accounting period the interest on drawings accounts is closed by transfer to the profit and loss account.

Calculation of interest on drawings

Date of drawings	*Number of months*	*Amount*	*Interest @ 6%*
Jul 1	9	200	9
Aug 1	8	200	8
Sept 1	7	300	10.5

Nov 1	5	50	1.25
Feb 1	2	100	1
Total			29.75

32. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital:

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital – drawings OR

Closing assets – closing liabilities

Here closing assets = Rs. 58,300

Closing liabilities = Rs. 4,700

So closing capital = Rs. 53,600

Profit = Rs. 53,600 – Rs. 38,600 = Rs. 15,000

33. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Total expenses on joint venture:

Freight by A = 3,000

Add:selling expenses by B = 5,000

Add:interest on loan by A = 18% of 50,000 for 1 month = 750

Add:interest on loan by B = 18% of 1,50,000 for 2 months = 4,500

Total expenses on joint venture = Rs. 13,250

34. The cost of a fixed asset includes all amounts incurred to acquire the asset and any amounts that can be directly attributable to bringing the asset into working condition.

Directly attributable costs may include:

– Delivery costs

– Costs associated with acquiring the asset such as stamp duty and import duties

– Costs of preparing the site for installation of the asset

– Professional fees, such as legal fees and architects' fees

Cost includes the initial and any subsequent capital expenditure.

Here A boiler was purchased from abroad for Rs. 10,000, shipping and forwarding charges amounted to Rs. 2,000, Import duty Rs. 7,000 and expenses of installation amounted to Rs. 1,000.

Thus cost of asset = 10,000 + 2,000 + 7,000 + 1,000 = Rs. 20,000

35. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Value of inventory after being placed in the consignees godown

= Cost of Goods + Consignors Direct Expenses + Proportionate Consignee Direct Expense

The cost of the goods/stock implies the value at which the goods are consigned by the consignor to the consignee. Since the goods have reached the consignees godown and have been unloaded, we can consider the consignor expenses on the goods to have been incurred. Moreover any direct expenses incurred by the consignee in relation to the transportation of the goods, octroi duties, insurance in transit, unloading charges etc., would also have to be considered as having been incurred on the goods.

Therefore, the direct expenses incurred till that point would include the consignor expenses and that part of the consignee expenses which relate to the expenses incurred till they are unloaded.

Valuation of closing inventory:

Cost of 300 units consigned = 75,000

Add: insurance = 900

Add: freight = 1,500

Add: unloading charges by consignee = 400

Add: octroi = 600

Add: carriage = 800

Total cost of 300 units = 79,200

Units of closing inventory = 300 – 200 = 100units

Cost of unsold goods = 79,200 × 100/300 = 26,400

36. Under WDV method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which show a declining balance, weighted for earlier years, and lower and lower for later years, as the asset grows older.

	Depreciation	Cost of machinery	WDV
1st year		80,000	
1st year	8,000		72,000
2nd year	7,200		64,800

3rd year	6,480	58,320
4th year	5,832	52,488

Balance of furniture account at the end of the fourth year will be: Rs. 52,488.

37. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To goods sent on consignment A/c(50 × 350)	17,500		By B-sales	28,000
	To bank-freight and insurance	1,800			
	To B-selling expenses	900			
	To B-commission	1,000			
	To profit on consignment	6,800			

38. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Here when balance as per cash book is taken as the starting point then Bank charges debited by Bank Rs. 10 will be reduced from the balance, cheques paid in but dishonoured Rs. 200 will also be subtracted from the balance, cheques paid in but not credited by bank Rs. 950 will also be added.

39. Cost Price: The price, at which an article is purchased, is called its cost price, abbreviated as C.P.

Selling Price: The price, at which an article is sold, is called its selling prices, abbreviated as S.P.

Profit or Gain: If S.P. is greater than C.P., the seller is said to have a profit or gain.

Here Goods costing Rs. 7,500 were sold at 25% profit on selling price.

Let the sales = x(say)

Then profit = 25% of x = .25x

Sales = cost + profit

Or x = 7500 + .25x

Or 0.75x = 7,500

Or x = Rs. 10,000

40. When the bill is payable at a stated number of days then the due date will be that day which comes after adding the specified number of days to the date of the bill plus 3 more days of grace. Note that here the date of bill is excluded.

The date of accepting the bill is 2.04.10.

Add 1 month will give us 2.05.10

Add 3 days of grace gives us 5.05.10

Thus may 5th is the due date.

41. Interest on debentures is charge against profits not appropriation.

42. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating new ratio:

New ratio = Old ratio – Sacrificing ratio

Sacrificing ratio = old ratio – new ratio

Calculation of sacrificing ratio

Partners	*Old ratio*	*New ratio*	*Sacrificing ratio*
A	3/5	5/10	3/5 – 5/10 = 1/10
B	2/5	3/10	2/5 – 3/10 = 1/10
C		2/10	

So the sacrificing ratio between A:Bwill be 1/10:1/10 = 1 : 1

43. **Profit and Loss Appropriation Account**
(for the year ending on 31st March 2008)

Particulars		*Particulars*	
To net Profit transferred	31,500	By Profit before adjustments	
A. (31,500 × 4/7 – 3,000) = 15,000		A 15,000	
B. (31,500 × 2/7) = 9,000		B 10,000	
C. 7,500		C 7,500	31,500

C's share in the profit before adjustment comes to 31500 × 1/7 = 4500.

So the amount to be sacrificed by A to make C's profit as Rs. 7,500. Will be = 7,500 – 4,500 = Rs. 3,000

44. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted, has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm.

Here the share in profit is $1/5^{th}$

The total value of goodwill = 60,000

Thus C's share of goodwill brought by him = 1/5 of 60,000 = Rs. 12,000

45. Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return, such capital is called capitalized value of average profits. After arriving at the capitalized average profit, Capital employed (assets – liabilities) of the firm is then subtracted from the capitalized value of average profits to arrive at the Goodwill,. To calculate goodwill using average profit, the average net profit for a given number of past years are multiplied by an agreed number of years.

Mathematically, Capitalized Value of Average Profits = Average Profits × (100 / Normal Rate of Return)

Goodwill = Capitalized Value of Average Profits – Capital Employed.

Here profit for the year = 20,000

Reasonable rate of return = 10%

Thus capitalized value of profit = 20,000 × 100/10 = 2,00,000

Capital employed = 1,50,000

Thus Goodwill = 2,00,000 – 1,50,000 = 50,000.

