Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.
Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.
Answer Question No. 1 and any five from Question No. 2, 3, 4, 5, 6, 7 and 8.

ANSWER:

SECTION – A

1. (a)

(i)	d
(ii)	b
(iii)	b
(iv)	d
(v)	a
(vi)	b
(vii)	d
(viii)	b
(ix)	a
(x)	c
(xi)	c
(xii)	a

(b)

(i)	False
(ii)	False
(iii)	False
(iv)	False
(v)	False
(vi)	False
(vii)	False

(c)

(i)	assets
(ii)	real
(iii)	allocation, valuation
(iv)	insured
(v)	assets, liabilities
(vi)	partners

SECTION - B

2. (a) (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only.

(iii) Installation costs of new production machine should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

(iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

(v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit the Company only during the current period.

(vi) Payment for computer time to operate a new stores control system should be treated as Revenue Expenditure because it has been incurred to carry on the normal business.

(vii) Wages paid for building foremen's offices should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.

(b) Working Note:

D Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Commission received A/c:			By Bank A/c	16,000
	Ordinary commission	1,150		By Consignment Debtors A/c	7,000
	Del-credere Commission	230			
	To Bank A/c	2,600			
	To balance c/d (final remittance due)	19,020			
		23,000			23,000

Dr. Consignment Debtors Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To D A/c	7,000		By Bank A/c	6,000
				By Bad Debt A/c	1,000
		7,000			7,000

Dr. Ordinary Commission Received Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
	To Bad debt A/c	1,000		By D A/c:	
	To P/L A/c	380		Ordinary Commission	1,150
				Del-Credere Comm.	230
		1,150			1,380

It can be seen that M has to bear the bad debt loss as he has accepted the del-credere commission. So, the bad debt should be matched against the del-credere commission to determine whether accepting the del-credere commission is profitable or not. His net loss in accepting the del-credere commission is = 1000 – 230 = ₹770. So, M is in a loss by accepting the del-credere commission.

He should remit ₹ 19,020 to D (the final remittance amount due).

3.

Dr. Trading and Profit and Loss Account for the year ended 31st December, 2021 Cr.

Particulars	₹	₹	Particulars	₹
To Opening Stock		10,000	By Sales	2,05,000
To Purchases	1,80,000		By Goods destroyed by fire	1,000
Less: Cost of Moped scooter	5,000	1,75,000	(Note 1)	
To Wages	3,000		By Closing stock	12,000
Less: Wages for erection of			By Drawings	1,000
machinery	1,000	2,000	(Goods taken by proprietor)	
To Gross Profit c/d		32,000		
		2,19,000		2,19,000
To Salary	5,400			
Add: Provident Fund	600	6,000	By Gross Profit b/d	32000
To Employer contribution to Provident Fund		600		
To Rent	2,750			
Add: Outstanding	250	3,000		
To Electricity	550			
Add: Outstanding	50	600		
To Commission		200		
To Trade expenses		1,500		
To Interest	900			
Add: Outstanding interest	100	1,000		
To Goods destroyed by fire		1,000		
To Bad debts		500		
To Provision for bad debts		1,000		
To Loss on sale of machinery		1,000		
To Depreciation on:				
Building	1,500			
Machinery	2,900			
Moped	500			
Furniture	500	5,400		
To Net Profit (transferred to Capital Account)		10,200		
		2,19,000		2,19,000

Balance Sheet of Mahesh as at 31st December, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital Account	55,000		Building	30,000	
Add: Net Profit	10,200		Less: Depreciation	1,500	28,500
	65,200		Machinery	29,000	
Less: Drawings (5,000+1 ,000)	6,000	59,200	Add: Wages for erection	1,000	
Creditors		15,000		30,000	
10% Loan		10,000	Less: Loss on sale	1,000	
Outstanding Liabilities:				29,000	
Interest	100		Less: Depreciation	2,900	26,100
Rent	250		Moped Scooter	5,000	
Electricity	50	400	Less: Depreciation	500	4,500
			Furniture	5,000	
			Less: Depreciation	500	4,500
			Closing Stock		12,000
			Debtors	10,500	
			Less: Bad debts	500	
				10,000	
			Less: Provision for bad debts	1,000	9,000
		84,600			84,600

Working Note: (1) Total goods destroyed by fire is ₹ 5,000. Insurance claim of ₹ 4,000 has already been received and has been properly accounted for by debiting Cash Account and crediting Purchases Account. Now, adjustment is required for ₹ 1,000 only. For adjustment of ₹ 1,000, the following entries are to be passed:

(i)	Goods Destroyed by Fire Account	Dr.	1,000	
	To Trading Account			1,000
(ii)	Profit and Loss Account	Dr.	1,000	
	To Goods Destroyed by Fire Account			1,000

4. (a) Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Depreciation on plant & machinery	19,500	By Land & building	30,600
To Provision for bad and doubtful debts	4,440		
To Profit-P	2,220		
Profit-Q	2,220		
Profit-R	2,220		
	30,600		30,600

Partners' Capital Accounts

Dr. Cr.

