

# PAPER – 1: ACCOUNTING

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*Question No. 1 is compulsory.*

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

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

*Working Notes should form part of the answer.*

## **Question 1**

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

- (i) *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) *While preparing the Income and Expenditure Account as per accrual concept, the income and expenditure is considered in the period in which actual receipts or actual payments are made.*
- (iii) *Profit sharing ratio and capital contribution ratio need not be same.*
- (iv) *Depreciation is not provided in the financial year when the entity incurs loss.*
- (v) *The concept that helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matching concept.*
- (vi) *A Company cannot issue equity shares at discount to general public.*

**(6 x 2 = 12 Marks)**

(b) *Explain the generally accepted valuation principles.* **(4 Marks)**

(c) *Record the following transactions in the purchase book:*

2 <sup>nd</sup> December,2024	Purchased from Gupta & Co. on credit 100 plates @ ₹ 150 per plate 500 small bowls @ ₹ 50 per bowl Less: Trade discount @ 10% Packing charges @ ₹ 2 per plate and ₹ 1 per bowl
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6 <sup>th</sup> December,2024	Purchased a furniture for shop from M/s Plywood Co. on credit for ₹ 15,000/-
8 <sup>th</sup> December,2024	Purchased on credit from M/s Ajanta & Co. 50 Boxes of spoon @ ₹ 200 per box 40 boxes of Fork @ ₹ 250 per box Less: Trade Discount @ 8%
15 <sup>th</sup> December,2024	Purchased for cash from Steel House 40 big bowl @ ₹ 70/- per bowl
27 <sup>th</sup> December,2024	Purchased one dozen cookers @ ₹ 750 each from M/s Verma & Sons on credit

(4 Marks)

**Answer**

(a) 1. **False:** As per materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements.

2. **False:** While preparing the Income and Expenditure Account as per accrual concept, the items of revenue nature pertaining to the current period of account are included and not the actual receipt and payments.

3. **True:** Profit sharing can be different from that of capital introduced by each of the partner. It is not necessary that partner contributing more capital should have a higher profit-sharing ratio and vice versa. Profit Sharing ratio is determined by mutual agreement among partners.

4. **False:** Depreciation is a charge against profit and not an appropriation of profit. Therefore, depreciation has to be provided for, even in case of loss in a financial year.

5. **False:** The concept that helps in keeping business affairs free from the influence of the personal affairs of the owner is called Business entity concept. Under matching concept all expenses matched with the revenue of that period is taken into consideration.

6. **True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat

equity shares (issued to employees and directors). Thus, any issue of shares at discount shall be void.

(b) There are four generally accepted measurement bases or valuation principles. These are:

(i) **Historical Cost:** It means acquisition cost. According to this, assets are recorded at an amount of cash or cash equivalent paid at the time of acquisition. Liabilities are recorded at the time of proceeds received in exchange for the obligation.

(ii) **Current Cost:** Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

(iii) **Realisable Value:** As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal and Liabilities are carried at their settlement values.

(iv) **Present Value:** As per present value, an asset is carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

(c)

**Purchases Book**

<b>Date</b>	<b>Particulars</b>	<b>Details</b>	<b>Amount</b>
2024		₹	₹
2 <sup>nd</sup> Dec	M/s. Gupta & Co.		
	100 Plates @ ₹ 150 per plate	15,000	
	500 small bowls @ ₹ 50 per bowl	<u>25,000</u>	
		40,000	
	<i>Less: 10% trade discount</i>	<u>(4,000)</u>	
		36,000	

	Add: Packing charges @ 2 for 100 plates and 1 for 500 bowls	<u>700</u>	36,700
8 <sup>th</sup> Dec	M/s Ajanta & Co.		
	50 Boxes spoons @ ₹ 200 per box	10,000	
	40 Boxes Fork @ ₹ 250 per box	<u>10,000</u>	
		20,000	
27 <sup>th</sup> Dec	Less: 8% trade discount	(1,600)	18,400
	M/s. Verma & Sons		
	1 doz. Cookers @ ₹ 750	9,000	<u>9,000</u>
		Total	64,100

**Note :**

1. Purchases in cash is recorded through Cash Book.
2. Purchase of furniture being fixed asset will be recorded through Journal.

**Question 2**

(a) The following are the details of machineries held by a firm:

Machine	Purchase Date	Purchase Value (₹)	Useful Life	Scrap Value (₹)
M1	01/04/2020	11,00,000	8 years	20,000
M2	01/04/2022	9,40,000	8 years	40,000
M3	01/04/2024	8,10,000	5 years	--

The firm uses 'sum of years digits' method for charging depreciation and maintains a separate account for it.

On 1<sup>st</sup> April, 2024, the M1 machine has become obsolete and has been sold for ₹ 1,34,000/-. On the same date the estimated useful remaining life of M2 machine is reassessed at 3 years with ₹ 10,000 as scrap value.

You are required to prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the year ending 31<sup>st</sup> March, 2024 and 31<sup>st</sup> March, 2025. **(8 Marks)**

(b) Pass the Journal entries to record/rectify the following transactions in the books of Mr. Dutt. Suspense account may be used, if required:

- (i) Sale of goods to Mahesh at the list price of ₹ 1,80,000/- less 10% trade discount. Out of the amount due 50% is received, out of which two-third is received by cheque and the balance amount is received in cash. CGST and SGST applicable is 6% each.
- (ii) One of the debtors, Mr. X has agreed to pay his dues of ₹ 3,000/- to Mr. C who is a creditor of Mr. Dutt with the same amount being due to him.
- (iii) Employees have been given inventory having selling price of ₹ 1,00,000 (Cost price ₹ 75,000) on the eve of Deepawali as a gift. CGST and SGST applicable is 6% each.
- (iv) Sale of ₹ 2,500/- made to Mr. Kamal Kumar has been debited to Mrs. Kamla Rani.
- (v) A second hand machinery was purchased and its overhauling charges paid are ₹15,000/-. The accountant debited the overhaul charges to Repairs and Maintenance Account. Depreciation on machinery has been charged at 10%.
- (vi) A purchase of ₹ 151 from Mr. X was entered in Purchase Day Book as ₹ 15 and posted to Mr. X account as ₹ 51.
- (vii) R has been issued a credit note allowing rebate of ₹ 6,000/- as goods supplied to him was found defective. CGST and SGST charged @ 6% each.
- (viii) S was also given a credit note of ₹ 2,000/- for making prompt payment for outstanding against goods sold to him. CGST and SGST charged on sale was @ 6%.
- (ix) An accrual of telephone charges for ₹ 2,538 has been completely omitted.
- (x) A cheque of ₹ 25,390 issued to Mr. C. Dass (shown under trade payables) towards his dues has been wrongly debited to the purchases.