46. Credit purchase of stationery worth Rs. 10,000 by a stationery dealer will be recorded in purchases book.

47. Debentures issued as colletual security will be added in total of liabilities as well as assets.

48. Premium on issue of debentures will be shown as Securities Premium under Reserve and Surplus.

49. The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount to be written off annually

= Total amount of Discount/Number of years

2. Debentures are redeemed in instalments

Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

Here these are repayable out of profits by equal annual drawings over 5 years. So the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

Calculation of discount to be written off every year

Date	Debentures to be redeemed	Proportion of Discount written off
31.12.2009	1,00,000	10/30
31.12.2010	80,000	8/30
31.12.2011	60,000	6/30
31.12.2012	40,000	4/30
31.12.2013	20,000	2/30

Thus the proportion will be 5 : 4 : 3 : 2 : 1.

50. Returns of cash sales will be recorded in cash book.

51. Securities premium is recorded in balance sheet under heading 'reserves and Surplus'.

52. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 15 × 15 = Rs. 225

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 15 × (20) = Rs. 300

The surplus amount to be transferred to capital reserve account = 300 – 225 = Rs. 75

53. Total value of plant and machine purchased = Rs. 2,00,000

Payment made in cash = 65,000

Remaining amount to be paid by issue of 6%debentures = 1,35,000

Value per debenture after discount = Rs. 900

Thus number of shares to be issued = 1,35,000/900 = 150 debentures

Face Value of debentures issued = 150 × 1000 = Rs. 1,50,000.

Thus Discount amount will be = 1,50,000 – 1,35,000 = Rs. 15,000.

ANSWERS

54. Debenture is a certificate/instrument acknowledging a debt. It is issued generally by a public company to individuals/institutions who lend it money (invest in their debentures). For an investor investing in a debenture is just like investing in a fixed deposit with the difference that while he can withdraw the amount invested in a fixed deposit any time he/she likes with a loss of interest.. He cannot do so with a debenture. The amount invested on a debenture will be repaid only on the expiry of the period for which the debenture has been issued. if the debentures were originally issued at a discount and redeemed at premium then the case of loss on issue of debentures arise.

Here A Co. issued Rs. 1,00,000 15% Debentures at 5% discount, redeemable at 10% premium after 10 years.

The discount on issue of debentures = 5% of 1,00,000 = Rs. 5,000

The premium on redemption of debentures = 10% of 1,00,000 = Rs. 10,000

Thus total loss on issue of debentures = 5,000 + 10,000 = Rs. 15,000.

55. We know that Credit sales = closing receivables + cash received from receivables + bad debts + return inwards – opening receivables

Thus closing receivables = credit sales – cash received from receivables – bills received from customers – bad debts – return inwards + opening receivables

Credit sales = total sales – cash sales = 90,000 – 20,000 = 70,000

Thus closing receivables = 70,000 – 20,000 – 10,000 – 3,000 – 1,000 + 20,000 = Rs. 56,000

56. Goods are normally sent on cost price to the consignee but some time the consignor makes the invoice at the selling price i.e. proforma invoice price. The idea is that consignee should not know the actual cost of the goods. In such cases the entries are made by the consignor in his books at the invoice price.

Here the goods are sent to the consignee at cost + 25%

Cost of goods sent = Rs. 10,00,000

Let Invoice value of the goods sent = 10,00,000 + 25% of 10,00,000 = 12,50,000

57. A company may issue shares without cash to the promoters of the company for the services rendered by them by debiting goodwill account. Here 2,000 shares of Rs. 100 each were issued to a promoter of the company for their legal services, rendered in the formation of the company. For this, company credited Share Capital Account and debited Goodwill account by Rs. 2,00,000.

58. Salaries for the year ending 31st Dec 2009 = 10 × 1,000 = Rs. 10,000

Raise in salary = 20%

So salaries for the year ending 31st Dec 2010 = 10,000 + 20% of 10,000 = Rs. 12,000.

59. Fixed installment or straight line method depreciates cost evenly throughout the useful life of the fixed asset.

Straight line depreciation is calculated as follows:

Depreciation per annum = (Cost – Residual Value) / Useful Life

Where:

Cost includes the initial and any subsequent capital expenditure.

Residual Value is the estimated scrap value at the end of the useful life of the asset. As the residual value is expected to be recovered at the end of an asset's useful life, there is no need to charge the portion of cost equaling the residual value.

Useful Life is the estimated time period an asset is expected to be used from the time it is available for use to the time of its disposal or termination of use.

Here Cost of the machinery = Rs. 10,00,000

Add: Installation charges = 1,00,000

Total cost of the machine = 11,00,000

Depreciation/year = 11,00,000 × 20% = Rs. 2,20,000

60. Sum of the years' digits depreciation method, like reducing balance method, is a type of accelerated depreciation technique that allocates higher depreciation expense in the earlier years of an asset's useful life.

Calculation of depreciation under this method can be summarized in the following 4 steps:

Step 1: Calculate the sum of the years' digits in an asset's useful life

Here the asset is having a useful life of 6 years, the sum of the years' digits will be calculated as follows:

Sum of years' digits = 6 + 5 + 4 + 3 + 2 + 1 = 21

Step 2: Calculate the depreciable amount

Depreciable amount, as with all depreciation methods, is equal to:

Asset's cost of acquisition or construction including any subsequent capital expenditure

Less: Estimated residual value or scrap value at the end of the asset's useful life

Here depreciable amount = 1,26,000

Step 3: Calculate the un-depreciated useful life

Un-depreciated useful life is equal to the number of years in the asset's useful life that have not yet been subjected to depreciation.

Hence, for an asset that has a useful life of 6 years, the un-depreciated useful life to be used in calculating depreciation shall be 6 years in the first year of depreciation, 5 years in the second year and so on.

Step 4: Calculate depreciation using the sum of years' digits & un-depreciated useful life

Depreciation using the sum of the years' digits method can be calculated using the following formula:

Depreciation expense = (un-depreciated useful life/ sum of the years' digits) × depreciable amount

Thus Depreciation for the fourth year under sum of digits method will be = 3/21 × 1,26,000 = Rs. 18,000.

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 19

1. The amount spent on second hand car purchased recently is capital expenditure.

2. Commission received in advance (belonging to some person) is a personal account.

3. 6% debentures is a liability and has credit balance. All others have debit balances.

4. Cash and bank transactions are recorded in double column cash book.

5. Maturity date will be 3 months and 3 days after August 10, 2009 i.e. November 13, 2009.

6. Salaries and wages is debited to P&L A/c. Wages and salaries is debited to Trading A/c.

7. Income tax of proprietor is recorded as his personal expense i.e. drawings.

8. Purchase of an asset on credit basis is recorded in Journal Proper. Credit purchases are recorded in purchases book.

9. Bill will mature on the next working day if maturity date is unforesean holiday.

10. Abnormal loss is valued at cost price in case of consignments.

11. Capital expenditures are recorded in the balance sheet as assets.

12. Account payable is a liability and has credit balance.

13. Trial balance shows debit or credit balances of all accounts.

14. Prepaid salary (belonging to some person) is a personal account.

15. The Bank debits the account of customer when he/she withdraws money.

16. Abnormal loss on consignment will be credited to consignment A/c.

17. Land and building is fixed asset not current.

18. Average profit = Rs. 84,000 + 78,000 + 90,000 divided by 3 = Rs. 84,000.

19. Closing inventory (if given in trial balance) will be recorded in balance sheet only.

20. 5/6 will be divided between A and B in ratio 3 : 2.

