CA Foundation Course **(Mock Test Paper – Series : 1)**
DATE: 27.03.2025 **MAXIMUM MARKS: 100** **TIMING: $3^{1/4}$ Hours**

PAPER 1 : ACCOUNTING

Question no. 1 is compulsory.
Candidates are required to answer any four questions from the remaining five questions.

Answer 1:

(a) (i) **True:}{1 M}** **{**Cash Discount is a reduction granted by a supplier from the sale price of goods or services on business considerations for prompt payment.**}{1 M}**

(ii) **False:}{1 M}** **{**Renovation of office increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.**}{1 M}**

(iii) **False:}{1 M}** **{**The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.**}{1 M}**

(iv) **False:}{1 M}** **{**The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person.**}{1 M}**

(v) **True:}{1 M}** **{**A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.**}{1 M}**

(vi) **True:}{1 M}** **{**As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.**}{1 M}**

Answer:

(b) Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows:

	Provision	Contingent liability
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

{1 M for Each}

Answer:

(c) Amount due to Sanjay as a Chief Clerk

Salary	6,000	
Add: Commission 4/104 (Rs. 1,10,000 - Rs. 6,000)	4,000	
	10,000	}{1/2 M}
Less: Share of Profit as a partner (1/10th of 1,10,000)	(11,000)	}{1/2 M}
Excess chargeable to Ajay	(1,000)	}{1M}

Profit and Loss Appropriation Account for the year ended December 31, 2022

Particulars	Rs.	Particulars	Rs.
To Share of Profit A/c Ajay [3/5 of (Rs. 1,10,000 – Rs. 10,000) – Rs. 1,000]	59,000 }{1 M}	By Profit and Loss A/c (Net profit)	1,10,000
Vijay [2/5 of (Rs. 1,10,000 – Rs. 10,000)]	40,000	}{1 M}	
Sanjay [1/10 of Rs.1,10,000]	11,000		
	1,10,000		1,10,000

Answer 2:

(a) Trading and Profit and Loss Account of Aman for the year ended 31st March, 2022

		Rs.		Rs.
To Opening Stock		2,00,000	By Sales	18,00,000 }{1/2 M}
To Purchases (Bal. fig.) {1/2 M}{		15,40,000	By Closing Stock	3,00,000
To Gross Profit c/d {1/2 M}{		3,60,000		
		21,00,000		21,00,000
To Business Expenses {1/2 M}{		2,00,000	By Gross Profit b/d	3,60,000
To Repairs		10,000		
To Depreciation:				
Building {1/2 M}{	16,250			
Machinery {1/2 M}{	2,500			
Motor Car {1/2 M}{	18,000	36,750		
To Travelling Expenses		15,000		
To Loss by theft (cash defalcated){1/2 M}{		20,000		
To Net Profit {1/2 M}{		78,250		
		3,60,000		3,60,000

Balance Sheet of Aman as at 31st March, 2022

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	4,80,000		Building	3,25,000	
Add:			Less: Depreciation	(16,250)	3,08,750
Net Profit	78,250		Furniture	50,000	
Less: Drawings	(75,000)	{1/2 M}{ 4,83,250	Less: Depreciation	(2,500)	47,500
Loan		1,50,000	Motor car	90,000	
			Less: Depreciation	(18,000)	72,000
Sundry Creditors		4,75,000	Stock in Trade		3,00,000
Outstanding business			Sundry Debtors		2,10,000
Expenses		{1/2 M}{ 50,000	Bank Balance		2,20,000
		11,58,250			11,58,250

Working Notes:

1. Cash and Bank Account

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	20,000	85,000	By Payment to Creditors	-	13,75,000
To Collection from Debtors	3,50,000	10,50,000	By Business Expenses	90,000	60,000
To Sales (18,00,000 x 20%)	3,60,000 }{1/2 M}	–	By Repairs	10,000	–
To Cash (C)	–	7,15,000	By Cash (C) (withdrawal)		1,20,000 }{1/2 M}
		}{1/2 M}	By Bank (C)	7,15,000	}{1/2 M}
To Bank (C)	1,20,000	-	By Travelling Expenses	15,000	–
			By Private Drawings	-	75,000
			By Balance c/d		2,20,000
			By Defalcated (balancing fig.)	20,000 }{1/2 M}	
		18,50,000		8,50,000	18,50,000
	8,50,000				