**(12 Marks)**

## Answer

(a)

Dr.	Machinery Account (at original cost)				Cr.
Date	Particulars	₹	Date	Particulars	₹
01.04.2023	To Bal b/d M1-11,00,000 <u>M2- 9,40,000</u>	20,40,000	31.03.2024	By Balance c/d M1- 11,00,000 <u>M2- 9,40,000</u>	20,40,000
		20,40,000			20,40,000
01.04.2024	To Balance b/d	20,40,000	01.04.2024	By Machinery Disposal A/c	11,00,000
01.04.2024	To Bank A/c	8,10,000	31.03.2025	By Balance c/d M1- 9,40,000 <u>M2- 8,10,000</u>	17,50,000
		28,50,000			28,50,000

Dr.	Provision for Depreciation Account				Cr.
Date	Particulars	₹	Date	Particulars	₹
31.03.2024	To Balance c/d M1- 7,80,000 <u>M2- 3,75,000</u>	11,55,000	1.04.2023	By Balance b/d M1- 6,30,000 <u>M2- 2,00,000</u>	8,30,000
			31.03.2024	By Depreciation A/c M1- 1,50,000 <u>M2-1,75,000</u>	3,25,000
		11,55,000			11,55,000
01.04.2024	To Machinery Disposal A/c (M1)	7,80,000	01.04.2024	By Balance b/d M1- 7,80,000 <u>M2- 3,75,000</u>	11,55,000
31.03.2025	To Balance c/d M2-6,52,500 <u>M3- 2,70,000</u>	9,22,500	31.03.2025	By Depreciation A/c M2- 2,77,500 <u>M3- 2,70,000</u>	5,47,500
		17,02,500			17,02,500

Dr.	Machinery Disposal Account			Cr.	
Date	Particulars	₹	Date	Particulars	₹
01.4.2024	To Machinery Disposal A/c	11,00,000	01.04.2024	By Provision for Depreciation A/c	7,80,000
			01.04.2024	By Bank A/c	1,34,000
			01.04.2024	By Profit and Loss A/c (Loss on sale of machinery)	1,86,000
		11,00,000			11,00,000

**Working Notes:**

**(1) Calculation of Total of sum of digit of depreciation of Machine 1 and 2 from 1<sup>st</sup> April,2020- 31<sup>st</sup> March,2023**

	Machinery (M1)	Machinery (M2)
Cost	11,00,000	9,40,000
Depreciation	(6,30,000) [10,80,000 x $\frac{(8+7+6)}{36}$ ]	(2,00,000) [9,00,000 x $\frac{8}{36}$ ]

**(2) Calculation of Depreciation for the year 2023-24 and 2024-25**

	2023-2024	2024-2025
Machine 1 (M1)	10,80,000 X 5/36 = 1,50,000	
Machine 2 (M2)	9,00,000 X 7/36 = 1,75,000	5,55,000 X 3 /6= 2,77,500
Machine 3 (M3)		8,10,000 X 5/15 = 2,70,000
TOTAL	3,25,000	5,47,500

**(3) Calculation of Depreciation on the machinery disposed**

$$10,80,000 * \frac{(8+7+6+5)}{36} = 7,80,000$$

(b)

**Journal Entries in the books of Mr. Dutt**

<b>S No.</b>	<b>Particulars</b>	<b>Dr. (₹)</b>	<b>Cr. (₹)</b>
i) (a)	Mahesh A/c To Sales To Output CGST To Output SGST  (Being goods sold to Mahesh at 10% trade discount, CGST and SGST is applicable at 6% each.)	1,81,440	1,62,000 9,720 9,720
(b)	Bank A/c Cash A/c To Mahesh  (Being 50% of the amount due is received from Mahesh, out of which 2/3rd is received by cheque and 1/3 <sup>rd</sup> in cash)	60,480 30,240	90,720
ii)	Mr. C To Mr. X  (Being Mr. X paid his dues to Mr. C)	3,000	3,000
iii)	Misc Expenses A/c /Diwali Gift A/c To Purchases To Input CGST To Input SGST  (Being inventory given to employees as Gift and GST input reversed)	84,000	75,000 4,500 4,500
iv)	Kamal Kumar To Kamla Rani  (Being sale to Mr. Kamal Kumar has been wrongly debited to Mrs. Kamla Rani now rectified)	2,500	2,500

v)	Machinery A/c Depreciation A/c To Repairs and Maintenance (Being overhauling charges wrongly debited to repairs and maintenance a/c now rectified)	Dr. Dr. Dr.	13,500 1,500 15,000	
vi)	Purchase A/c To X To Suspense (Being purchases of ₹ 151 from X wrongly posted in purchase book as ₹ 15 and posted to Mr. X as ₹ 51 now rectified)	Dr. Dr.	136 100 36	
vii)	Rebate A/c Output CGST Output SGST To R (Being rebate allowed to R for the goods supplied was found defective)	Dr. Dr. Dr. Dr.	6,000 360 360 6,720	
viii)	Discount allowed A/c To S (Being credit given for making prompt payment for outstanding goods sold)	Dr. Dr.	2,000 2,000	
ix)	Telephone exp. A/c To Outstanding Expenses A/c (Being telephone charges omitted to be recorded now rectified)	Dr. Dr.	2,538 2,538	
x)	Mr. C. Dass A/c To Purchases A/c (Being Cheque issued to Mr. C. Dass wrongly debited to purchases now rectified)	Dr. Dr.	25,390 25,390	