A's share = 3/6

B's share = 2/6

New ratio will be 3/6 : 2/6 : 1/6

3 : 2 : 1.

21. If depreciation is recorded by charging to asset, asset will appear at original cost less depreciation.

22. The emphasis of the auditor is due to historical cost concept.

23. Calculation of cash balance at the end:

Opening balance		10,000
Add:		
Cash sales	5,000	
Collection from receivables (50,000 – 5,000 – 10,000)	35,000	40,000
Less:		
Cash purchases	10,000	
Payment to suppliers	15,000	
Salaries paid	3,000	
Rent	2,400	
Stationery	900	
Miscellaneous expenses	1,000	
Machine purchased	8,000	
Drawings	4,000	44,300
Cash balance at the end		5,700

Option (d) is correct.

24. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Here gross profit = sales revenue – cost of goods sold = 5,00,000 – 3,10,000 = Rs. 1,90,000.

25. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here bills received was passed through bills payable so bills received account is undercasted and bills payable account is overcasted and Arun A/c also needs rectification.

So the rectification entry will be

B/R A/c	Dr.	5,000	
B/P A/c	Dr.	5,000	
To Arun			10,000

26. At the time of sale of the machinery the depreciation provision of the machinery is to be deducted from the original value of machine and all the expenses associated to promote the sale of machine is deducted from the sale proceeds.

Thus WDV of the machine = 4,000 – 500 = 3,500

Sale proceeds less expenses on sale = 5,200 – 420 – 150 = 4,630

Profit = 4630 – 3500 = Rs. 1,130.

27. Adjustment entry for interest earned but not received will be to debit Accured Interest (as asset) and to credit interest income.

28. Sale or return is a term sale, where the seller sold goods on the basis of return, there might be a chance of return of goods, or acceptance of goods, or acceptance of part of goods. This method is also called the Sale on Approval basis.

When the transactions of sending the goods on sale or return basis are few, the seller may treat it as normal sale and record it in the books accordingly. However, if the goods are sent on sale or return basis, the unsold goods must be included in the inventory at cost. When the goods sent on sale or approval basis are treated as sale, for the goods not yet approved, the sale entry is reversed at the year end.

Here the cost of inventory = x(say) = 600 – 20% of x

Or x + 0.2x = 600

Or 1.2x = 600

Or x = 600/1.2 = Rs. 500

29. Manager's commission is calculated in two ways

1. On Profits before charging such commission:

   Manager's commission = Net Profits × (Percentage of commission / 100)

2. On Profits after charging such commission:

   Manager's commission = Net Profits × (Percentage of commission / 100 + % of commission)

Here the managers commission is 5% of net profit after charging such commission

So the managers commission will be = (48,000 – 6,000) × (5/105) = Rs. 2,000

30. Manager's commission is calculated in two ways

1. On Profits before charging such commission:

   Manager's commission = Net Profits × (Percentage of commission / 100)

2. On Profits after charging such commission:

   Here commission is 5% on net profit before charging such commission

So the commission of the manager will be = (48,000 – 6,000) × 5/100 = Rs. 2,100

31. Cost price is also known as cp. It is the original price of any item. The cost is the total outlay required to produce a product or carry out a service.

Here x sells goods at cost plus 60%. Total sales were of Rs. 16,000.

Let cost price = x (say)

The selling price = cost price + 60% of cost price

Thus 16000 = x + 60% of x

Or 1.6x = 16,000

Or cost price = x = 16,000/1.6 = Rs. 10,000

32. Cost price is also known as cp. It is the original price of any item. The cost is the total outlay required to produce a product or carry out a service. Cost price is used in establishing profitability in the following way:

Profit /cost price when expressesd as a percentage produces rate of profit on cost.

Here trader sells goods at a profit of 25% on sale.

So let sale price = x (say)

Thus cost price = x – 25% of x

Or 34,200 = 0.75x

Or x = 34,200/0.75 = Rs. 45,600

And profit = 25% of 45,600 = Rs. 11,400

Thus Rate of profit on cost will be = 11,400/34,200 × 100 = $33^1/_3$%

33. Cost price of goods = 40,000

Let sale price = x(say)

Thus sale price – profit = x – 20% of x = 40,000

Or 0.8x = 40,000

X = 40,000/0.8 = Rs. 50,000.

Commission = 5% of 50,000 = Rs. 2500.

34. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases less purchase return + direct expenses – closing inventory = 16,500 + 46,850 – 110 + 2,500 + 850 – 18,210 = 48,380

And gross profit = sales less sales return – cost of goods sold = 63,500 – 450 – 48,380 = 14,670.

Net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year). also called net income or net earnings.

Here net profit = gross profit – General expenses – Discount allowed – Rent paid – Electric charges – Salaries = 14,670 – 800 – 200 – 3,710 – 190 – 1,110 = Rs. 8,660

35. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of Closing Capital

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital – drawings OR

Closing assets – closing liabilities

Thus profit/(loss) = closing capital – opening capital – additional capital + drawings

Or profit/(loss) = 12,750 – 20,000 – 2,000 + 250 × 12 = (6,250).

36. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per cash book (cr)		4,500
Add:		
Cheques deposited in the Bank but not cleared	6,225	6,225

Less:		
Cheques drawn but not presented for payment	10,250	10,250
Balance as per pass book (dr)		475

37. The provision for doubtful debts is identical to the allowance for doubtful accounts. The provision is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. The provision is used under accrual basis accounting, so that an expense is recognized for probable bad debts. Trade receivables will appear in balance sheet at Rs. 22,500 (25,000 × .9).

38. Preparing a trial balance for a company serves to detect any mathematical errors that have occurred in the double-entry accounting system. Provided the total debits equal the total credits, the trial balance is considered to be balanced, and there should be no mathematical errors in the ledgers.

Trial balance of….as on ……

	Dr.	*Cr.*
	Rs.	Rs.
Provision for Doubtful Debts		200
Bank overdraft		1,654
Capital	–	4591
Trade payables	–	1637
Trade receivables	2,983	
Discount received		252
Discount allowed	733	
Drawings	1,200	
Office furniture	2,155	
General expenses	829	
Purchases	10,923	
Return inward	330	
Rent and Rates	314	
Salaries	2,520	
Sales	–	16,882
Inventory	2,418	
Stationary	1,175	
Provision for Depreciation on furniture		364
Total	25,580	25,580

39. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per cash book (dr)		274
Less:		
Cheques deposited in the Bank but not cleared	477	477
Add:		
Cheques drawn but not presented for payment	730	730
Balance as per pass book (cr)		527

40. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period. When a bill of exchange is dishonored, the holder can get such fact noted on the bill by a notary public. The advantages of noting is that the evidence of dishonored is secured. The noting is done by recording the fact of dishonored, the date of dishonor, the reason of dishonor, if any. For doing all this the notary public charges his fees which is called noting charges.