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To R's loan			1,08,220	By Balance b/d	1,20,000	85,000	75,000
Balance c/d	1,53,220	1,18,220		By Revaluation a/c	2,220	2,220	2,220
				By Goodwill	31,000	31,000	31,000
	1,53,220	1,18,220	1,08,220		1,53,220	1,18,220	1,08,220

Balance Sheet as on 31.03.2022 (after retirement of R)

Liabilities	₹	Assets	₹
Creditors	85,000	Cash	36,000
R's Loan	1,08,220	Debtors [74,000 -4,440]	69,560
Capital: P	1,53,220	Stock	60,000
Q	1,18,220	Plant and machinery	1,00,500
		Land and building	1,05,600
		Goodwill	93,000
	4,64,660		4,64,660

(b) (i) The amount of premium will be shared by the old partners in sacrificing ratio. The entry will be:

Cash A/c ………….. Dr. To Premium for Goodwill A/c
Premium for Goodwill A/c ……….Dr. To Old Partners' Capital A/c

(ii) The amount of premium will be shared by the old partners in sacrificing ratio. The amount for premium due from New Partner will be debited to Loan A/c. The entry will be:

Loan to New Partner A/c ………….. Dr. To Premium for Goodwill A/c
Premium for Goodwill A/c …………….Dr. To Old Partners' Capital A/c

(iii) The Goodwill A/c will be raised in the books by crediting Old Partners' Capital A/c in old ratio.

Goodwill A/c ……………………Dr. To Old Partners' Capital A/c

(iv) The Goodwill A/c will be raised in the books by crediting Old Partners' Capital A/c in old ratio and then written off by debiting All Partners' Capital A/c in new ratio. Alternatively, a capital adjustment entry may be made by debiting the New Partners' Capital A/c and crediting the Old Partners' Capital A/c in sacrificing ratio.

New Partner's Capital A/c……………………..Dr. To Old Partners' Capital A/c

5. (a) Working Notes:

1. Computation of Closing Stock Quantity (in units)

Particulars	X	Y	Z
Opening Stock	120	80	152
Add: Purchase	1,000	2,000	2,400
Less: Units Sold	(1,020)	(1,920)	(2,496)
Closing Stock	100	160	56

2. Computation of Gross Profit Ratio

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of

Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under.

Assuming all purchases are sold, the sale proceeds would be:

Department X	1,000 Units @ ₹20.00	20,000
Department Y	2,000 Units @ ₹ 22.50	45,000
Department Z	2,400 Units @ ₹ 25.00	60,000
Total Sale Value of Purchase Quantity	125,000	
Less: Cost of Purchase	1,00,000	
Gross Profit Amount	25,000	
Gross profit Ratio	25,000 ÷ 1,25,000	20% of Selling Price

3. Computation of Profit and Cost for each article

Department	Selling Price	Profit at 1/5 of SP	Cost = Sales - Profit
Department x	₹ 20.00	1/5 of ₹ 20.00 = 4.00	₹16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹18.00
Department 2	₹ 25.00	1/5 of ₹ 25.00 = 5.00	₹ 20.00

Departmental Trading Account

Dr. For the year ended on ….. Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
To Op. stock	1,920	1,440	3 040	6,400	By Sales	20,400	43,200	62,400	1,26,000
To Purchase	16,000	36,000	48,000	100,000	By CI. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
	22,000	46,080	63,520	1,31,600		22,000	46,080	63,520	131,600

Note: Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

(b) In the books of …………..

Dr. Provision for Bad Debts Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-12-2021	To, Bad Debts A/c.	800	1-1-2021	By, Balance b/d	4,550
31-12-2021	To, Profit and Loss A/c. (provision found excess)	850			
31-12-2021	To, Balance c/d (5% on ₹ 58,000)	2,900			
		4,550			4,550
31-12-2022	To, Bad Debt A/c.	1,500	1-1-2022	By, Balance b/d	2,900
	To, Balance c/d (5% on ₹ 40,000)	2,000	31-12-2022		600

				By, Profit and Loss A/c. (for the provision required)	
		3,500			3,500

Dr. Provision for Discount on Debtors Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-12-2021	To, Discount Allowed A/c.	1,200	1-1-2021	By, Balance b/d	800
31-12-2021	To Balance c/d (2% on ₹ 58,000 - ₹ 2,900)	1,102	31-12-2021	By Profit & Loss A/c -further provision required	1,502
		2,302			2,302
31-12-2022	To, Discount Allowed A/c.	500	1-1-2022	By, Balance b/d	1,102
31-12-2022	To Balance c/d (2% on ₹ 40,000-₹ 2,000)	760	31-12-2022	By Profit & Loss A/c -further provision required	158
		1,260			1,260

6. (a)

Dr. Joint Life Policy Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1.1.19	To Bank A/c	25,000	31.12.19	By P/L A/c	25,000
		25,000			25,000
1.1.20	To Bank A/c	25,000	31.12.20	By P/L A/c	23,000
			31.12.20	By balance c/d	2,000
		25,000			25,000
1.1.21	To balance b/d	2,000	31.12.21	By P/L A/c	22,000
1.1.21	To Bank A/c	25,000	31.12.21	By balance c/d	5,000
		27,000			27,000
1.1.22	To balance b/d	5,000	31.03.22	By Bank A/c	5,00,000
1.1.22	To Bank A/c	25,000		(Policy value received)	
31.03.22	To Partners' Capital A/c A – 1,88,000 B – 1,88,000 C – 94,000	4,70,000			
		5,00,000			5,00,000

(b) Memorandum Trading Account for the period 1st April, 2022 to 29th August 2022

Particulars	₹	₹	Particulars	₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			

Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales][WN]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

Particulars	₹
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	2,350
Insurance Claim	3,89,650

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2022

	₹		₹
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2015-16 = Gross Profit/ Sales ×100 = 12,00,000/40,00,000 × 100 = 30%.