**Question 3**

(a) From the following particulars furnished by Mr. Wye, prepare his Trading and Profit & Loss Account for the year ended on 31<sup>st</sup> March, 2025. Also prepare his Balance Sheet as on 31<sup>st</sup> March, 2025:

	01.04.2024 (₹)	31.03.2025 (₹)
Creditors	6,30,800	4,96,000
Expenses Outstanding	24,000	13,200
Fixed Assets (including machinery)	4,64,400	4,81,600
Stock in hand	3,21,600	4,44,800
Cash in hand	1,18,400	48,000
Cash at bank	1,60,000	2,75,200
Sundry Debtors	6,61,200	?

Details of the year's transactions are as follows:	(₹)
Cash and discount credited to debtors	25,60,000
Returns from debtors	58,000
Bad debts	16,800
Gross Sales (Both cash and credit)	28,72,400
Discount allowed by creditors	28,000
Returns to creditors	16,000
Capital introduced by cheque	3,40,000
Collection from debtors deposited into bank after receiving cash	25,00,000
Cash purchases	41,200
Expenses paid by cash	3,82,800
Drawings by cheque	17,200
Machinery acquired by cheque	1,27,200
Cash deposited into bank	2,00,000

<i>Cash withdrawn from bank</i>	3,69,600
<i>Cash sales</i>	1,84,000
<i>Payment to creditors by cheque</i>	24,10,800

*Note: No Fixed Asset has been sold during the year.* **(12 Marks)**

(b) Mr. P was carrying on a business. On 1<sup>st</sup> April, 2023, he admitted Q as a partner giving him one-fourth profit. It was agreed that the goodwill of the firm would be ₹ 24,000. On 1<sup>st</sup> July, 2023, R was admitted as a partner and it was agreed that the goodwill of the firm be determined at ₹ 40,000 and the new profit sharing ratio of P, Q and R will be 3:1:1. On 1<sup>st</sup> September, 2023, S was also admitted as a partner and at this time, goodwill was valued at ₹ 72,000/- and they agreed to share profits in the ratio of 3:1:1:1. On 1<sup>st</sup> April, 2024, R decided to retire and T was admitted as a partner. Goodwill was agreed at ₹ 96,000 and the profit sharing ratio amongst P, Q, S and T now agreed to be 5:4:3:4.

*All these agreements about goodwill have not been taken into account. On 1<sup>st</sup> April, 2024, when R retires and T is admitted, the partners decided to account for the goodwill by making necessary entries in respect of goodwill in the books without keeping the goodwill account in books.*

*You are required to show working of the goodwill and to pass the required journal entry.* **(8 Marks)**

### Answer

#### (a) **In the Books of Mr. Wye**

#### **Trading Account for the year ended 31<sup>st</sup> March, 2025**

	<b>Particulars</b>	<b>Amount ₹</b>		<b>Particulars</b>	<b>Amount ₹</b>
To	Opening Stock	3,21,600	By	Sales (Gross) 28,72,400	
To	Purchases (Net) (WN 2) (41,200 + 23,20,000 - 16000)	23,45,200	By	Less: Sales Returns (58,000)	28,14,400
To	Gross Profit c/d (bal. fig)	5,92,400	By	Closing Stock	4,44,800
		32,59,200			32,59,200

**Profit & Loss Account for the year ended 31<sup>st</sup> March, 2025**

	<b>Particulars</b>	<b>Amount</b>		<b>Particulars</b>	<b>Amount</b>
To	Expenses (net of o/s adj.) (WN. 5)	3,72,000	By	Gross Profit b/d	5,92,400
To	Depreciation on Fixed Assets (WN. 4)	1,10,000	By	Discount Received	28,000
To	Bad Debts	16,800			
To	Discount allowed to Debtors (WN 1)	60,000			
To	Net Profit transferred to Capital A/c	<u>61,600</u>			<u>6,20,400</u>
		<u>6,20,400</u>			<u>6,20,400</u>

**Balance Sheet as at 31st March, 2025**

<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
Wye's capital		Fixed assets (incl. machinery)	4,81,600
Opening (WN 3)	10,70,800	Stock-in-hand	4,44,800
Add: Net Profit	61,600	Sundry debtors (WN 1)	7,14,800
Capital introduced	3,40,000	Cash-in-hand	48,000
Less: Drawings	<u>(17,200)</u>	Cash at bank	2,75,200
Capital (closing)	14,55,200		
Creditors	4,96,000		
Expenses outstanding	13,200		
	<u>19,64,400</u>		<u>19,64,400</u>

**Working Notes:****1. Sundry Debtors Account**

Particulars	₹	Particulars	₹
To Balance b/d	6,61,200	By Cash A/c	25,00,000
To Sales A/c	26,88,400	By Discount Allowed A/c (₹ 25,60,000 - 25,00,000)	60,000
(₹ 28,72,400 - ₹ 1,84,000)		By Bad Debts A/c	16,800
		By Return Inwards A/c	58,000
		By Balance c/d (Bal. fig)	7,14,800
	33,49,600		33,49,600

**2. Sundry Creditors Account (Calculation of Purchases on Credit)**

Particulars	₹	Particulars	₹
To Bank A/c	24,10,800	To Balance b/d	6,30,800
To Discount Recd. A/c	28,000	By Purchases A/c (Bal fig)	23,20,000
To Returns to Creditors A/c	16,000		
To Balance c/d	4,96,000		
	29,50,800		29,50,800

**3. Balance Sheet as on 1<sup>st</sup> April, 2024**

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening Capital (bal. fig)	10,70,800	Fixed assets (incl. machinery)	4,64,400
Creditors	6,30,800	Stock in hand	3,21,600
Expenses outstanding	24,000	Sundry debtors	6,61,200
		Cash in hand	1,18,400
		Cash at bank	1,60,000
	17,25,600		17,25,600

4.