In case the bill is renewed the interest will not be charged on the noting charges which will be treated separately and will not be clubbed with the amount of the bill.

Here Total amount of the R's acceptance = 1,000

Amount paid = 500

Amount of the renewed bill = Rs. 500

Later on, R became insolvent and 40% of the amount could be recovered from his estate.

Amount recovered = 40% of 500 = Rs. 200

Bad debts = 500 – 200 = Rs. 300.

41. The goods are consigned from one place to another. After receiving the goods by consignee, the goods are stored by the consignee before selling them to customers. It is natural that some loss to the goods may take place within that period. The goods may be lost, destroyed or damaged either in transit or in consignee's store. The loss which could be avoided by proper planning and care are abnormal loss. They are like theft, riots, accidents, fire, earthquake etc. These losses could occur in transit or in consignee's store and solely to be borne by consignor.

The abnormal loss should be adjusted before ascertaining the result of the consignment. The valuation of abnormal loss is done on the same basis as the unsold stock is valued.

Here A of Allahabad sent on consignment to B of Bareilly 1,000 transistors costing Rs. 80 each. A paid freight amounting to Rs. 1,000 and cartage Rs. 45. B received only 900 sets as 100 sets were destroyed in transit. So this is abnormal loss.

Valuation of damage

Cost of 1000 transistors sent = 80000

Add:freight and insurance = 1,000

Add:cartage = 45

Total cost of 100 packets sent = 81,045

So the cost of 15 packets destroyed = 81,045 × 100/1,000 = Rs. 8,104.50

42. Value of Stock just before being unloaded at the consignees godown

= Cost of Goods + Consignors Direct Expenses + Proportionate Consignee Direct Expenses

The cost of the goods/stock implies the value at which the goods are consigned by the consignor to the consignee. Since the goods have reached the consignees godown, we can consider the consignor expenses on the goods to have been incurred. Moreover any direct expenses incurred by the consignee in relation to the transportation of the goods, octroi duties, insurance in transit etc., would also have to be considered as having been incurred on the goods.

Therefore, the direct expenses incurred till that point would include the consignor expenses and that part of the consignee expenses which relate to the expenses incurred on the stock before being unloaded.

Now the cost of the 200 chairs received by the consignee = 60,000

	Rs.	
Add:clearing charges =	800	(700 + 100)
Total cost =	60,800	

Total units sold = 50 chairs

Units remaining in inventory = 50

So the value of inventory = 60,800/200 × 50 = Rs. 15,200.

43. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Goods bought on joint venture as well as expenses incurred in connection with the business are debited to the joint venture account and credited to the coventurer's account or the joint bank account. When the goods are sold, the amount thereof is debited to the coventurer's account or the joint bank account and credited to the joint venture account. If the parties have taken over plant or materials etc., the value will be debited to the account of the party concerned and credited to the joint venture account. The joint venture account will now show profit or loss which will be transferred to the personal accounts of the respective parties in their profit sharing ratio.

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To C-purchases	80,000		By D-sales	1,88,500
	To C-reconditioning expenses	43,500			
	To C-purchase commission	2,000			
	To C-miscellaneous exp.	250			
	To D-railway freight	7,500			
	To D-octroi	3,750			
	To D-insurance	1,500			
	To D-garage rent	2,500			
	To D-brokerage	6,850			
	To D-other expenses	4,500			
	To net profit transferred to-	36,150			
	C				
	D				
		1,88,500			1,88,500

44. **Profit and Loss Appropriation Account**
(for the year ending on 31st March 2009)

Particulars		*Particulars*	
To net Profit transferred	40,000	By Profit before adjustments	40,000
A. (40,000 × 5/10 = 20,000) – 500 = 19,500			
B. (40,000 × 4/10 = 16,000) – 500 = 15500			
C. 5,000			

C's share in the profit before adjustment comes to 40,000 × 1/10 = 4,000.

So the amount to be sacrificed by A and B equally to make C's profit as 5000Rs. Will be = 5,000 – 4,000 = Rs. 1,000

A's sacrifice = 500

B's sacrifice = 500

45. Interest on capital @ 6%:

Raja 1,20,000 × 6% = 7,200

Roopa 90,000 × 6% = 5,400

Mala 60,000 × 6% = 3,600

Interest on capital credited wrongly at 5%:

Raja 1,20,000 × 5% = 6,000

Roopa 90,000 × 5% = 4,500

Mala 60,000 × 5% = 3,000

Thus Raja's account was credited less by (7,200 – 6,000) = Rs. 1,200

And Roopa's account was credited less by (5,400 – 4,500) = Rs. 900

And Mala's account was credited less by (3,600 – 3,000) = Rs. 600

So the adjusting ebtry will be

Interest on partners account….dr	2,700	
To Raja's Current A/c….cr		1,200
To Mala's Current A/c….cr		900
To Roopa's Account…..cr		600

46. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

New ratio = Old ratio – Sacrificing ratio

Gaining/sacrificing ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	3/6	3/6 of 1/6 = 3/36	3/6 – 3/36 = 15/36
B	2/6	2/6 of 1/6 = 2/36	2/6 – 2/36 = 10/36

C	1/6	1/6 of 1/6 = 1/36	1/6 – 1/36 = 5/36
D		1/6 = 6/36	6/36

So the new ratio between A , B, C an D is 15 : 10 : 5 : 6.

47. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating sacrificing ratio:

Sacrificing ratio = Old ratio – new ratio

Gaining/sacrificing ratio

Partners	*New ratio*	*Old ratio*	*Gain/(sacrifice)*
A		4/5	¼ of 4/5 = 1/5
B		1/5	½ of 1/5 = 1/10
C			

So the sacrificing ratio between A and B is 2 : 1.

48. Under average profits method goodwill is calculated on the basis of the average of some agreed number of past years. The average is then multiplied by the agreed number of years. This is the simplest and the most commonly used method of the valuation of goodwill.

Goodwill = Average Profits X Number of years of Purchase

Before calculating the average profits the following adjustments should be made in the profits of the firm:

(a) Any abnormal profits should be deducted from the net profits of that year.

(b) Any abnormal loss should be added back to the net profits of that year.

(c) Non operating incomes e.g. Income from investments etc should be deducted from the net profits of that year.