7. (a)

Particulars	Nature	Interest Capitalized	Interest charged to P/L
1. Construction of a shed	Q. A	₹3.60 lakh	
2. Purchase of machinery*	Not Q. A		₹2.70 lakh
3. Working capital	Not Q. A		₹1.80 lakh
4. Advance for purchase of truck	Not Q. A		₹ 0.90 lakh
		₹3.60 lakh	₹5.40 lakh

*On the basis that machinery is ready for its intended use at the time of its acquisition/ purchase.

(b) Trading and Profit and Loss Account

Dr. For the year ending on 31.03.2021 Cr.

Particulars	₹	₹	Particulars	₹
To Opening Stock		20,000	By Sales	1,80,000
To Purchase (bal. fig.)		1,54,000	By Closing stock	30,000
To Gross Profit c/d (@ 20% on sales)		36,000		
		2,10,000		2,10,000
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000

To Depreciation on Building	1,625			
Furniture	250			
Motor	1,800	3,675		
To Net Profit transferred to Capital A/c		12,325		
		36,000		36,000

Balance Sheet as at 31.03.2021

Liability	₹	₹	Assets	₹	₹
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	(1,625)	30,875
Add: Net Profit	12,325		Furniture	5,000	
	60,325		Less: Depreciation	(250)	4,750
Less: Drawings	(7,500)	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	(1,800)	7,200
Sundry Creditors		47,500	Stock in Trade		30,000
Outstanding expenses		5,000	Sundry Debtors		21,000
			Cash at bank		22,000
			Sundry Advances (Amount recoverable from cashier)		4,500
		1,20,325			1,20,325

Working Notes:

(i) Total Debtors Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹1,40,000 – ₹35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
To Gross Profit c/d (@ 20% on sales)		By Balance c/d	21,000
	1,61,000		1,61,000

(ii) Total Creditors Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Bank A/c	1,37,500	By Balance b/d	31,000

To Balance c/d	47,500	By Purchases	1,54,000
	1,85,000		1,85,000

(ii) Cash Book

Dr. Cr.

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	---	By Drawings	---	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	---	1,37,500
To Cash (Contra)	---	71,500	By Bank (Contra)	71,500	---
To Bank (Contra)	12,000	---	By Cash (Contra)	---	12,000
			By Defalcation (Bal. Fig.)	4,500	---
			By Balance c/d (Bal. Fig.)	---	22,000
	85,000	1,85,000		85,000	1,85,000

(iv) Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000+ 20% of ₹ 1,50,000= ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 x 80%= ₹ 1,44,000

(vii) Cost of Goods Sold = Sales - G.P. = ₹ 1,80,000 – ₹36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= ₹ 1,44,000 + ₹ 30,000 – ₹ 20,000
= ₹ 1,54,000.

8. (a) As per para 9 of AS 11 "Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying the foreign currency exchange rate between the reporting currency and the foreign currency at the date of the transaction. Accordingly, on 31.12.2021, borrowings will be recorded at ₹ 4,44,00,000 (i.e., \$ 6,00,000 x ₹ 74.00)

As per para 11(a) of the standard, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.03.2022, borrowings (monetary items) will be recorded at ₹ 4,47,00,000 (i.e., \$6,00,000 x ₹ 74.50).

The exchange difference of ₹ 3,00,000 is arising because the transaction has been reported at different rate (₹ 74.50 = 1 US $) from the rate initially recorded (i.e., ₹74 = 1 US $). This difference is taken to P&L account.

When the loan is closed, the liability will be higher by ₹ 1,50,000 i.e., [(₹74.75 – ₹74.50) x $6,00,000. The exchange difference of ₹ 1,50,000 is arising because the transaction has been settled at an exchange rate (₹ 74.75 = 1 US $) different from the rate at which reported in the last financial statement (₹74.50 = 1 US $). This difference should also be taken to P&L A/c.

(b)

Date	Particulars	₹ in lakhs
01.04.2019	Cost of machine (adjusting grant) = (1500-300)	1,200
31.03.2020	Depreciation	240
	WDV	960
31.03.2021	Depreciation	192
	WDV	768
31.03.2022	Depreciation	153.60
	WDV	614.40
	Add: Govt. grant	300.00
	Revised book value	914.40

Note 1: Depreciation on revised book value will be provided prospectively over the residual life of the asset.

Note 2: The company can also debit the refund amount of ₹ 300 lakhs to DGG A/c if the same account was credited at the time of receipt of the grant.