**Fixed Assets A/c**

Particulars	₹	Particulars	₹
To Balance b/d	4,64,400	By Depreciation A/c (Bal fig)	1,10,000
To Bank A/c	1,27,200	By Balance c/d	4,81,600
	5,91,600		5,91,600

5.

**Expenses Payable A/c**

Particulars	₹	Particulars	₹
To Bank A/c	3,82,800	To Balance b/d	24,000
To Balance c/d	13,200	By Profit & Loss A/c (Bal Fig)	3,72,000
	3,96,000		3,96,000

Note: The calculations in Working Notes 1 to 5 can also be presented in a statement format.

(b)

**Journal Entry**

Q's Capital A/c	Dr.	9,600	
S's Capital A/c	Dr.	14,000	
T's Capital A/c	Dr.	24,000	
		37,200	
		To R's Capital A/c	10,400

(Being Capital A/c of the partners adjusted on admission and Retirement (See Working Note))

**Working Note:****Calculation of Ratios and Goodwill****1. 1-4-23 Q is admitted**

$$\text{Q's share} = 24,000 \times \frac{1}{4} = 6,000$$

New Profit sharing Ratio of P and Q is 3:1

**Sacrifice Ratio = 1 since entire sacrifice is made by P only.**

**2. 1-7-23 R is admitted old Ratio 3:1**

New Ratio 3:1:1

Sacrifice Ratio P:Q 3:1

$$R's \text{ share} = 40,000 \times \frac{1}{5} = 8,000$$

**3. 1-9-23 S is admitted old Ratio 3:1:1**

New Ratio P:Q:R:S 3:1:1:1

Sacrifice Ratio P:Q:R 3:1:1

$$S \text{ share of Goodwill} 72,000 \times \frac{1}{6} = 12,000$$

**4. 1-4-24 R is retired and T is admitted**

Old Ratio P:Q:R:S 3:1:1:1

New Ratio P:Q:S:T 5:4:3:4

**Partners Sacrifice/Gain Allocation = old Share- New Share**

$$P = \frac{3}{6} - \frac{5}{16} = \frac{24-15}{48} = \frac{9}{48} \text{ (Sacrifice)}$$

$$Q = \frac{1}{6} - \frac{4}{16} = \frac{8-12}{48} = \frac{-4}{48} \text{ (Gain)}$$

$$R = \frac{1}{6} \text{ (Sacrifice)}$$

$$S = \frac{1}{6} - \frac{3}{16} = \frac{8-9}{48} = \frac{-1}{48} \text{ (Gain)}$$

$$T = \frac{-4}{16} \text{ (Gain)}$$

**Statement showing Goodwill Distribution among Partners**

Goodwill distribution	share	P	Q	R	S	T
On Admission of Q	6,000 (Cr)	6,000 (Dr)				

On Admission of R	6,000 (Cr)	2,000 (Cr)	8,000 (Dr)		
On Admission of S	7,200 (Cr)	2,400 (Cr)	2,400 (Cr)	12,000 (Dr)	
On retirement of R and Admission of T	18,000(Cr)	8,000(Dr)	16,000(Cr)	2,000 (Dr)	24,000 (Dr)
<b>Total Effect</b>	<b>37,200 (Cr)</b>	<b>9,600 (Dr)</b>	<b>10,400 (Cr)</b>	<b>14,000(Dr)</b>	<b>24,000(Dr)</b>

Alternatively, distribution of Goodwill and calculation of ratios can also be presented in the following format:

**Statement showing the effect of raising and immediately writing back of goodwill**

		Total	P	Q	R	S	T
		₹	₹	₹	₹	₹	₹
1-04-2023	Credit in old ratio 1 : nil Debit in new ratio 3 : 1	+24,000	+24,000	-	-	-	-
		-24,000	-18,000	-6,000	-	-	-
1-07-2023	Credit in old ratio 3 : 1 Debit in new ratio 3 : 1 : 1	+40,000	+30,000	+10,000	-	-	-
		-40,000	-24,000	-8,000	-8,000	-	-
1-09-2023	Credit in old ratio 3 : 1 : 1 Debit in new ratio 3 : 1 : 1 : 1	+72,000	+43,200	+14,400	+14,400	-	-
		-72,000	-36,000	-12,000	-12,000	-12,000	-
1-04-2024	Credit in old ratio 3 : 1 : 1 : 1 Debit in new ratio 5 : 4 : 3 : 4	+96,000	+48,000	+16,000	+16,000	+16,000	-
		-96,000	-30,000	-24,000	-	-18,000	-24,000
	Net amount payable/receivable	-	+37,200	-9,600	+10,400	-14,000	-24,000

**Question 4**

(a) P and Q have been carrying on the business in the name of Bharat Springs in partnership sharing profit and losses in the ratio of 2:3. Their Balance Sheet as on 31<sup>st</sup> March, 2024 has been as follows:

<b>Liabilities</b>	(₹)	<b>Assets</b>	(₹)
<i>Capital Accounts:</i>			
P	80,000	Building	85,000
Q	1,60,000	Plant	55,000
<i>General Reserve</i>	50,000	Furniture	26,700
<i>Creditors</i>	57,800	Debtors	48,000
<i>Bills Payable</i>	16,500	Bills Receivable	11,600
		Stock	54,800
		Bank	83,200
	3,64,300		3,64,300

On 1<sup>st</sup> April, 2024, they have decided to admit R into the partnership giving him a 1/5<sup>th</sup> share in future profits on the following terms:

- (i) R will bring ₹80,000 as his share of capital but is unable to bring in cash for his share of goodwill. It was decided to calculate goodwill of the firm based on R's share in the profits and the capital contribution made by him to the firm.
- (ii) Partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.
- (iii) General Reserve will be transferred to the Partners' Capital Accounts.
- (iv) Provision for doubtful debts is to be made on debtors @ 2%.
- (v) A liability of creditors of ₹ 1,440 is to be written back as no longer payable.
- (vi) Stock shall be written down by 10%.
- (vii) Building is to be revalued at ₹ 1,00,000/-, Plant at ₹ 60,000/- and Furniture at ₹ 24,000/-.
- (viii) Partners agreed that the values of the assets and liabilities will remain the same and, as such, there should not be any change in their book value because of above-mentioned adjustments. They also agreed that for the purpose of goodwill computation, any effect of revaluation shall be ignored.