Profit of the year 1 : 40,000

loss for the year 2 : (20,000)

Profit for year 3 : 10,000

Profit for year 4 : 60,000

Profit for the year 5 : 80,000

Average profit of last 5 years = (40,000 – 20,000 + 10,000 + 60,000 + 80,000)/5 = Rs. 34,000

Goodwill = 34,000 × 3 = Rs. 1,02,000

49. Under this method we calculate the average profits and then assess the capital needed for earning such average profits on the basis of normal rate of return, such capital is called capitalized value of average profits. After arriving at the capitalized average profit, Capital employed (assets – liabilities) of the firm is then subtracted from the capitalized value of average profits to arrive at the Goodwill,. To calculate goodwill using average profit, the average net profit for a given number of past years are multiplied by an agreed number of years.

Mathematically, Capitalized Value of Average Profits = Average Profits × (100 / Normal Rate of Return)

Goodwill = Capitalized Value of Average Profits – Capital Employed.

Here profit for the year = 72,000

Reasonable rate of return = 10%

Thus capitalized value of profit = 72,000 × 100/10 = 7,20,000

Capital employed = assets – current liabilities = 9,70,000 – 4,00,000 = 5,70,000

Thus Goodwill = 7,20,000 – 5,70,000 = Rs. 1,50,000

50. Bill payable discounted in cash by supplier will not affect us. It will be recorded by supplier not by us.

51. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted, has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm.

Here C's share in profit is $1/5^{th}$

The combined capital of A and B = 24,000 + 16,000 = Rs. 40,000

This combined capital constitutes 4/5 th of the total capital

So total capital of the firm will be = 40,000 × 5/4 = Rs. 50,000

Thus C's capital will be = 50000/5 = Rs. 10,000

52. Here capital brought in by Z = $1/3^{rd}$ of total capital = 75,000

Thus total capital = 75,000 × 3 = Rs. 2,25,000

Thus combined capital of X and Y = 2,25,000 × 2/3 = Rs. 1,50,000

Thus X's share = 1,50,000 × 3/5 = Rs. 90,000

So cash to be paid back to X = 1,20,000 – 90,000 = Rs. 30,000

53. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = nil

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 400 × (8) = Rs. 3,200

The surplus amount to be transferred to capital reserve account = Rs. 3,200

54. This is the case of Reissue of forfeited shares at premium and at par, originally issued at par

In this case the whole of the amount that has been credited to Shares Forfeited A/c is transferred to Capital Reserve A/c on the reissue of such shares.

Given that D Ltd. forfeited 800 shares of Rs. 10 each fully called up, on which the holder has paid only application money of Rs. 3 per share. Out of these 500 shares were reissued as Rs. 11 per share fully paid up.

The amount available in shares forfeited account for the shares reissued will be = 500 × 3 = Rs. 1,500

55. Total value of business purchased = Rs. 90,000

Amount to be paid by issue of shares = 90,000

Value per share = Rs. 9

Thus number of shares to be issued = 10,000 shares

56. Remaining amount to be paid by issue of 12% debentures = 4,00,000 – 1,30,000 = 2,70,000

Value per debenture after discount = Rs. 90

Thus number of debentures to be issued = 2,70,000/90 = 3,000 debentures

Face Value of debentures issued = 3,000 × 100 = Rs. 3,00,000

Thus Discount amount will be = 3,00,000 – 2,70,000 = Rs. 30,000.

57. Loss will be 2,000 × Rs. 100 × .02 + 2,000 × Rs. 100 × .05 = Rs. 14,000.

58. Dividends payable are dividends that a company's board of directors has declared to be payable to its shareholders. Until such time as the company actually pays the shareholders, the cash amount of the dividend is recorded within a dividends payable account as a current liability.

Here dividend payable will be 15% of (Equity share capital called up – Calls in arrear) = 15% of (1000000 – 10000) = Rs. 1,48,500

59. Profit or loss is equal to closing capital + drawing less (addition during year and opening capital).

60. Goods are normally sent on cost price to the consignee but some time the consignor makes the invoice at the selling price i.e. proforma invoice price. The idea is that consignee should not know the actual cost of the goods. In such cases the entries are made by the consignor in his books at the invoice price.

Here On 1st January 2010, Badri of Kanpur consigned 100 cases, cost price Rs. 7,500, at a proforma invoice price of 25% profit on sales to his agent Anil of Allahabad. The entries to be passed are

1. For the goods sent on consignment (at invoice price)

Consignment to ....A/c	...Dr.	10,000	
To Goods sent on consignment A/c (7500/0.75)			10,000

2. To reverse the extent of loading

Goods sent on consignment A/c		2,500	
To Consignment to ....A/c (25% of 10000)			2,500

3. For goods sent on consignment transferred to trading account (by a manufacturing company) or purchase account (by a trader)

Goods sent to consignment A/c	... Dr.	7,500	
To trading A/C			7,500

SECTION — A : FUNDAMENTALS OF ACCOUNTING

Suggested Answer/Hints

Model Test Paper — BOS/CPT – 20

1. Amount spent is capital expenditure as it has increased ful efficiency of Rings and Pistons.

2. Bad debts is in nature of expense, hence nominal account.

3. Expired portion of capital expenditure is expense. Unexpired is an asset to be shown in balance sheet.

4. The maturity date will be 33 (30 + 3) days after date of acceptance i.e. 11.10.2011.

5. Payment of personal tax of partners by firm will be considered as their drawings.

6. Debentures is a liability and thus has a credit balance. Carriage inward, prepaid insurance, bills receivable all have debit balances.

7. Depreciation @ 10% for half year = Rs. 5,000. loss on sale = 31,000 (Rs. 95,000 less Rs. 64,000).

8. Three column cash book records cash, bank and discount.

9. Value of an asset after reducing depreciation is called book value.

10. Trial balance may be prepared by all the methods.

11. Selection of accounting policy is based on prudence, substance over form and materiality.

12. Current cost, Historical cost and Realizable value all are valuation principles.

13. Profit/loss on revaluation is shared among the old partners in old profit ratio.

14. At first, revaluation account is prepared at time of admission of a partner for revaluation of assets/ liabilities.

15. Amount payable is received by executor of the dead partner.

16. Rate of depreciation is 9%. Rs. 450 per year (Rs. 4,500/10).

17. Cheque deposited in bank but not credited are added to the pass book balance while preparing bank reconciliation statement.

18. Debit balance of cash is an asset.

19. Dividend collected by bank will be added in bank reconciliation statement in the given case.

20. Remaining partners contribute to such compensation amount in their gaining ratio.

21. If the partners don't wish to change values of assets and liabilities in the new balance sheet, they open memorandum revaluation account.

22. Shares of private companies are not listed in any stock exchange. Shares of public companies are listed.

23. A balance sheet is also known as the statement of financial position tells about the assets, liabilities and equity of a business at a specific point of time. It is a snapshot of a business.