2. Calculation of sales during 2021-22

	Rs.
Gross profit (last year i.e. for year ended 31.3.2021	3,00,000
Goods sold at cost plus 25% i.e. 20% of sales Sales for 2020-21 3,00,000/0.2	15,00,000
Sales for 2021-22 (15,00,000 x 1.2)	18,00,000
Credit sales for 2021-22	14,40,000 (80% of 18,00,000)

{1 M}

3. Debtors Account

To Bal. b/d.	1,70,000	By Cash	3,50,000
To Sales (18,00,000 x 80%)	14,40,000	By Bank	10,50,000
	}{1/2 M}	By Bal. c/d	2,10,000
	16,10,000		16,10,000

4. Creditors Account

To Bank	13,75,000	By Bal. b/d	3,10,000
To Bal. c/d (bal. fig.) {1/2 M}{	4,75,000	By Purchases	15,40,000
	18,50,000		18,50,000

Answer:

(b) Valuation of Goodwill

Calculation of Average Profit

2018-19	2,60,000	
2019-20	2,75,000	
2020-21	2,65,000	
2021-22	2,80,000	
Total	10,80,000	
Average Profit (10,80,000/4)		2,70,000 }{1/2 M}
Less: Interest on capital @ 12%p.a.		78,000 }{1/2 M}
Less: Salaries of partners'(3 x 12 x 2,000)		72,000 }{1/2 M}
Adjusted Average profit		1,20,000 }{1/2 M}
Goodwill (3 years purchase =3 x 1,20,000)		3,60,000 }{1/2 M}
Aman's Share of Goodwill (3/10) i.e.		1,08,000 }{1/2 M}

Adjustment Journal entry for Goodwill

Particulars		Dr. Rs.	Cr. Rs.	
Baman's Capital Account	Dr.	36,000	}{1/2 M}	
Chaman's Capital Account	Dr.	72,000	}{1/2 M}	
To Aman's Capital Account			1,08,000	}{1/2 M}
(Adjusting entry passed for share of goodwill of Aman through remaining partners' capital accounts in gaining ratio)				

Working Note:

Partner	New Share		Old Share		Difference
Aman	0	–	3/10	=	–3/10
Baman	1/2	–	4/10	=	1/10
Chaman	1/2	–	3/10	=	2/10

{1/2 M}

Answer:

(c) **Journal Entries**

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)	
	Bank A/c	Dr.	1,26,750		{1 M}
	To Equity Share Capital A/c			1,26,750	
	(Being the issue of 12,675 Equity Shares of Rs. 10 each as per Board's Resolution No ....dated….)				
	9% Redeemable Preference Share Capital A/c	Dr.	3,00,000		
	Premium on Redemption of Preference Shares A/c	Dr.	30,000		{1 M}
	To Preference Shareholders A/c			3,30,000	
	(Being the amount paid on redemption transferred to Preference Shareholders Account)				
	Bank A/c	Dr.	60,750		
	Profit and Loss A/c (loss on sale) A/c	Dr.	6,750		{1/2 M}
	To Investment A/c			67,500	
	(Being investment sold at loss of Rs. 6,750)				
	Preference Shareholders A/c	Dr.	3,30,000		
	To Bank A/c			3,30,000	
	(Being the amount paid on redemption of preference shares)				
	Profit & Loss A/c	Dr.	30,000		
	To Premium on Redemption of Preference Shares A/c			30,000	{1/2 M}
	(Being the premium payable on redemption is adjusted against Profit & Loss Account)				
	General Reserve A/c	Dr.	1,20,000		
	Profit & Loss A/c	Dr.	53,250		{1 M}
	To Capital Redemption Reserve A/c			1,73,250	
	(Being the amount transferred to Capital Redemption Reserve Account)				

Working Note:
Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	Rs. 3,00,000
Less: Profit available for distribution as dividend:	
General Reserve: Rs. (1,80,000-60,000)	Rs. 1,20,000
Profit and Loss (90,000 less 30,000 set aside for adjusting premium payable on redemption of Pref. shares less 6,750 loss on sale of investments)	Rs. 53,250
	Rs. (1,73,250)
	Rs. 1,26,750

{1 M}

Therefore, No. of shares to be issued = Rs. 1,26,750/Rs.10 = 12,675 shares.