You are required to make :

(1) Memorandum Revaluation Account  
 (2) Capital Accounts of the partners  
 (3) Balance Sheet of the New Firm **(12 Marks)**

(b) Following is the Receipts and Payments Account of Smart Club for the year ended on 31<sup>st</sup> March, 2025:

**Receipts and Payments Account for the year ended on  
 31<sup>st</sup> March, 2025**

<b>Receipts</b>	<b>Amount (₹)</b>	<b>Payments</b>	<b>Amount (₹)</b>
To Balance b/d	2,50,000	By Salaries and Wages	1,65,000
To Subscription	4,20,000	By Office Expenses	35,000
To Donation for Match Fund	55,000	By Telephone Charges	28,000
To Sale of Match tickets	20,000	By Match Expenses	1,10,000
To Entrance Fees	85,000	By Electricity Charges	32,000
		By Sports Equipment	2,50,000
		By travelling and Conveyance	65,000
		By Balance c/d	1,45,000
	8,30,000		8,30,000

Additional Information:

(i) The subscriptions include ₹ 40,000/- received for the year ended on 31<sup>st</sup> March, 2024. On 31<sup>st</sup> March, 2025 subscriptions due but not received were ₹ 25,000/-. Advance subscription received for the year ending on 31<sup>st</sup> March, 2025 but pertaining to year 2025-2026 amounted to ₹ 35,000/-. The subscriptions received in advance for the year ended 31<sup>st</sup> March, 2024 includes ₹ 14,000/- pertaining to the year 2024-25.

(ii) Opening Balance of Match Fund on 1<sup>st</sup> April, 2024 is ₹ 30,000/-.

(iii) Outstanding Salaries and Wages are ₹ 40,000/- for the year ended on 31<sup>st</sup> March, 2025.

(iv) Depreciate Sports Equipment by 25% for the year ended on 31<sup>st</sup> March, 2025.

(v) Capitalize 50% of the Entrance Fees.

Prepare Income and Expenditure Account of the Club from the above particulars for the year ended on 31<sup>st</sup> March, 2025 and Balance Sheet as on that date. **(8 Marks)**

**Answer**

**(a) Memorandum Revaluation Account**

	Particulars	₹		Particulars	₹
To	Provision for Bad Debts A/c	960	By	Liability of Creditors A/c	1,440
To	Stock A/c	5,480	By	Building A/c	15,000
To	Furniture A/c	2,700	By	Plant A/c	5,000
To	Profit on Revaluation A/c				
	P's Capital-2/5	4,920			
	Q's Capital-3/5	7,380			
		12,300			
		21,440			21,440
To	Liability of Creditors A/c	1,440	By	Provision for Bad Debts A/c	960
To	Building A/c	15,000	By	Stock A/c	5,480
To	Plant A/c	5,000	By	Furniture A/c	2,700
				Loss on Revaluation A/c	
				P's Capital-8/25	3,936
				Q's Capital-12/25	5,904
				R's Capital-5/25	2,460
		21,440			12,300
					21,440

**Partners' Capital Accounts**

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To P's Capital A/c (see WN)			2,400	By Balance b/d	80,000	1,60,000	-
To Q's Capital A/c			3,600				
To Memorandum revaluation A/c	3,936	5,904	2,460	By Bank A/c			80,000

To Balance c/d				By General Reserve By R's Capital A/c (see WN) By Memorandum revaluation A/c	20,000	30,000	
	1,03,384	1,95,076	71,540		2,400	3,600	-
					4,920	7,380	-
	1,07,320	2,00,980	80,000		1,07,320	2,00,980	80,000

### Balance Sheet of Bharat Springs as at April 1, 2025

Liabilities	₹	Assets	₹
Capital A/c:			
P 1,03,384		Building 85,000	
Q 1,95,076		Plant 55,000	
R 71,540	3,70,000	Furniture 26,700	
Bills Payable 16,500		Debtors 48,000	
Creditors 57,800		Bills Receivable 11,600	
	4,44,300	Stock 54,800	
		Bank (83,200+80,000) 1,63,200	
			4,44,300

#### Working Notes:

##### 1. Calculation of New Profit-Sharing Ratio

R's Share = 1/5

P's Share = 4/5 \* 2/5 = 8/25

Q's Share = 4/5 \* 3/5 = 12/25

R's New Share = 5/25

New Profit Sharing Ratio between P:Q:R = 8: 12: 5

##### 2. Calculation of goodwill:

R's contribution of ₹ 80,000 consists of only 1/5th of capital.

Therefore, total capital of firm should be ₹ 80,000 x 5 = ₹ 4,00,000

But combined capital of P, Q and R amounts including general reserve ₹ 80,000 + 1,60,000 + 80,000 + 50,000 = 3,70,000

Thus, the hidden goodwill of the firm is ₹ 30,000 (₹ 4,00,000 - ₹ 3,70,000).