A balance sheet is an extended form of the accounting equation. An accounting equation is:

Assets = Liabilities + Equity

MR.X
Balance Sheet as on December 31st,2009

Liabilities	*Amount*	*Assets*	*Amount*
Capital Add: Net profit Less: Drawings (1,55,000 + 22,000 – 12,000)	1,65,000	Plant and machinery Furniture	60,000 10,000
Bills payable	10,000	Goodwill	70,000
Bank overdraft	15,000	Investments	25,000
Trades payable	45,000	Closing inventory	25,000
Outstanding expenses	5,000	Trade receiveble	35,000
		Bills receivables	9,000
		Cash	6,000
Total	2,40,000	Total	2,40,000

24. Gross profit is a company's revenue minus its cost of goods sold. Gross profit is a company's residual profit after selling a product or service and deducting the cost associated with its production and sale.

Cost of goods sold is the direct costs attributable to the production or purchase of the goods sold by a company. It excludes indirect expenses such as distribution costs and sales force cost.

Cost of goods sold = opening inventory + purchases – closing inventory = 19,000

Gross Profit = sales – cost of goods sold = 30,000 – 19,000 = Rs. 11,000

25. Net profit is calculated by subtracting a company's total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time (usually one year) also called net income or net earnings.

Here net profit = gross profit – salaries – interest on overdraft – office expenses – rent paid – general expenses – advertisement + commission received = 35,000 – 4,000 – 200 – 5,000 – 2,000 – 5,100 – 5,000 + 4,000 = Rs. 17,700.

26. income tax paid on behalf of the proprietor will b e treated as drawings and will be deducted from the capital of the proprietor.

Here Capital 50,000 Income tax paid 10,000 and Income tax advance payment is Rs. 1,600.

So Capital A/c balance will be = 50,000 – 10,000 – 1,600 = Rs. 38,400.

27. The provision for doubtful debts is identical to the allowance for doubtful accounts. The provision is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. The provision is used under accrual basis accounting, so that an expense is recognized for probable bad debts.

In accounting, provision for discount on trade receivables shows the reserve amount for adjusting loss due to discount allowed to our trade receivables. Every businessman wants to get money faster from their customer. So, businessman accepts less money than actual from those customers who will pay before maturity of debt. So, at the end of year, we make provision for next year losses due to discount allowed. So, these provision will be called provision for discount on trade receivables.

Here Trade receivables = 30,000

Less:provision for bad debts = 5% of 30,000 = 1,500

= 28,500

So provision for discount on trade receivables = 2% of 28,500 = Rs. 570.

28. Claim for compensation under dispute is contingent liability.

29. Expenses which have been incurred but not been paid for till the end of the accounting year are known as Accrued expenses or outstanding expenses.

Here the interest on loan due = 9% of 10,000 = Rs. 900

Interest on loan paid = 600

Thus Outstanding interest on loan will be Rs. 300

30. Sale or return is a term sale, where the seller sold goods on the basis of return, there might be a chance of return of goods, or acceptance of goods, or acceptance of part of goods. This method is also called the Sale on Approval basis.

When the transactions of sending the goods on sale or return basis are few, the seller may treat it as normal sale and record it in the books accordingly. However, if the goods are sent on sale or return basis, the unsold goods must be included in the inventory at cost. When the goods sent on sale or approval basis are treated as sale, for the goods not yet approved, the sale entry is reversed at the year end.

Here Included in the sales were sale of goods of Rs. 5,000 on “Sale on approval” basis for which consent of the customer was not received upto Dec. 31st. Thus this entry will be reversed and the amount will be included in inventory at cost.

Here inventory at sale price = Rs. 5,000

Cost + 25% of cost = 5,000

Or

125% of cost = 5,000

Inventory on approval will be = Cost = 5,000/125% = Rs. 4,000

31. Opening balance of tools = 4,320

Add: Tools purchased = 1,440

Less closing balance of tools account = 4,680

Depreciation = Rs. 1,080

32. Calculation of interest on loan

Date	*Particulars*	*Amount*	*Interest @ 9% pa*
30.9.2009-30.12.2009	Amount of loan	15000	337.5
30.6.2009-30.9.2009	Amount of loan	15000 + 5000	450
1.1.2009-30.6.2009	Amount of loan	20000 + 4000	1080
		Total	1867.5

33. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account. Whatever the reas on may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here bills received was passed through bills payable so bills received account is undercasted and bills payable account is overcasted .

So the rectification entry will be

B/R A/c	Dr.	1,000	
B/P A/c	Dr.	1,000	
To suspense			2,000

34. In financial accounting, every single event occurring in monetary terms is recorded. Sometimes, it just so happens that some events are either not recorded or it is recorded in the wrong head of account or wrong figure is recorded in the correct head of account.Whatever the reason may be, there is always a chance of error in the books of accounts. These errors in accounting require rectification. When there is a difference in a trial balance a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference).

Here an item of purchase of Rs. 151 was entered in the Purchase Book as Rs. 15 and posted to Suppliers A/c as Rs. 51 thus purchase account is undercasted by 151 – 15 = 136Rs. And supplier account has been undercasted by 151 – 51 = Rs. 100 rectifying entry will be

Purchase A/c	Dr.	136	
To Suppliers A/c			100
To Suspense A/c			36

35. Miscellaneous expenses should come on debit side instead of credit side. so the difference in trial balance is due to wrong placing of this account.

36. Profit and Loss Appropriation Account
(for the year ending on 31st March 2008)

Particulars		*Particulars*	
To net Profit transferred	7,800	By Profit after intereston capital	7,800
Sita-7,800 × 3/5 = 4,680			
Gita-7,800 × 2/5 = 3,120			
	7,800		7,800

37. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per cash book (dr)		10,000
Less:		
Cheques deposited in the Bank but not cleared	2,000	2,000
B/P paid by Bank not entered in cash Book	800	800
Add:		
Cheques drawn but not presented for payment	2,300	2,300
Balance as per pass book(cr)		9,500

38. A Bank reconciliation is a process that explains the difference between the bank balance shown in an organisation's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records at a particular point in time.

Such differences may occur, for example, because a cheque or a list of cheques issued by the organization has not been presented to the bank, a banking transaction, such as a credit received, or a charge made by the bank, has not yet been recorded in the organisation's books, or either the bank or the organization itself has made an error.

Bank reconciliation statement of …..

Particulars	*Amount*	*Amount*
Balance as per cash book (cr)		10,500
Add:		
Cheques deposited in the Bank but not cleared	8,250	8,250
Less:		
Cheques drawn but not presented for payment	12,000	12,000
Balance as per pass book (dr)		6,750

39. Remuneration paid for services is called commission. Commission is always paid on sales. 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.