OR

Answer:
(c) **Journal Entries in the Books of Storek Limited**

Sr. No.	Particulars		Debit Rs.	Credit Rs.
(i) (a)	General Reserve A/c	Dr.	4,00,000	
	To Bonus to Equity Shareholders A/c			4,00,000
	(Being transfer of Rs. 4,00,000 from General Reserve to make the partly paid-up shares fully paid up) (1,00,000 x 4)			
(b)	Equity Share Final Call A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being final call due on 1,00,000 shares @ Rs. 4 per share)			
(c)	Bonus to Equity Shareholders A/c	Dr.	4,00,000	
	To Equity Share Final Call A/c			4,00,000
	(Being Bonus money applied for final call)			
(ii) (a)	Capital Redemption Reserve A/c	Dr.	80,000	
	Security Premium A/c (Rs. 2,20,000 – Rs. 75,000)	Dr.	1,45,000	
	General Reserve A/c	Dr.	7,75,000	
	To Bonus to Equity Shareholder A/c			10,00,000
	(Being bonus issue) (4,00,000 / 6,00,000 x 15,00,000)			
(b)	Bonus to Equity Shareholder A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being Bonus Shares issued to fully paid-up shareholders)			

{1 M} {1 M} {1 M} {1 M} {1 M}

Answer 3:
(a) **JOURNAL OF RAM**

Date	Particulars		L. F.	Dr. Amount	Cr. Amount
2012				Rs.	Rs.
Jan. 1	Bills Receivable A/c (No. I)	Dr.		4,000	
	Bills Receivable A/c (No. II)	Dr.		5,000	
	Bills Receivable A/c (No. III)	Dr.		6,000	
	To Mohan				15,000
	(Three acceptance received)				

{2 M}

Jan. 10	Sohan Dr.		4,120		{1 M}
	To Bills Receivable A/c			4,000	
	To Discount Received A/c			120	
	(First bill endorsed to Sohan in full settlement of his account of Rs. 4,120)				
Jan. 20	Bank A/c Dr.		4,850		{1 M}
	Discount Charges A/c Dr.		150		
	To Bills Receivable A/c			5,000	
	(Second Bill discounted from the bank)				
March 4	Mohan Dr.		5,040		{1 M}
	To Bank A/c			5,040	
	(Second bill dishonoured and noting charges paid by the bank)				
March 4	Mohan Dr.		200		{1 M}
	To Interest A/c			200	
	(Interest receivable)				
March 4	Bills Receivable A/c (No. IV) Dr.		5,240		{1 M}
	To Mohan			5,240	
	(New Bill received including Rs. 40 as noting charges and Rs. 200 as interest)				
arch 4	Bank A/c Dr.		5,925		{1 M}
	Rebate on Bill A/c Dr.		75		
	To Bills Receivable A/c			6,000	
	(Payment of the third Bill received before maturity and rebate allowed, i.e., $6{,}000 \times \frac{15}{100} \times \frac{1}{12} = \text{RS. } 75$)				
May 4	Bills for Collection A/c Dr.		5,240		{1 M}
	To Bills Receivable A/c			5,240	
	(Fourth Bill sent to Bank for collection)				
May 7	Bank A/c Dr.		5,240		{1 M}
	To Bill for Collection A/c			5,240	
	(Bills collected by Bank on maturity)				

Answer:

(b)