R's share 1/5th = 6,000

3. Goodwill will be shared by P & Q in their sacrificing ratio 2:3

**(b) In the books of Smart Club**

**Income and expenditure Account for the year ended on  
31<sup>st</sup> March 2025**

Dr		Cr	
Expenditure	Amount (₹)	Income	Amount (₹)
Salaries and wages	1,65,000	By Subscriptions (W.N.2)	3,84,000
Add: Outstanding Salaries for 2025	<u>40,000</u>	By Entrance fees (50% × 85,000)	42,500
To Office expenses	35,000	By Excess of expenditure over income	6,000
To Depreciation (25% × 2,50,000)	62,500		
To Telephone Charges	28,000		
To Electricity charges	32,000		
To Travelling and conveyance	65,000		
To Match expenses (Excess of Exp. Over collection)	5,000		
	4,32,500		4,32,500

**Balance Sheet of Smart Club as at 31<sup>st</sup> March, 2025**

Liabilities	₹	Assets	₹
Capital Fund: Opening (WN 1)	2,46,000	Sports Equipment	2,50,000
Less: Deficit for the year	<u>(6,000)</u>	Less: Depreciation	<u>(62,500)</u>
Subs received in advance	35,000	Cash at bank	1,45,000
Outstanding Salaries	40,000	Subscription outstanding	25,000
Match fund (WN.3)	-		
Entrance Fees*	42,500		
	3,57,500		3,57,500

\*Alternatively, entrance fees can also be added to the Capital Fund. In that case capital fund shall be ₹ 2,82,500.

**Working Note 1:****Balance Sheet as at 1<sup>st</sup> April, 2024**

Liabilities	₹	Assets	₹
Match fund	30,000	Cash at Bank	2,50,000
Subs received in advance	14,000		
Capital Fund (Balancing Figure)	2,46,000	Subscription Outstanding in 2024	40,000
	2,90,000		2,90,000

**Working Note 2:** Calculation of Subscription as per Income & Exp a/c

	₹
Subscription as per Receipt & Payment A/c	4,20,000
Add: Subscription Outstanding for 2025	25,000
Subscription received in advance 2024	14,000
Less: Subscription Outstanding for 2024	(40,000)
Subscription received in advance 2025	(35,000)
	3,84,000

**Working Note 3:** Match Expenses/Fund to be shown in Income & Expenditure A/c and Balance sheet as on 31<sup>st</sup> Mar'25

	Income & Expenditure A/c	Balance-sheet ₹
Match Fund	30,000	30,000
Add: Donation for Match fund	55,000	55,000
Add: Proceeds from Sale of tickets	20,000	20,000
Less: Match expenses adjusted	(1,10,000)	(1,05,000)
Balance	(5,000)	Nil

**Question 5**

(a) Attempt any ONE of the two sub-parts i.e. either (i) OR (ii)

(i) From the following information supplied by Mr. D, prepare a Bank Reconciliation Statement as on 31<sup>st</sup> March, 2025 after amending cash on that date:

		(₹)
1.	Bank overdraft as per Bank statement	20,000
2.	Cheques issued but not presented for payment	11,000
3.	Cheques recorded in the bank column of the cash book but not sent to the Bank for collection	3,000
4.	Payment received from customers directly by the bank	6,000
5.	Bank charges debited in the statement	40
6.	Cheques deposited with the Bank but not collected	9,000
7.	A bill for ₹5,000 (discounted with the Bank in February at ₹4,960) dishonoured on 31 <sup>st</sup> March and noting charges paid by the bank	20
8.	Premium of life policy of D paid by the Bank on his standing advice	350
9.	Overdraft balance (Cr.) on 15 <sup>th</sup> March, 2025 of ₹14,000 was carried over as debit balance on the next day in cash book	

**(5 Marks)**

**OR**

(ii) P owed ₹2,00,000 to Q. On 1<sup>st</sup> October, 2024, P accepted a bill drawn by Q for the due amount for 3 months. Q got the bill discounted with his bank for ₹1,98,000 on 3<sup>rd</sup> October, 2024. On 31<sup>st</sup> December, 2024, before the due date, P approached Q for renewal of the bill. Q agreed on the conditions that ₹1,00,000 along with interest at 12% per annum for 3 months on the amount of ₹1,00,000/- will be paid and P would accept a new bill for three months for the balance amount. These arrangements were carried out on 2<sup>nd</sup> January, 2025. However, on 2<sup>nd</sup> April, 2025,

before the due date, P became insolvent and only 40% of the amount of the bill could be recovered from his estate.

Pass the necessary journal entries (with narration) in the books of Q.

**(5 Marks)**

(b) Mr. Sahil runs a factory which produces sugar. Following details are available in respect of his manufacturing activities for the year ended on 31<sup>st</sup> March, 2025:

	(₹)
Opening Work in Progress (15 tones)	4,50,000
Closing Work in Progress (12 tones)	3,60,000
Raw Materials consumed	32,00,000
Closing inventory of Raw Materials	7,60,000
Hire charges of machine @ ₹200 per ton produced	
Direct Wages – Contracted @ ₹ 400 per ton manufacture and @ ₹200 per ton of closing WIP	
Factory Rent	2,40,000
Repairs & Maintenance of plant	1,50,000
Sugar produced -500 tones	
Sale of Scrap	84,000

Prepare the Manufacturing Account of Mr. Sahil for the year ended on 31<sup>st</sup> March, 2025.

**(5 Marks)**

(c) Alpha Limited has an authorized Equity Share Capital of ₹ 20 lakhs divided into equity shares of ₹ 100 each and 10% Redeemable Cumulative Preference Shares of ₹ 5.00 lakhs divided into ₹ 100/- per share. The paid-up equity capital is of ₹ 13,50,000/- and 10% Redeemable Cumulative Preference Shares of 100 each of ₹ 3,00,000/-, Balances in other accounts are: Securities Premium ₹ 35,000/-, Profit & Loss Account ₹ 80,000/- and General Reserve ₹ 4,00,000/-. The Company has investments of the face value of ₹ 40,000/- being carried in the books at a cost of ₹ 45,000/-.

The Company has decided to redeem the Cumulative Preference Shares at 10% premium, partly by making an issue of equity shares of the face value

of ₹ 1,50,000/- at a premium of 10%. Investments are sold at 110% of their face value. All preference shareholders have been paid off except 2 holders holding 500 shares.

