# MTP March, 2019 ANSWERS

1. **(a) (i) False**- When shares are forfeited, the share capital account is debited with called up capital

of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

* 1. **False-** Accrual concept implies accounting on ‘due’ or ‘accrual’ basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
  2. **False -** Finished goods are normally valued at cost or net realizable value whichever is lower.
  3. **True -** Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
  4. **False -** According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.
  5. **False-** Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

1. **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.

On the other hand, mercantile system of accounting is a system of classifying and summarizing trandsactions into assets, liabilities, equity (owner’s fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created

/impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.

Mercantile system of accounting is generally accepted accounting system by business entities

# Journal Entries in the books of Gamma Bros.

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Particulars* | *Dr.* | *Cr.* |
|  |  | *Amount*  *(Rs.)* | *Amount*  *(Rs.)* |
|  |  |  |  |
| (i) | Salaries A/c | 7,500 |  |
|  | T o Purchase A/c |  | 7,500 |
|  | (Being entry made for stock taken by employees) |  |  |
| (ii) | MachineryA/c | 8,000 |  |
|  | T o Cash A/c |  | 8,000 |
|  | (Being wages paid for erection of machinery) |  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
| (iii) | Drawings A/c | 1,700 |  |
|  | T o Petty Cash A/c |  | 1,700 |
|  | (Being the income tax of proprietor paid out of business money) |  |  |
| (iv) | Purchase A/c | 1,800 |  |
|  | T o Cash A/c |  | 1,750 |
|  | T o Discount Received A/c |  | 50 |
|  | (Being the goods purchased from Naveen for Rs. 2,000 @ 10% trade discount and cash discount of Rs. 50) |  |  |

# (a) Profit and Loss Adjustment Account

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Rs.* |  | *Rs.* |
| T o Advertisement (samples) | 80,000 | By Net profit | 8,00,000 |
| T o Sales | 2,00,000 | By Electric fittings | 30,000 |
| (goods approved in April to |  | By Samples | 80,000 |
| be taken as April sales) |  | By Stock (Purchases of March | 5,00,000 |
| T o Adjusted net profit | 16,80,000 | not included in stock) |  |
|  |  | By Sales (goods sold in March wrongly taken as April sales) | 4,00,000 |
|  |  | By Stock (goods sent on approval basis not included in stock) | 1,50,000 |
|  | 19,60,000 |  | 19,60,000 |

**Calculation of value of inventory on 31st March, 2017**

|  |  |
| --- | --- |
|  | *Rs.* |
| Stock on 31st March, 2017 (given) | 7,50,000 |
| *Add:* Purchases of March, 2017 not included in the stock | 5,00,000 |
| Goods lying with customers on approval basis | 1,50,000 |
|  | 14,00,000 |

1. **Motor Truck A/c**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Amount** | **Date** | **Particulars** | **Amount** | |
| **2016** |  |  | **2016** |  |  | |
| Jan-01 | T o balance b/d | 2,92,50,000 | Oct-01 | By bank A/c |  | 27,00,000 |
| Oct-01 | T o Profit & Loss A/c |  | Oct-01 | By Depreciation on lost assets |  |
|  | (Profit on settlement of T ruck) | 4,50,000 |  | 6,75,000 |
| Oct-01 | T o Bank A/c | 50,00,000 | Dec-31 | By Depreciation A/c | 83,50,000 |
|  |  |  | Dec-31 | By balance c/d | 2,29,75,000 |
| **2017** |  | **3,47,00,000** | **2017** |  | **3,47,00,000** |
| Jan-01 | T o balance b/d | 2,29,75,000 | Dec-31 | By Depreciation A/c | 91,00,000 |
|  |  |  | Dec-31 | By balance c/d | 1,38,75,000 |
|  |  | **2,29,75,000** |  |  | **2,29,75,000** |

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# Working Note:

* 1. T o find out loss on Profit on settlement of truck *Rs.*

|  |  |
| --- | --- |
| Original cost as on 1.4.2014 | 45,00,000 |
| Less: Depreciation for 2014 | 6,75,000 |
|  | 38,25,000 |
| Less: Depreciation for 2015 | 9,00,000 |
|  | 29,25,000 |
| Less: Depreciation for 2016 (9 months) | 6,75,000 |
|  | 22,50,000 |
| Less: Amount received from Insurance company | 27,00,000 |
|  | 4,50,000 |

# (a) In the books of Y

**X in Account Current with Y (Interest to 31st March, 2018 @ 10% p.a)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Date* | *Particulars* | *Amount* | *Days* | *Product* | *Date* | *Particulars* | *Amount* | *Days* | *Product* |
| *2018* |  | *Rs.* |  | *Rs.* | *2018* |  | *Rs.* |  | *Rs.* |
| Jan.1 | T o Balance b/d | 5,000 | 90 | 4,50,000 | Jan.24 | By Promissiory Note (due date 27th April) | 5,000 | (27) | (1,35,000) |
| Jan.11 | T o Sales | 6,000 | 79 | 4,74,000 | Feb. 1 | By Purchases | 10,000 | 58 | 5,80,000 |
| Feb. 4 | T o Sales | 8,200 | 55 | 4,51,000 | Feb. 7 | By Sales Return | 1,000 | 52 | 52,000 |
| Mar.18 | T o Sales | 9,200 | 13 | 1,19,600 | Mar. 1 | By Purchases | 5,600 | 30 | 1,68,000 |
| Mar.31 | T o Interest | 219 |  |  | Mar.23 | By Purchases | 4,000 | 8 | 32,000 |
|  |  |  |  |  | Mar.31 | By Balance of Products |  |  | 7,97,600 |
|  |  |  |  |  | Mar.31 | By Bank | 3,019 |  |  |
|  |  | 28,619 |  | 14,94,600 |  |  | 28,619 |  | 14,94,600 |

**Working Note: Calculation of interest:**

Interest = 7,97,600  10

365 100

= Rs. 219 (approx.)

# (b). Journal Entries in the Books of Mr. A

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Date* |  | *Particulars L.F.* | *Dr. Amount Rs.* | *Cr. Amount Rs.* |
| *2017* | 1 |  | 10,000 | 10,000 |
| August | Bills Receivable A/c Dr. |
|  | T o B |
|  | (Being the acceptance received from B to settle his account) |

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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| August | 1 | Bank A/c | Dr. | 9,800 |  |
|  |  | Discount A/c | Dr. | 200 |  |
|  |  | T o Bills Receivable | |  | 10,000 |
|  |  | (Being the bill discounted for Rs. 9,800 from bank) | |  |  |
| November | 4 | B | Dr. | 10,000 |  |
|  |  | T o Bank Account | |  | 10,000 |
|  |  | (Being the B’s acceptance is to be renewed) | |  |  |
| November | 4 | B | Dr. | 240 |  |
|  |  | T o Interest Account | |  | 240 |
|  |  | (Being the interest due from B for 3 months i.e.,  8000x3/12 12%=240) | |  |  |
| November | 4 | Cash A/c | Dr. | 2,240 |  |
|  |  | Bills Receivable A/c | Dr. | 8,000 |  |
|  |  | T o B | |  | 10,240 |
|  |  | (Being amount and acceptance of new bill received from B) | |  |  |
| December | 31 | B A/c | Dr. | 8,000 |  |
|  |  | T o Bills Receivable A/c | |  | 8,000 |
|  |  | (Being B became insolvent) | |  |  |
| December | 31 | Cash A/c | Dr. | 3,200 |  |
|  |  | Bad debts A/c | Dr. | 4,800 |  |
|  |  | T o B | |  | 8,000 |
|  |  | (Being the amount received and written off on B’s  insolvency) | |  |  |