In the books of Mr. Black

Manufacturing Account for the year ended 31st March, 2021

Particulars		Rs.	Particulars	Rs.
Raw material consumed:			By Closing Stock of Work in Progress	78,000 }{1/2 M}
To Opening Stock of Raw Materials	2,10,000		By Sale of Scrap	25,000 }{1/2 M}
			By Cost of goods Manufactured	
Add: Purchases	8,50,000		(Transferred to Trading Account)	11,90,000 }{1 M}
Less: Closing Stock	1,62,000	8,98,000	}{1 M}	
To Opening Stock of WIP	{1/2 M}{	95,000		
To Wages	1,30,000			
Add: Outstanding Wages	20,000	1,50,000		
To Carriage on Purchases		15,000		
To Repairs to Plant		11,000		
To Rent (3/4)		45,000	}{1 M}	
To Lighting (2/3)		9,000	}{1 M}	
To Depreciation of Plant		70,000	}{1/2 M}	
		12,93,000		12,93,000

Trading Account for the year ended 31st March, 2021

Particulars	Rs.	Particulars	Rs.
To Opening Stock of finished goods {1/2 M}{	1,55,000	By Sales	16,72,000
To Cost of goods transferred from Manufacturing A/c	11,90,000	By Closing Stock	1,81,000 }{1/2 M}
To Gross Profit c/d	5,08,000 }{1 M}		
	18,53,000		18,53,000

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

Particulars		Rs.	Particulars	Rs.
To Salaries	1,00,000		By Gross Profit b/d	5,08,000
Add: Outstanding	9,000	1,09,000	By Commission	4,500
To Telephone & Postage		10,000		
To Repairs to Furniture		3,500		
To Depreciation of furniture		7,500		
To Rent (1/4)		15,000		
To Lighting (1/3)		4,500		
To General Expenses		15,000		
To Provision for doubtful Debts: Required (1% of Rs. 1,67,200)	16,720			
Less: Existing Provision	16,500	220 }{1 M}		
To Net Profit		3,47,780 }{1 M}		
		5,12,500		5,12,500

Answer 4:

(a) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount
2022		Rs.	2022		
Sept. 30	To Party A/c	36,000	Sept. 30	By Balance b/d	32,248
	To Customer A/c	}{1 M}		By Bank charges	560 }{1 M}
	(Direct deposit)	2,30,800 }{1 M}		By Customer A/c	
	To B/R collected	1,18,000 }{1 M}		(B/R dishonoured)	3,20,000 }{1 M}
	To Balance c/d	3,68,008 }{1 M}		By Bills payable	4,00,000 }{1 M}
		7,52,808			7,52,808

Bank Reconciliation Statement as on 30th September, 2022

Particulars	Amount
	Rs.
Overdraft as per Cash Book	3,68,008
Add: Cheque deposited but not collected up to 30th Sept., 2022	22,28,000 }{1 M}
	25,96,008
Less: Cheques issued but not presented for payment up to 30th Sept., 2022	(26,92,000) }{1 M}
Credit by Bank erroneously on 6th Sept.	(60,000) }{1 M}
Balance as per bank statement	1,55,992

OR

Bank Reconciliation Statement as on 30th September, 2022

Particulars	(+)	(-)
		Rs.
Overdraft as per Cash Book		3,68,008
Cheque deposited but not collected up to 30th Sept., 2022		22,28,000 }{1 M}
Cheques issued but not presented for payment up to 30th Sept., 2022	26,92,000 }{1 M}	
Credit by Bank erroneously on 6th Sept.	60,000 }{1 M}	
Balance as per bank statement	1,55,992	

Answer:

(b) (i) **If a Suspense Account is not opened.**

(a) Since sales book has been cast Rs. 4,200 short, the Sales Account has been similarly credited Rs. 4,200 short. The correcting entry is as follows:

Sales A/c

Dr. Date	Particulars	Rs.	Date	Particulars	Rs. Cr.
				By Wrong Totaling of Sales Book	4,200

{1/2 M}

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Gaurav & Co. credited. The entry is:

Returns Inward Account	Dr.	Rs. 3,600	
To Gaurav & Co.			Rs. 3,600
(Goods returned by the firm, previously omitted from the Returns Inward Book)			

{1 M}

(c) Sen Brothers have been debited Rs. 4,500 instead of being credited. This account should now be credited by Rs. 9,000 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
				By errors in posting	9,000

{1/2 M}

(d) By this error Purchases Account has to be debited by Rs. 30,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account	Dr.	Rs. 30,000	
To Purchases Account			Rs. 30,000
(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)			