You are required to pass the necessary Journal Entries for effecting the above transactions. Working should form part of your answer. **(10 Marks)**

**Answer**

**(a) (i)**

**In the Books of Mr. D**

**Cash Book (Bank Column)**

Particulars	Amount ₹	Particulars	Amount ₹
To Customer A/c (Direct deposit)	6,000	By Bank charges	40
		By Premium of life policy	350
		By Customer A/c (B/R dishonoured)	5,020
To Balance c/d	30,410	By Cheque recorded in the bank column of cash book but not sent to Bank	3,000
		By Error - (Overdraft balance carried over as debit balance)	28,000
	36,410		36,410

**Bank Reconciliation Statement on 31<sup>st</sup> March, 2025**

Particulars	Amount (₹)
Overdraft as per Cash book	30,410
Add: Cheques deposited but not yet collected	9,000
	39,410
Less: Cheques issued but not presented for payment	(11,000)
Debit balance as per pass book (overdraft)	28,410

**Note:** Due to missing information in the question, the overdraft balance as per the Pass Book does not align with the overdraft balance as per the Bank Statement given in the question.

(ii)

**OR****In the books of Q****Journal Entries**

	<b>Particulars</b>		₹	₹
1.10.24	Bills Receivable A/c To P (Being a 3 month's bill drawn on P for the amount due)	Dr.	2,00,000	2,00,000
3.10.24	Bank A/c Discount A/c To Bills Receivable A/c (Being the bill discounted)	Dr.	1,98,000	2,000
31.12.24	P To Bank A/c (Being the bill cancelled up due to P's inability to pay it)	Dr.	2,00,000	2,00,000
2.1.25	P To Interest A/c (Being the interest due on ₹ 1,00,000 @ 12% for 3 months)	Dr.	3,000	3,000
2.1.25	Bank A/c To P (Being the receipt of a portion of the amount due on the bill together with interest)	Dr.	1,03,000	1,03,000

2-1-25	Bills Receivable A/c To P (Being the new bill drawn for the balance)	Dr.	1,00,000	1,00,000
	P To Bills Receivable A/c (Being the dishonour of the bill due to P's insolvency)	Dr.	1,00,000	
2-4-25	Bank A/c Bad Debts A/c To P (Being the receipt of 40% of the amount due on the bill from P's estate)	Dr. Dr. Dr.	40,000 60,000 1,00,000	

(b)

**In the Books of Mr. Sahil****Manufacturing Account for the year ended 31<sup>st</sup> March, 2025**

Particulars	Tonnes	Amount (₹)	Particulars	Tonnes	Amount (₹)
To Opening Work- in- Process	15	4,50,000	By Closing Work- in- Process	12	3,60,000
To Raw Materials Consumed:		32,00,000	By Sale of Scrap		84,000
To Direct Wages – W.N. (1)		2,02,400	By Trading A/c – Cost of finished goods transferred	500	38,98,400
To Hire charges on Machinery (500 units @ ₹ 200)		1,00,000			
To Indirect expenses:					
Factory rent		2,40,000			

Repairs and Maintenance of Plant	1,50,000		
	43,42,400		43,42,400

**Working Notes:**

$$\begin{aligned}
 (1) \quad \text{Direct Wages} - 500 \text{ units} @ ₹ 400 &= ₹ 2,00,000 \\
 12 \text{ units} @ ₹ 200 &= ₹ 2,400 \\
 &\underline{\underline{₹ 2,02,400}}
 \end{aligned}$$

**(c)****In the books of Alpha Limited****Journal Entries**

	<b>Particulars</b>		<b>Dr. (₹)</b>	<b>Cr. (₹)</b>
1	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount payable on redemption of 3000 ,10% Redeemable Preference Shares transferred to Shareholders Account)	Dr.	3,00,000 30,000 3,30, 000	
2	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account)	Dr.	30,000	30,000
3	Bank A/c To Equity Share application A/c (Being amount received on issue of equity share)		1,65,000	1,65,000

4	Equity Share Application A/c	Dr.	1,65,000	1,50,000 15,000
	To Equity Shares Capital A/c			
	To Securities Premium A/c			
	(Being the issue of 1,500 Equity Shares of ₹ 100 each at a premium of 10%)			
5	General Reserve A/c (W.N 1)	Dr.	1,50,000	1,50,000
	To Capital Redemption Reserve A/c			
	(Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)			
6	Bank A/c	Dr.	44,000	
	Profit and Loss A/c	Dr.	1,000	45,000
	To Investment			
	(Being investment sold at 11% of face value)			
7	Preference Shareholders A/c	Dr.	2,75,000	2,75,000
	To Bank A/c			
	(Being the amount paid to preference share holders holding 2,500 shares)			

**Working Note:****(1) Amount to be Transferred to Capital Redemption Reserve Account**

Face value of share to be redeemed	₹ 3,00,000
Less: Proceeds from fresh issue (excluding premium)	<u>₹ 1,50,000</u>
	<u>₹ 1,50,000</u>

**Question 6**

(a) ABC Limited has issued 1,20,000 Equity shares of ₹ 10 each at premium of ₹ 2 per share for public subscription payable as follows: On application ₹ 2 per share; on allotment ₹ 5 per share (including premium); on first call ₹ 2 per share; on second and final call ₹ 3 per share.

Application has been received for 1,80,000 shares. Allotment has been made on pro rata to the applicants for 1,44,000 shares, the remaining applications being refused. T, to whom 4,800 shares has been allotted, failed to pay the allotment and first call money and his shares have been forfeited. After the second and final call has been made, N, to whom 6,000 shares were allotted, has also failed to pay the two calls. His shares have also been forfeited. Subsequently, out of these forfeited shares, 7,800 shares (including all shares of T) were re-issued to P as fully paid-up at ₹8 per share.

