

**PAPER 1 : ACCOUNTING**

**Question No. 1 is compulsory.**

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

**Question 1:**

- (a) State with reasons whether the following statements are true or false:
- (i) The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making the decision etc.
  - (ii) Suspense account opened in a trial balance is a permanent account.
  - (iii) The sales book is kept to record both cash and credit sales.
  - (iv) The balance in forfeited shares account can be used for transfer to capital redemption reserve account.
  - (v) 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.
  - (vi) Ledger records the transactions in a chronological order.

**(6×2 = 12 Marks)**

- (b) Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Amount (Rs.)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of Rs. 2,40,000, Rs. 2,16,000 and Rs. 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of Rs. 36,000 in the year 2020.

Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years.

**(4 Marks)**

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

The Company charges Depreciation @ 20% per annum under the WDV Method. Calculate the amount of depreciation for the year ended 31 st March, 2021 and gain or loss on the destroyed Bus.

**(4 Marks)**

**(Total 20 Marks)**

**Question 2:**

- (a) The Cash Book of Mr. X shows Rs. 4,18,200 as the balance at Bank as on 31st December, 2017, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

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- (1) On 15<sup>th</sup> December, 2017 the payment side of the Cash Book was undercast by Rs. 5,000.
- (2) A cheque for Rs. 65,500 issued on 25th December, 2017 was not taken in the bank column.
- (3) One deposit of Rs. 75,000 was recorded in the Cash Book as if there is no bank column therein.
- (4) On 18th December, 2017 the debit balance of Rs. 7,630 as on the previous day, was brought forward as credit balance.
- (5) Of the total cheques amounting to Rs. 5,757 drawn in the last week of December, 2017, cheques aggregating Rs. 3,908 were encashed in December.
- (6) Dividends of Rs. 12,500 collected by the Bank and subscription of Rs. 500 paid by it were not recorded in the Cash Book.
- (7) One out-going Cheque of Rs. 1,75,000 was recorded twice in the Cash Book. You are required:
  - (a) To make appropriate adjustment in the cash book, and
  - (b) A bank reconciliation statement.

**(10 Marks)**

- (b)** The Profit and loss account of Krishna showed a net profit of Rs. 12,00,000, after considering the closing stock of Rs. 7,50,000 on 31st March, 2016. Subsequently the following information was obtained from scrutiny of the books:
- (i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.
  - (ii) Krishna gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.
  - (iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2016, but the goods were not included in stock.
  - (iv) In March, 2016 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2016.
  - (v) Goods costing Rs. 1,50,000 were sent on sale or return in March, 2016 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2016 these were taken as sales for March, 2016.

Calculate the value of stock on 31st March, 2016 and the adjusted net profit for the year ended on that date.

**(10 Marks)**

### Question 3:

- (a)** Alka Enterprises maintain their books of accounts under single entry system. The Balance Sheet as on 31<sup>st</sup> March, 2018 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c	6,75,000	Furniture & fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding Exp.	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand & at bank	1,20,000
	15,00,000		15,00,000

The following was the summary of cash and bank book for the year ended 31<sup>st</sup> March, 2019:

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Receipts	Amount (Rs.)	Payment	Amount (Rs.)
Cash in hand & at		Payment to trade	
Bank on 1 <sup>st</sup> April, 2018	1,20,000	Creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Receipts from trade		Drawings	3,60,000
Debtors	27,75,000	Cash in hand & at Bank on 31 <sup>st</sup> March, 2019	1,90,950
	<b>1,39,65,000</b>		<b>1,39,65,000</b>

### Additional Information:

- (i) Discount allowed to trade debtors and received from trade creditors amounted to Rs. 54,000 and Rs. 42,500 respectively, (for the year ended 31<sup>st</sup> March, 2019)
- (ii) Annual fire insurance premium of Rs. 9,000 was paid every year on 1<sup>st</sup> August for the renewal of the policy.
- (iii) Furniture & fixtures were subject to depreciation @ 15% p.a. on diminishing balance method.
- (iv) The following are the balances as on 31<sup>st</sup> March, 2019:
 

Stock	Rs. 9,75,000
Trade debtors	Rs. 3,43,000
Outstanding expenses	Rs. 55,200
- (v) Gross profit ratio of 10% on sales in maintained throughout the year. You are required to prepare Trading and Profit & Loss account for the year ended 31<sup>st</sup> march, 2019, and Balance sheet as on that date.