{1 M}

(e) The discount of Rs. 2,400 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made :

Black & White	Dr.	Rs. 2,400		
To Discount Account			Rs. 2,400	{1 M}
(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)				

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited Rs. 360 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Omission of entry in the Cash Book	360			

{1/2 M}

(ii) **If a Suspense Account is opened:**

	Particulars		L.F.	Dr. Rs.	Cr. Rs.	
(a)	Suspense Account	Dr.		4,200		{1 M}
	To Sales Account				4,200	
	(Being the correction arising from under-casting of Sales Day Book)					
(b)	Return Inward Account	Dr.		3,600		{1/2 M}
	To Gaurav & Co				3,600	
	(Being the recording of unrecorded returns)					
(c)	Suspense Account	Dr.		9,000		{1 M}
	To Sen Brothers				9,000	
	(Being the correction of the error by which Sen Brothers was debited instead of being credited by Rs. 4,500).					
(d)	Furniture Account	Dr.		30,000		{1 M}
	To Purchases Account				30,000	
	(Being the correction of recording purchase of furniture as ordinary purchases)					
(e)	Black & White	Dr.		2,400		{1 M}
	To Discount Account (Being the recording of discount omitted to be recorded)				2,400	
(f)	Discount Account	Dr.		360		{1 M}
	To Suspense Account				360	
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).					

Answer 5:

(a) **Calcutta Football Club**

Income and Expenditure Account for the year ended 31st December, 2022

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

Balance Sheet of Calcutta Football Club as on 31st December, 2022

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

Working Notes:

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

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

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

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

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

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

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

(5) Balance Sheet of Calcutta Football Club as on 1st January, 2022

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

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

Particulars	1.1.2022	31.12.2022
Balance as per Pass Book	6,000	2,000
Less : Cheque issued but not presented	3,000	2,500
Balance as per Cash Book	3,000	(O/D) (500)

{1 M}

Answer:

(b)

Revaluation Account

2020		Rs.	2020		Rs.
July 1	To Building **{1/2 M}{**	11,000	July 1	By Investments	4,000 **}{1/2 M}**
	To Plant and Machinery	80,000 **}{1/2 M}**		(46,000 - 42,000)	
	To Trade receivable (Bad Debts)	23,850 **}{1/2 M}**		By Partners' Capital A/cs	
				(loss on revaluation)	
				A (3/10) 33,255	
				B (2/10) 22,170	
				C (5/10) 55,425	1,10,850 **}{1 M}**
		1,14,850			1,14,850

Dr. Partners' Capital Accounts Cr.

	A	B	C	D		A	B	C	D
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-
To B's and C's capital A/cs	–	–	–	90,000	By D's Capital A/c (W.N.1)	–	60,000 **{1/2 M}**	30,000 **{1/2 M}**	–
To Investments A/c	–	46,000	–	–	By Bank A/c	29,255	–	25,425	2,10,000
To B's loan A/c	–	87,830 **}{1 M}**	–	–		**}{1 M}**		**}{1 M}**	**}{1 M}**
To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at Rs. 3 lakhs

Sacrificing ratio:

A 3/10 - 3/10 = 0

B 2/10 - 0 = 2/10

C 5/10 - 4/10 = 1/10

Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place. **{1 M}**

Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

		Rs.
B: 90,000 x 2/3 =	60,000	
C: 90,000 x 1/3 =	<u>30,000</u>	90,000

2. Capital of partners in the reconstituted firm:

	Rs.
Total capital of the reconstituted firm (given)	4,00,000
A (3/10)	1,20,000
C (4/10)	1,60,000
D (3/10)	1,20,000

{1 M}

Answer 6:
(a)