Show the necessary Journal Entries and entries in Cash Book. **(15 Marks)**

(b) From the following particulars, ascertain the value of inventories as on 31<sup>st</sup> March, 2025:

	(₹)
Inventory as on 1 <sup>st</sup> April, 2024	1,76,900
Purchases	9,64,000
Manufacturing Expenses	1,90,000
Selling Expenses	78,500
Administrative Expenses	25,000
Financial Expenses	24,900
Sales	15,37,000

(i) At the time of valuing inventory as on 31<sup>st</sup> March, 2024, a sum of ₹7,500 was written off on a particular item remaining in the balance, which was originally purchased for ₹ 70,000 and was sold during the year for ₹ 65,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

(ii) On 15<sup>th</sup> March, 2025, the goods of the sale value of ₹ 20,000 (included in above sales) were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10<sup>th</sup> April, 2025, approving the rest. **(5 Marks)**

**Answer****(a) In the Books of ABC Ltd.****Cash Book (Bank column only)**

Date	Particulars	₹	Date	Particulars	₹
	To Equity Share Application A/c (Being application money received on 1,80,00 shares @ ₹ 2 each)	3,60,000		By Equity Share Application A/c (Being excess money refunded on 36,000 shares @ ₹ 20 each as per Board's Resolution No...dated....)	72,000
	To Equity Share Allotment A/c (Being allotment money received on 1,15,200 shares @ ₹ 50 each)	5,29,920		By Balance c/d	14,26,320
	To Equity Share first Call A/c (Being First Call money received on 1,09,200 shares @3 each)	2,18,400			
	To Equity Share Second and Final Call A/c (Being First Call money received on 1,09,200 shares @3 each)	3,27,600			
	To Equity Share Capital A/c (Being forfeited shares issued at 8 per share)	62,400			
		14,98,320			14,98,320

**Journal Entries**

<b>Date</b>	<b>Particulars</b>	<b>Amount (₹)</b>	<b>Amount (₹)</b>
i)	Equity Share Application A/c To Equity Share Capital A/c (Being application money on 1,20,000 shares @ ₹ 2 each transferred to Equity Share Capital Account)	2,40,000	2,40,000
ii)	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Being allotment money 1,20,000 shares @ ₹ 5 per share including premium of ₹ 2 per share being made due)	6,00,000	3,60,000 2,40,000
iii)	Equity Share Application A/c Calls in arrear A/c To Equity Share Allotment A/c (Surplus of application money adjusted and amount due to 'T' on 4,800 shares transferred to call in arrear A/c)	48,000 22,080	70,080
iv)	Equity Share First Call A/c To Equity Share Capital A/c (Being first call money received for 1,20,000 shares ₹ 2 per share being made as per Board's resolution No.... dated .....	2,40,000	2,40,000
v)	Calls in arrear A/c (10,800 x 2) To Equity share First call A/c (First call money due on 10,800 shares transferred to call in arrear a/c)	21,600	21,600

vi)	Equity Share Capital A/c (4800 x 7) Securities Premium A/c (4800 x 2) To Call in arrear A/c To Share forfeiture A/c (4,800 shares forfeited for non-payment of allotment and call money)	Dr. Dr. Dr.	33,600 9,600 31,680 11,520	
vii)	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money received on 1,15,200 shares for ₹ 3 per share being made as per Board's resolution No.... dated .....)	Dr.	3,45,600	3,45,600
viii)	Calls in arrear A/c To Equity share final call A/c (Final call money due on 6,000 shares transferred to call in arrear a/c)	Dr.	18,000	18,000
ix)	Equity Share Capital A/c (6000 x 10) To Call in arrear A/c To Share forfeiture A/c (6,000 shares forfeited for non-payment of first call and final call money)	Dr.	60,000	30,000 30,000
x)	Forfeited Shares A/c (7,800X ₹ 2) To Equity Share Capital A/c (Being loss on re-issue of 7,800 shares @ ₹ 2 each as per Board's Resolution No.....dated.....)	Dr.	15,600	15,600
xi)	Forfeited Shares A/c (Note no 4) To Capital Reserve A/c (Being profit on re-issue transferred to Capital Reserve)	Dr.	10,920	10,920

**Alternately**, journal entries can also be passed without using the Calls in Arrears Account.

**Working Notes:****1. Calculation of Money paid by T on application**

4,800 shares was allotted, hence applied shares = 4,800\*  
 $1,44,000/1,20,000 = 5,760$

Hence application money paid by T = 5,760 X2 = **11,520**

**2. Amount due/Payable on Allotment by T**

Allotment money Due (4,800*5)	24,000
Excess money received on application (11,520 – (4,800*2))	<u>1,920</u>
Money not received from T	<u>22,080</u>

**3. Money actually received on Allotment**

Money receivable on Allotment	6,00,000
Excess application money	<u>48,000</u>
	5,52,000
Money not paid by T	( <u>22,080</u> )
	<u>5,29,920</u>

**4. Calculation of Capital Reserve**

Forfeited amount on 4,800 T's shares	11,520
Forfeited amount on 3,000 N's shares ( <u>30,000 x 3000</u> )	<u>15,000</u>
	6,000
Less: Loss on re-issue of 7,800 Shares	<u>15,600</u>
	<u>10,920</u>

**(b) Statement of Valuation Inventory on 31<sup>st</sup> March, 2025**

Particulars	₹	₹
Inventory as on 1 <sup>st</sup> April, 2024	1,76,900	
Less: Book value of abnormal inventory		
(₹ 70,000 - ₹ 7,500)	62,500	1,14,400

Add: Purchases		9,64,000
Manufacturing Expenses		1,90,000
		12,68,400
<i>Less:</i> Cost of goods sold:		
Sales as per books	15,37,000	
<i>Less:</i> Sales of abnormal item	(65,000)	
	14,72,000	
<i>Less:</i> Goods sent on approval basis	(20,000)	
	14,52,000	
<i>Less:</i> Gross Profit @ 20%	(2,90,400)	(11,61,600)
Inventory in trade as on 31 <sup>st</sup> March, 2025		1,06,800