Here Ram, the manager, is entitled to get a commission of Rs. 25 per article sold plus ¼th of the amount by which the gross sales proceeds less total commission there on exceed a sum at the rate of Rs. 125 per article sold. Ram sold 450 articles at Rs. 73,800.

Articles sold = 450

So basic commission = 450 × 25 = 11,250.

Let the total commission be x (say)

Extra commission = 1/4 (sales proceeds – x – 125 × articles sold) = 1/4 of (73,800 – x – 125 × 450)

Or x – 11250 = 1/4 (17,550 – x)

Or x – 11250 = 4,387.5 – x/4

Or x + x/4 = 4,387.5 + 11,250 = 15,637.5

Total commission = x = Rs. 12,510

40. Consignment is the act of consigning, which is placing any material in the hand of another, but retaining ownership until the goods are sold or person is transferred.

Consignment account

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To goods sent on consignment A/c(100 × 500)	50,000		By Nirmal-sales (60 × 700)	42,000
	To bank-packing charges	2,000		By closing inventory	21,440
	To bank-forwarding charges	400			
	To bank-freight	600			
	To nirmal-cartage	600			
	To Nirmal-godown charges	500			
	To Nirmal-commission (6% of 42,000)	2,520			
	To profit on consignment	6,820			
		63,400			63,400

Valuation of closing inventory:

Cost of goods consigned = 50,000

Add: packing and dispatch = 2,000

Add: freight = 600

Add: forwarding charges = 400

Add: cartage by consignee = 600

Total cost = 53,600

Cost of unsold goods = 53,600 × 40/100 = 21,440

41. Loss of quantity of goods in the normal course of business and inherent and thus inevitable or unavoidable, such as loss because of loading and unloading of goods, leakage, evaporation or shrinkage is known as normal loss.

The treatment of normal loss is to charge it to consignment account. The total cost of goods sent is charged to the units remaining. Value of inventory is inflated to cover the normal loss. In other words such loss is absorbed by the remaining units.

No separate entry is made in the books of consignor in case of normal. such loss is considered while calculating the cost of inventory left unsold with the consignee. The value of unsold stock on consignment is increased because the value of stock is the proportion of the cost of the goods consigned and direct expenses that the quantity of inventory bears to the total quantity of goods consigned as diminished by the normal loss of goods.

Here PARIKH & CO. of Nagpur consigned D of Delhi 1,000 Kgs. of Oil @ Rs. 13 per Kg.

Consignor spent Rs. 750 on cartage, Insurance and freight. On the way due to leakage

50 kg. of oil was spoiled (Normal loss) D spent Rs. 500 on Octroi and carriage. His selling expenses were Rs. 400 on 800 kg. of oil sold.

Units lost = 50 kgs

Closing inventory = 1,000 – 50 – 800 = 150 kgs

Cost of goods consigned = 13,000 + 750 + 500 = Rs. 14,250

Value of closing inventory = units of unsold inventory × (original cost of goods consigned + direct expenses)/(total units – units lost)

= 150 × 14,250/950 = 2,250Rs.

42. In case of revaluation, the depreciation is calculated on the total revalued amount over a period of balance useful lives assessed on the date of revaluation. New cost for the purpose of depreciation will be gross cost less accumulated depreciation on the date of revaluation. Along with this, the revaluation reserve is amortised to the income statement based on the useful life of the asset to which it relates. This is done to ensure that depreciation on the revalued amounts shouldn't inflate/ deflate the income statement.

Date	*Particular*	*Amount*	*Amount*
	Cost of machinery		1,35,000
Less	Depreciation for 5 years on straight line basis (1,35,000 – 5,000)/10 × 5 =	65,000	
End of 5^{th} year	Wdv of the machinery		70,000
6^{th} year	Depreciation	(70,000 – 5,000)/8	8,125

43. Goods returned to supplier will decrease balance in supplier's a/c and will decrease purchases (add profit).

44. A joint venture (JV) is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Profit on venture can be ascertained with the help of the joint venture account.

Goods bought on joint venture as well as expenses incurred in connection with the business are debited to the joint venture account and credited to the coventurer's account or the joint bank account. When the goods are sold, the amount thereof is debited to the coventurer's account or the joint bank account and credited to the joint venture account. If the parties have taken over plant or materials etc., the value will be debited to the account of the party concerned and credited to the joint venture account. The joint venture account will now show profit or loss which will be transferred to the personal accounts of the respective parties in their profit sharing ratio.

Joint venture A/c

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
	To A- purchases	2,00,000		By B-sale	2,50,000
	To A-commission	2,000			
	To B-commission	12,500			
	To net profit transferred to-	35,500			
	A-23667				
	B-11833				

45. Owner's capital refers to the sum of the business resources owned by the business owners. It is calculated through the subtraction of assets from liabilities. When a business pays all its debts, the amount remaining belongs to the business owner and it is the one that is referred to as Owners Capital or Owners Equity.

Formulas of closing capital:

Closing capital =

Opening capital + profit OR

Opening capital + profit + additional capital –drawings – interest on drawings

Profit = closing capital – opening capital – additional capital + drawings = 16,430 – 12,000 – 4,000 + 3,000 = Rs. 3,430

46. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating new ratio

New ratio = Old ratio – Sacrificing ratio

New ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	5/8	1/10	5/8 – 1/10 = 42/80
B	3/8	1/10	3/8 – 1/10 = 22/80
C			1/5 = 16/80

Thus the new profit sharing ratio is A : B : C = 4 2 : 22 : 16 = 21 : 11 : 8.

47. When a new partner comes into the business, old partners have to give him his profit share from their portion. Thus change in profit sharing ratio is an important aspect to be considered on reconstitution by admission. In academic accounting, change in profit sharing ratio can be presented in various ways. The existing partners may decide to change their profit sharing ratio for various reasons. When the profit sharing ratio is revised among existing partners, there ought to be a partial sacrifice of profit share by some partners in favour of others. The sacrifice of one or a group of partners becomes the gain of the remaining partners. Following is the formula for calculating new ratio

New ratio = Old ratio – Sacrificing ratio

New ratio

Partners	*Old ratio*	*Gain/(sacrifice)*	*New ratio*
A	3/5	1/5 OF 3/5 = (3/25)	3/5 – 3/25 = 12/25
B	2/5	2/5 of 2/5 = (4/25)	2/5 – 4/25 = 6/25
C		7/25	7/25

Thus the new profit sharing ratio is A : B : C = 12 : 6 : 7.