# (a) Revaluation Account

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Rs.* |  | *Rs.* |
| T o Plant & Machinery (1,70,000 x 15%) | 25,500 | By Land & Building A/c | 1,52,000 |
| T o Provision for Bad & Doubtful Debts (60,000 x 5%) | 3,000 |
| T o Outstanding Repairs to Building | 6,000 |
| T o A’s Capital A/c (5/8) | 73,438 |
| T o B’s Capital A/c (3/8) | 44,062 |
|  | 1,52,000 | 1,52,000 |

**Capital Accounts of Partners**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | *A* | *B* | *C* |  | *A* | *B* | *C* |
| T o A’s Capital  A/c | - | - | 20,000 | By Balance b/d | 4,10,000 | 3,30,000 | - |
| T o B’s Capital  A/c |  |  | 12,000 | By RevaluationA/c | 73,438 | 44,062 | - |
| T o B’s Current  A/c | - | 68,062 |  | By Profit & Loss A/c | 70,000 | 42,000 | - |
| T o Balance c/d | 6,00,000 | 3,60,000 | 2,40,000 | By Bank | - | - | 2,72,000 |
|  |  |  |  | By C’s Capital A/c | 20,000 | 12,000 | - |
|  |  |  |  | By A’s Current A/c | 26,562 | - | - |
|  | 6,00,000 | 4,28,062 | 2,72,000 |  | 6,00,000 | 4,28,062 | 2,72,000 |

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Calculation of New Profit Sharing Ratio and gaining ratio:

C’s Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

A’s Share = 5/8 x 4/5 = 20/40 = 5/10 B’s Share = 3/8 x 4/5 = 12/40 = 3/10 New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

# Balance sheet of AB & Co. as on 31.3.2018

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Liabilities* |  | *Rs.* | *Assets* |  |  |
| Capital Accounts: |  |  | Land & Buildings |  | 5,32,000 |
| A | 6,00,000 |  | Plant & Machinery | 1,70,000 |  |
| B | 3,60,000 |  | Less: Depreciation | 25,500 | 1,44,500 |
| C | 2,40,000 | 12,00,000 | Furniture |  | 1,09,480 |
| B’s Current A/c |  | 68,062 | Stock |  | 1,45,260 |
| T rade Creditors |  | 54,800 | Sundry Debtors | 60,000 |  |
| Outstanding Repairs to Building |  | 6,000 | *Less*: Provision | 3,000 | 57,000 |
|  |  |  | Cash at Bank |  | 3,14,060 |
|  |  |  | A’s current A/c |  | 26,562 |
|  |  | 13,28,862 |  |  | 13,28,862 |

**Working Note:**

Required Balance of Capital Accounts

C’s Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

C’s Share of Profit = 1/5

T hus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

A’s Capital = 12,00,000 x 5/10 = 6,00,000 and

B’s Capital = 12,00,000 x 3/10 = 3,60,000

# (b) (i) Computation of Income for the year 2016-17:

|  |  |
| --- | --- |
|  | **Rs.** |
| Money received during the year related to 2016-17 | 5,00,000 |
| Add: Money received in advance during previous years | 1,50,000 |
| **Total income of the year 2016-17** | **6,50,000** |

**(ii) Advance from Customers A/c**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Rs.** | **Date** | **Particulars** | **Rs.** |
|  | T o Sales A/c  (Advance related to current year transferred to sales) | 1,50,000 | 1.4.2016 | By Balance b/d | 2,00,000 |

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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 31.3.17 | T o Balance c/d | 1,70,000 |  | By Bank A/c | 1,20,000 |
| (Balancing Figure) |
| **3,20,000** |  | **3,20,000** |

So, total money received during the year is:

|  |  |
| --- | --- |
|  | **Rs.** |
| Cash Sales during the year | 5,00,000 |
| Add: Advance received during the year | 1,20,000 |
| T otal money received during the year | **6,20,000** |