**(10 Marks)**

- (b)** From the following receipts and payments A/c of Mumbai club, prepare income and Expenditure A/c for the year ended 31.12.1996 and its balance sheet as on that date;

Receipts	Rs.	Payments	Rs.
Cash in Hand	4,000	Salary	2,000
Cash at Bank	10,000	Repair Expenses	500
Donations	5,000	Purchase of Furniture	6,000
Subscriptions	12,000	Misc. Expenses	500
Entrance fees	1,000	Purchase of investments	6,000
Interest on investments	100	Insurance premium	200
Interest received from bank	400	Payment to creditors for Billiard table	8,000
Sale of old newspaper	150	Paper, ink, etc.	150
Sale of Drama Tickets	1050	Drama Expenses	500
		Cash in Hand (Closing)	2,650
		Cash at bank (Closing)	7,200
	<b>33,700</b>		<b>33,700</b>

### Information :

- (1) Subscriptions in arrear for 1996 Rs. 900 and subscriptions in advance for 1997 Rs. 350.
- (2) Insurance premium Outstanding Rs. 40.
- (3) Misc. Expenses Prepaid Rs. 90.
- (4) 50 % of donation is to be capitalized.
- (5) Entrance fees are to be treated as revenue income.

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- (6) 8% interest has accrued on investment for five months.  
 (7) Billiard Table costing Rs. 30,000 was purchased during the last year and Rs. 22,000 were paid for it.

**(10 Marks)**

### Question 4:

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

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

The following additional information is available:

Stocks on 31st March, 2021 were:

Raw material	Rs. 1,62,000
Finished goods	Rs. 1,81,000
Work-in-progress	Rs. 78,000

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

Prepare the Manufacturing Account, Trading Account and Profit and Loss Account for the year ended on 31st March, 2021.

**(10 Marks)**

- (b) The partnership agreement of a firm consisting of three partners - A, B and C (who share profits in proportion of 1/2, 1/4 and 1/4 and whose fixed capitals are Rs. 20,000; Rs. 12,000 and Rs. 8,000 respectively) provides as follows:

- (a) That partners be allowed interest at 10 per cent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.

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- (b) That upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.
- (c) That an insurance policy of Rs. 20,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm.
- (d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death.
- (e) That the share of the insurance policy and goodwill be credited to a deceased partner as on 31st December following his death.
- (f) That the partnership books be closed annually on 31st December.

A died on 30th September 2016, the amount standing to the credit of his current account on 31st December, 2015 was Rs. 900 and from that date to the date of death he had withdrawn Rs. 6,000 from the business.

An unrecorded liability of Rs. 4,000 was discovered on 30th September, 2016. It was decided to record it and be immediately paid off.

The trading result of the firm (before charging interest on capital) had been as follows: 2013 Profit Rs. 19,280; 2014 Profit Rs. 13,440; 2015 Profit Rs. 5,380; 2016 Profit Rs. 7,340.

Assuming the surrender value of the policy to be 20 percent of the sum assured.

**Required:**

Prepare A's Capital account showing the amount due to A's legal representative as on 31st December, 2016.

**(10 Marks)**

**Question 5:**

- (a) On 1st January 2018, Akshay draws two bills of exchange for Rs. 32,000 and Rs. 50,000.