48. Weighted average method : This method is a modified version of average profit method. In this method each year profit is assigned a weight i.e. 1, 2, 3, 4 etc. Thereafter each year profit is multiplied by the weight and find product. The total of products is divided by the total of weight. As a result we find the weighted average profit. After this the value of goodwill is calculated to multiplied the weight average profit into the agreed number of year's purchase. Thus the goodwill is calculated as follows

Weighted average profit = Total product of profit/Total of weights

Value of goodwill = Weighted average profit × number of year of purchase

(**Note :** This method is used when we observe that there is a tendency to increase the annual profits. Latest year profit is assigned the highest weight.)

Year	*Profits*	*Weights*	*Product*
2005	43,000	1	43,000
2006	50,000	2	1,00,000
2007	52,000	3	1,56,000
2008	65,000	4	2,60,000
2009	85,000	5	4,25,000
total	2,95,000	15	9,84,000

Weighted average profit = 9,84,000/15 = 65,600

Value of goodwill = 65,600 × 2 = Rs. 1,31,200

49. When a new partner is admitted in the firm, the existing/old partners have to sacrifice, what is given to the new partner, from their future profits, the reputation they have gained in their past efforts and the side of capital they have taken before. The new partner when admitted, has to compensate for all these sacrifices made by the old ones. The compensation for such sacrifice can be termed as 'goodwill'. Hence, at the time of admission of the new partner, it is necessary to account the valuation of goodwill in the firm.

Here Mohan's share in profit is $1/5^{th}$

the combined capital of Ramesh and Suresh = 1,02,900 + 73,500 = 1,76,400.

This combined capital constitutes 4/5 th of the total capital

So total capital of the firm will be = 1,76,400 × 5/4 = Rs. 2,20,500

Thus C's capital will be = 2,20,500/5 = Rs. 44,100.

50. Closing inventory is the amount of inventory that a business still has on hand at the end of a reporting period. The amount of closing stock (properly valued) is used to arrive at the cost of goods sold in a periodic inventory system with the following calculation:

Opening stock + Purchases – Closing stock = Cost of goods sold

Here cost of goods sold = sales – margin = sales – 20% of sales = 2,70,000 – 20% of 2,70,000 = 2,70,000 – 54,000 = Rs. 2,16,000

Thus closing inventory = purchases – cost of goods sold = 3,00,000 – 2,16,000 = Rs. 84,000.

51. Sometimes, acceptor of a bill finds himself unable to meet his acceptance on the due date. So he may approach the drawer of the bill before the maturity date arrives, to cancel the old bill and draw a new bill with extended date. The acceptor in this case will of course have to pay interest for the extended period. When a bill of exchange is dishonored, the holder can get such fact noted on the bill by a notary public. The advantages of noting is that the evidence of dishonored is secured. The noting is done by recording the fact of dishonored, the date of dishonor, the reason of dishonor, if any. For doing all this the notary public charges his fees which is called noting charges.

In case the bill is renewed the interest will not be charged on the noting charges which will be treated separately and will not be clubbed with the amount of the bill.

Here Total amount of the A's acceptance = 2,500

Amount paid in cash = 1,000

Amount of the renewed bill = amount remaining + interest = 1,500 + 50 = Rs. 1,550

52. Ramesh, an employee gets a salary of Rs. 10,000.The goods withdrawn by Ramesh for personal use will be debited to his salary Rs 6000at cost and the when he received Rs. 6,000 again in cash for salary he got Rs (6,000 + 6,000 – 10,000) = 2,000 excess salary so it should be debited to salaries paid in advance as per the matching principle.

53. Bills of exchange is a financial service, where the Bank purchases drawn bills, from the domestic trade transactions, confirmed in particular with an invoice - with right of recourse to you - and credits you with the amount of the bill of exchange less discount interest and additional costs related to the bill, accrued in advance from the discount date to the bill payment term.

Here amount of the bill = 30,000

The bill was accepted by B on 1st January but was discounted on 4th February so,

Amount to be paid to bank on discounting at 12%pa = 30,000 × 12/100 × 2/12 = Rs. 600.

54. Amount received on application = 14,000 × 30 = Rs. 4,20,000

Amount received on allotment = 14,000 × 35 = Rs. 4,90,000

Amount received on first and final call = 13,800 × 35 = Rs. 4,83,000

Cash book balance will be = 4,20,000 + 4,90,000 + 4,83,000 = Rs. 1,39,3000

55. Share capital in case of forfeiture will be debited by Rs. 100 × 8 (2.50 + 2.50 + 3) = Rs. 800.

56. When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Now the amount of discount allowed on reissue of shares at the most can be equal to the forfeited amount on such shares. In that case the share forfeited account after reissue will show a zero balance. But in case, this amount of discount is less than the amount forfeited, the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account.

In the above question discount on shares reissued = number of shares reissued × discount allowed per share = 500 × 2 = Rs. 1,000.

Amount available for the reissued shares in shares forfeiture account = number of shares reissued × amount forfeited per share = 500 × (8) = Rs. 4,000

The surplus amount to be transferred to capital reserve account = 4,000 – 1,000 = Rs. 3,000.

57. Total value of business purchased = Rs. 3,30,000

Amount to be paid by issue of 12% debentures = 3,30,000

Value per debenture at premium = Rs. 110

Thus number of debentures to be issued = 3,30,000/110 = 3,000 debentures

58. A company may issue debentures with the stipulation that the repayment of the debentures on maturity will be made at premium.

The amount of the premium payable is debited to Loss on Issue of Debentures A/c at the time of issue of debentures. This amount will also be written off in the same manner as is done in case of writing off Discount on Issue of Debentures.

So here the Loss on issue of debentures will be = 5% of 2,00,000 = Rs. 10,000

59. The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period. When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount to be written off annually = Total amount of Discount/Number of years

2. Debentures are redeemed in instalments

Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed.

Here On 1st Jan. 2010, a Limited Co. issued 14% Rs. 1,00,000 debentures at a discount of 6%

repayable at the end of 5 years.

Total discount = 6% of 1,00,000 = Rs. 6,000

Here Amount of discount to be written off annually

= Total amount of Discount/Number of years

= 6,000/5 = Rs. 1,200

60. Here company issued debentures of the face value of Rs. 1,00,000 at a discount of 6% on

Jan. 1, 2004. These debentures are redeemable by annual drawings of Rs. 20,000 made on 31st Dec. each year. The directors decided to write off discount based on the debentures outstanding each year.

Total discount = 6% of 1,00,000 = Rs. 6,000

Calculation of discount to be written off every year

Date	*Debentures to be redeemed*	*Discount written off*
31.12.2009	1,00,000	$6,000 \times 5/15 = 2,000$
31.12.2010	80,000	$6,000 \times 4/15 = 1,600$
31.12.2011	60,000	$6,000 \times 3/15 = 1,200$
31.12.2012	40,000	$6,000 \times 2/15 = 800$
31.12.2013	20,000	$6,000 \times 1/15 = 400$

So Discount to be written off in the fifth year will be Rs. 400.

NOTES

NOTES