# (a) Capital Account

**for the year ended 31st March, 2018**

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Rs.* |  | *Rs.* |
| T o Drawings: |  | By Cash/bank | 20,000 |
| Motor car expenses | 4,000 | By Cash bank (pension) | 30,000 |
| (one-third of Rs. 12,000) |  | By Net income from practice (derived from income and expenditure a/c) | 47,500 |
| Household expenses | 18,000 |  |
| Daughter’s marriage exp. | 21,500 |  |
| Wages of domestic servants | 3,000 |  |  |
| Household furniture | 2,500 |  |  |
| T o Balance c/d | 48,500 |  | \_\_\_\_\_ |
|  | 97,500 |  | 97,500 |

**Income and Expenditure Account for the year ended 31st March, 2018**

|  |  |  |  |
| --- | --- | --- | --- |
|  | *Rs.* |  | *Rs.* |
| T o Medicines consumed |  | By Prescription fees | 52,500 |
| Purchases 24,500 |  | By Gift from patients | 13,500 |
| *Less*: Stock on 31.3.11 (9,500) | 15,000 | By Visiting fees | 25,000 |
| T o Motor car expense | 8,000 | By Fees from lectures | 2,400 |
| T o Wages and salaries (Rs. 10,500 – Rs. 3,000) | 7,500 |  |  |
| T o Rent for clinic | 6,000 |  |  |
| T o General charges | 4,900 |  |  |
| T o Interest on loan | 4,500 |  |  |
| T o Net Income | 47,500 |  | \_\_\_\_\_\_ |
|  | 93,400 |  | 93,400 |

**Balance Sheet as on 31st March, 2018**

|  |  |  |  |
| --- | --- | --- | --- |
| *Liabilities* | *Rs.* | *Assets* | *Rs.* |
| Capital | 48,500 | Motor car | 32,000 |
| Loan | 30,000 | Surgical equipment | 25,000 |
|  |  | Stock of medicines | 9,500 |

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|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Cash at bank | 11,000 |
| \_\_\_\_\_\_ | Cash in hand | 1,000 |
| 78,500 |  | 78,500 |

**(b) (i)** Current Ratio =

Current Assets CurrentLiabilitie s

 `1,10,000  11: 3 or 3.67 :1

` 30,000

Current Assets= Closing Inventory + Other Current Assets

= Rs. 10,000 + Rs. 1,00,000 = Rs. 1,10,000

**(ii)** Debt to Equity Ratio =

=

Long term Debt Sharholders' Equity

*Debentures Share* Capital  Profit

= ` 60,000

` 2,50,000

 0.24 : 1

# (a) Journal of Mohan Ltd.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2017 |  |  | Dr. | Cr. |
| Rs. in lakhs | Rs. in lakhs |
| June 1 | Bank A/c | Dr. | 300 |  |
|  | T o Shares Application A/c |  |  | 300 |
|  | (Receipt of applications for 15 lakh shares along |  |  |  |
|  | with application money of Rs. 20 per share.) |  |  |  |
| June 1 | Share Application and Allotment A/c  Share Allotment A/c | Dr.  Dr. | 300  450 |  |
|  | T o Share Capital A/c |  |  | 750 |
|  | (T he allotment of 15 lakh shares : payable on |  |  |  |
|  | application Rs. 20 share and Rs. 30 on allotment  as per Directors’ resolution no... dated...) |  |  |  |
| June 1 | Bank A/c | Dr. | 465 |  |
|  | T o Shares Allotment A/c |  |  | 450 |
|  | T o Calls in Advance A/c |  |  | 15 |
|  | [Receipt of money due on allotment @ Rs. 30, also  the two calls (Rs. 30 and Rs. 20) on 30,000 shares.] |  |  |  |
| Nov. 1 | Share First Call A/c | Dr. | 450 |  |
|  | T o Share Capital A/c |  |  | 450 |
|  | (T he amount due on 15 lakh shares @ Rs. 30 on |  |  |  |
|  | first call, as per Directors, resolution no... dated...) |  |  |  |
|  | Bank A/c | Dr. | 441 |  |
|  | Calls in Advance A/c | Dr. | 9 |  |
|  | T o Share First Call A/c |  |  | 450 |
|  | (Receipt of the first call on 14.7 lakh shares, the |  |  |  |
|  | balance having been previously received |  |  |  |
|  | and now debited to call in advance account.) |  |  |  |