The bill of exchange for Rs. 32,000 is for two months while the bill of exchange for Rs. 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for Rs. 50,000, the interest rebate i.e. discount being Rs. 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

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

**(10 Marks)**

- (b) Ajay and Vijay are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	Rs.	Assets	Rs.
Creditors A/c	14,400	Plant & Machinery	7,500
Ajay's Capital A/c	2,250	Furniture	1,500
		Debtors	3,000
		Stock	2,400
		Cash	600
		Vijay's drawings	1,650
	16,650		16,650

The assets realized as under:

Particulars	Rs.
Plant & Machinery	3,750
Furniture	450

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Debtors	1,200
Stock	1,500

The expenses of realization amounted to Rs. 525. Ajay's private estate is not sufficient even to pay his private debts, whereas Vijay's private estate has a surplus of Rs. 600 only.

Show necessary ledger accounts to close the books of the firm.

**(10 Marks)**

### Question 6:

- (a)** Y Ltd. issued for Public subscription 80,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share payable as under; on application Rs. 4 Per share; on allotment Rs. 5 per share (including premium) and on call Rs. 3 per share. Applications were received for 1,20,000 shares. Allotment was made pro-rata to the applicants for 96,000 shares. the remaining applications being refused. Money overpaid on application was utilized towards sums due on a allotment. Shri Ramesh, to whom, 3,000 share were allotted, failed to pay the allotment and call money and Shri Hasan to whom 4,000 shares were allotted failed to pay the call money. Hariom a share holder of 1000 share did not paid the final call also which were not forfeited by the company but shares of Ramesh & Hasan were duly forfeited. All the forfeited shares were sold to Shri Balaji as fully paid up at Rs. 8 per share. Show the journal entries (without narrations) to record the above transactions. Company doesn't open calls in arrear account.

**(10 Marks)**

- (b)** Future Ltd. is planning to raise funds by making rights issue of equality shares to part finance its expansion. The existing equity share capital of the company is Rs. 80 lakh of face value of Rs. 10 and the market value is Rs. 45 per share. The company offered to its shareholders the right to buy 2 shares at Rs. 12 each for every 5 shares held. You are required to calculate-

- (i) Theoretical market price per share after the rights issue;
- (ii) The value of rights; and
- (iii) Percentage increase in share capital.

**(5 Marks)**

- (c)** Roshni Ltd. gives you following information as at 31st March, 2021:

Particulars	Rs.	Rs.
<b>Equity and Liabilities</b>		
Issued & subscribed capital:		
Equity shares capital:		
60,000 Equity shares of Rs. 10 each fully paid up	6,00,000	
12% Redeemable Preference share Capital:		
5,000 share of Rs. 100 each	5,00,000	
Less: Calls in arrear (final call of Rs. 20 on 200 shares)	(4,000)	4,96,000
		10,96,000
<b>Reserve &amp; surplus</b>		
Profit and Loss Account	3,00,000	
Securities Premium Account	30,000	3,30,000
<b>Non- current liability</b>		
Long term borrowings: 14% Debentures		1,50,000
<b>Current liabilities</b>		
Trade payables		74,000

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<b>Assets</b>		
<b>Non-current Assets</b>		
(i) Property, Plant & Equipment		13,00,000
(ii) Non- current Investment		1,00,000
<b>Current Assets</b>		
(i) Inventory		50,000
(ii) Trade Receivables		20,000
(iii) Bank		1,80,000

On April 1, 2021, the Board of Directors decided to redeem the preference shares (excluding 200 shares on which there are calls in arrear) at 10% premium and to sell the investment at its market price of Rs. 80,000. They also decided to issue sufficient number of equity shares of Rs. 10 at a premium of Rs. 1 per share and the balance in profit and loss account was to be maintained at Rs. 1,00,000. Premium on redemption can't be set off against securities premium account as Roshni Ltd. is governed by section 133 of the Companies act, 2013 and comply with Accounting Standards.

You are required to show the journal entries.

**(5 Marks)**

**OR**

- (c) On 1st April, 2018 Kartar Limited issued Rs. 75,000, 9% Debentures of Rs. 100 each at a premium of 5%. The Debentures are redeemable at 10% premium on 31.03.2023, Investment as required by law was made in Fixed Deposit of Bank on 30.04.2022 earning interest @8% p.a. You are required to pass Journal Entries for the year 2022-2023 related to Investment and Redemption of the Debentures.

**(5 Marks)**

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