1.	Bank A/c	Dr.	40,000		
	To Equity Share Application A/c			40,000	
	(Being the application money received for 20,000 shares at Rs. 2 per share)				
2.	Equity Share Application A/c	Dr.	40,000		{1 M}
	To Equity Share Capital A/c			40,000	
	(Being share allotment made for 20,000 shares at Rs. 2 per share)				
3.	Equity Share Allotment A/c	Dr.	60,000		{1 M}
	To Equity Share Capital A/c			60,000	
	(Being allotment amount due on 20,000 equity shares at Rs. 3 per share as per Directors' resolution no... dated...)				
4.	Bank A/c	Dr.	60,000		{1 M}
	To Equity Share Allotment A/c			60,000	
	(Being allotment money received for 20,000 equity shares at Rs. 3 per share)				
5.	Equity Share First Call Account	Dr.	80,000		{1 M}
	To Equity Share Capital A/c			80,000	
	(Being first call money due on 20,000 equity shares @ Rs. 4 per share)				
6.	Bank Account	Dr.	78,800		{1 M}
	To Equity Share First Call Account			78,800	
	(Being full amount of first call money received except on 300 shares)				
7.	Equity Share Final Call Account	Dr.	20,000		{1 M}
	To Equity Share Capital A/c			20,000	
	(Being first call and final call money due)				
8.	Bank Account	Dr.	19,700		{1 M}
	To Equity Share Final Call Account			19,700	
	(Being full amount of final call money received except on 300 shares)				
9.	Equity Share Capital A/c (300 x Rs. 10)	Dr.	3,000		{1 M}
	To Equity Share First Call Account			1,200	
	To Equity Share Final Call Account			300	
	To Forfeited Shares A/c			1,500	
	(Being forfeiture of 300 equity shares for non-payment of call money as per Board's Resolution No…..dated….)				

10. Bank A/c (300 x Rs. 8)	Dr.	2,400		
Forfeited Shares A/c	Dr.	600		
To Equity Share Capital A/c			3,000	{1 M}
(Being re-issue of 300 shares @ Rs. 8 each as per Board's Resolution No…..dated….)				
11. Forfeited Shares A/c	Dr	900		
To Capital Reserve A/c			900	{1 M}
(Being profit on re-issue transferred to Capital Reserve)				

Answer:

(b) **In the books of Y Company Ltd. Journal Entries**

Date	Particulars		Dr. Rs.	Cr. Rs.	
(i)	Fixed Assets A/c	Dr.	13,00,000		
	To Vendor A/c			13,00,000	{1 M}
	(Being the purchase of fixed assets from vendor)				
	Vendor A/c	Dr.	13,00,000		
	Discount on Issue of Debentures A/c	Dr.	2,00,000		
	To 12% Debentures A/c			15,00,000	{1 M}
	(Being the issue of debentures of Rs. 15,00,000 to vendor to satisfy his claim)				
(ii)	Bank A/c	Dr.	27,00,000		
	To Debentures Application A/c			27,00,000	{1 M}
	(Being the application money received on 5,000 debentures @ Rs. 540 each)				
	Debentures Application A/c	Dr.	27,00,000		
	Discount on issue of Debentures A/c	Dr.	3,00,000		
	To 12% Debentures A/c			30,00,000	{1 M}
	(Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No….dated….)				
(iii)	Bank A/c	Dr.	14,00,000		
	To Bank Loan A/c (See Note)			14,00,000	
	(Being a loan of Rs. 14,00,000 taken from bank by issuing debentures of Rs. 15,00,000 as collateral security)				{1 M}

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

Answer:

(c) Under straight line method an equal amount is written off each year throughout the working life of the depreciable tangible asset so as to reduce the cost of the asset to nil or to its scarp value at the end. Under reducing balance method, a fixed percentage is charged on the diminishing balance of the asset each year so as to reduce the value of the asset to its scarp value at the end of useful life. The basic distinction between these two methods are as follows: {2 M}

Under straight line method, annual depreciation charge is equal throughout the life of the asset; but under reducing balance method, depreciation charge is reduced over the years as the asset grows old. {1 M}

Under straight-line method, the asset can be fully depreciated but under reducing balance method asset can never be fully depreciated.
Under straight line method the charge for depreciation is constant while repair charges increase with the life of the asset, so the total charge throughout the life of the asset will not be uniform. To the contrary, under reducing balance method, depreciation charges become high in the initial years but generally repair remains low. As the asset grows old depreciation charge reduces but repair expenses increase. Thus under reducing balance method depreciation and repairs are more or less evenly distributed throughout the life of the asset. **{2 M}**

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