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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2018 |  |  |  |  |
| March 1 | Share Final Call A/c | Dr. | 300 |  |
|  | T o Share Capital A/c |  |  | 300 |
|  | (T he amount due on Final Call on 15 lakh shares |  |  |  |
|  | @ Rs. 20 per share, as per Directors’ resolution |  |  |  |
|  | no... dated...) |  |  |  |
| March1 | Bank A/c | Dr. | 294 |  |
|  | Calls in Advance A/c | Dr. | 6 |  |
|  | T o Share Final Call A/c |  |  | 300 |
|  | (Receipt of the moneys due on final call on 14.7 lakhs shares, the balance having been previously |  |  |  |
|  | received.) |  |  |  |
| March 1 | Interest on calls in Advance A/c | Dr. | 0.99 |  |
|  | T o Shareholder A/c  (Being interest on call in advance made due) |  |  | 0.99 |
| Feb 1 | Shareholder A/c  T o Bank A/c (Being interest paid) | Dr. | 0.99 | 0.99 |

# Working Note:

|  |  |
| --- | --- |
| T he interest on calls in advance paid @ 12% on : | Rs. |
| Rs. 9,00,000 (first call) from 1st June to 1st Nov., 2017–5 months | 45,000 |
| Rs. 6,00,000 (final call) from 1st June to 1st March., 2018–9 months | 54,000 |
| T otal Interest Amount Due | 99,000 |

1. **In the books of Riya Company Ltd. Journal Entries**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Date*** | ***Particulars*** |  | ***Dr.*** | ***Cr.*** |
| **Rs.** | **Rs.** |
| (a) | Bank A/c | Dr. | 45,00,000 |  |
|  | T o Debentures Application A/c |  |  | 45,00,000 |
|  | (Being the application money received on 10,000 debentures @ Rs. 450 each) |  |  |  |
|  | Debentures Application A/c | Dr. | 45,00,000 |  |
|  | Discount on issue of Debentures A/c | Dr. | 5,00,000 |  |
|  | T o 14% Debentures A/c |  |  | 50,00,000 |
|  | (Being the issue of 10,000 14% Debentures @ 90%  as per Board’s Resolution No….dated….) |  |  |  |
| (b) | Fixed Assets A/c | Dr. | 20,00,000 |  |
|  | T o Vendor A/c |  |  | 20,00,000 |
|  | (Being the purchase of fixed assets from vendor) |  |  |  |
|  | Vendor A/c | Dr. | 20,00,000 |  |
|  | Discount on Issue of Debentures A/c | Dr. | 5,00,000 |  |
|  | T o 14% Debentures A/c |  |  | 25,00,000 |
|  | (Being the issue of debentures of Rs. 25,00,000 to vendor to satisfy his claim) |  |  |  |

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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (c) | Bank A/c | Dr. | 20,00,000 | 20,00,000 |
| T o Bank Loan A/c (See Note) |
| (Being a loan of Rs. 20,00,000 taken from bank by issuing debentures of Rs.25,00,000 as collateral  security) |

**Note:** No entry is made in the books of account of the company at the time of making issue of such debentures. In the “Notes to Accounts” of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

# Pathak Ltd.

**Bank Reconciliation Statement as on 31.3.2017**

|  |  |
| --- | --- |
| **Particulars** | **Rs.** |
| Balance as per cash book  *Add :* Cheque issued but not presented Interest credited  *Less* : Bank charges Balance as per pass book | 1,20,000  68,000  1,500 1,89,500  (300)  1,89,200 |

**Or**

**(c) *Going Concern concept*:** T he financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

T he valuation of assets of a business entity is dependent on this assumption. T raditionally, accountants follow historical cost in majority of the cases.

**Cost Concept:** By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. When a machine is acquired by paying Rs. 5,00,000, following cost concept the value of the machine is taken as Rs. 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.

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