## PAPER – 1: PRINCIPLES & PRACTICE OF ACCOUNTING

## QUESTIONS

### True and False

1. State with reasons, whether the following statements are true or false:

   (i) Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

   (ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.

   (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

   (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

   (v) 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 calls in arrear of shares forfeited.

### Theoretical Framework

2. (a) Distinguish between Money measurement concept and matching concept.

   (b) Define revenue receipts and give examples. How are these receipts treated? Explain.

### Journal Entries

3. (a) Pass a journal entry in each of the following cases:

   (i) A running business was purchased by Mohan with following assets and liabilities:

   Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

   (ii) Goods distributed by way of free samples, ₹ 1,000.

   (iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

### Capital or Revenue Expenditure

   (b) Classify the following expenditures as capital or revenue expenditure:

   (i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

**Cash Book**

4. (a) Prepare a Petty Cash Book on the Imprest System from the following:

| 2019 | | ₹ |
|---|---|---|
| April 1 | Received ₹ 20,000 for petty cash | |
| " 2 | Paid auto fare | 500 |
| " 3 | Paid cartage | 2,500 |
| " 4 | Paid for Postage & Telegrams | 500 |
| " 5 | Paid wages | 600 |
| " 5 | Paid for stationery | 400 |
| " 6 | Paid for the repairs to machinery | 1,500 |
| " 6 | Bus fare | 100 |
| " 7 | Cartage | 400 |
| " 7 | Postage and Telegrams | 700 |
| " 8 | Cartage | 3,000 |
| " 9 | Stationery | 2,000 |
| " 10 | Sundry expenses | 5,000 |

**Rectification of Errors**

(b) The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they are detected before preparation of Trial Balance.

(b) they are detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they are detected after preparing Final Accounts.

**Bank Reconciliation Statement**

5. On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following:

    1. A cheque for ₹ 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
    2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
    3. On 29th September, 2019, the bank credited an amount of ₹ 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
    4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
    5. On 6th September, 2019, the bank credited ₹ 40,000 to Neel in error.
    6. A bill of exchange for ₹ 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
    7. Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled ₹ 26,52,000.

    You are required:

    (a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and

    (b) to prepare a bank reconciliation statement as on that date.

**Valuation of Inventories**

6. Stock taking of XYZ Stores for the year ended 31st March, 2019 was completed by 10th April, 2019, the valuation of which showed a stock figure of ₹ 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark-up price of ₹ 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 1,125 which should be taken at ₹ 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 1,250 on 31st March, 2019.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2019. Closing stock is valued by XYZ Stores on generally accepted accounting principles.

**Concept and Accounting of Depreciation**

7. M/s. Green Channel purchased a second-hand machine on 1st January, 2015 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

   Another machine was purchased for ₹ 80,000 on 1st July, 2015.

   On 1st July, 2017, the machine installed on 1st January, 2015 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2017.

   Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2018 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2015 to 2018.

**Bills of Exchange**

8. Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2017 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800.

   On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2017, B became insolvent and his estate paid 40%.

   You are required to prepare Journal Entries in the books of Mr. A

**Consignment**

9. Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were ₹ 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to ₹ 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 12,000. 10% of consignment goods of the value of ₹ 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations.

**Sales of goods on approval or return basis**

10. X supplied goods on sale or return basis to customers, the particulars of which are as under:

| Date of dispatch | Party's name | Amount ₹ | Remarks |
|---|---|---|---|
| 10.12.2019 | M/s ABC Co. | 10,000 | No information till 31.12.2019 |
| 12.12.2019 | M/s DEF Co | 15,000 | Returned on 16.12.2019 |
| 15.12.2019 | M/s GHI Co | 12,000 | Goods worth ₹ 2,000 returned on 20.12.2019 |
| 20.12.2019 | M/s DEF Co | 16,000 | Goods Retained on 24.12.2019 |
| 25.12.2019 | M/s ABC Co | 11,000 | Good Retained on 28.12.2019 |
| 30.12.2019 | M/s GHI Co | 13,000 | No information till 31.12.2019 |

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2019.

Prepare the following account in the books of 'X'.

Goods on "sales or return, sold and returned day books".

Goods on sales or return total account.

**Average Due Date**

11. Mehnaaz accepted the following bills drawn by Shehnaaz.

On 8th March, 2018 ₹ 4,000 for 4 months.

On 16th March, 2018 ₹ 5,000 for 3 months.

On 7th April, 2018 ₹ 6,000 for 5 months.

On 17th May, 2018 ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to save ₹ 157 by way of interest. Calculate the date on which he has to effect the payment to save interest of ₹ 157.

**Account current**

12. Mr. A owed ₹ 4,000 on 1st January, 2019 to Mr. X. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

| | ₹ |
|---|---|
| 15 January, 2019 Mr. X sold goods to Mr. A | 2,230 |
| 29 January, 2019 Mr. X bought goods from Mr. A | 1,200 |

| | |
|---|---|
| 10 February, 2019 Mr. A paid cash to Mr. X | 1,000 |
| 13 March, 2019 Mr. A accepted a bill drawn by Mr. X for one month | 2,000 |

They agree to settle their complete accounts by one single payment on 15th March, 2019.

Prepare Mr. A in Account Current with Mr. X and ascertain the amount to be paid. Ignore days of grace. Assume 1 year = 366 Days.

**Final accounts and Rectification of entries**

13. The following are the balances as at 31st March, 2019 extracted from the books of Mr. XYZ.

| | ₹ | | ₹ |
|---|---|---|---|
| Plant and Machinery | 19,550 | Bad debts recovered | 450 |
| Furniture and Fittings | 10,250 | Salaries | 22,550 |
| Bank Overdraft | 80,000 | Salaries payable | 2,450 |
| Capital Account | 65,000 | Prepaid rent | 300 |
| Drawings | 8,000 | Rent | 4,300 |
| Purchases | 1,60,000 | Carriage inward | 1,125 |
| Opening Stock | 32,250 | Carriage outward | 1,350 |
| Wages | 12,165 | Sales | 2,15,300 |
| Provision for doubtful debts | 3,200 | Advertisement Expenses | 3,350 |
| Provision for Discount on | | Printing and Stationery | 1,250 |
| debtors | 1,375 | Cash in hand | 1,450 |
| Sundry Debtors | 1,20,000 | Cash at bank | 3,125 |
| Sundry Creditors | 47,500 | Office Expenses | 10,160 |
| Bad debts | 1,100 | Interest paid on loan | 3,000 |

Additional Information:

1. Purchases include sales return of ₹ 2,575 and sales include purchases return of ₹ 1,725.
2. Goods withdrawn by Mr. XYZ for own consumption ₹ 3,500 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 450 were included in wages account.
4. Free samples distributed for publicity costing ₹ 825.

5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.
6. Depreciation is to be provided on plant and machinery @ 15% p.a. and on furniture and fittings @ 10% p.a.
7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2019 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019, and a Balance Sheet as on that date. Also show the rectification entries.

**Partnership Accounts**

**Calculation of Goodwill**

14. (a) Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2019 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital A/cs | | Sundry fixed assets | 5,00,000 |
| Vasudevan | 85,000 | Inventory | 1,00,000 |
| Sunderarajan | 3,15,000 | Trade receivables | 50,000 |
| Agrawal | 2,25,000 | Bank | 5,000 |
| Trade payables | 30,000 | | |
| | 6,55,000 | | 6,55,000 |

The partnership earned profit ₹ 2,00,000 in 2019 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose, calculate super profit using average capital employed.

(b) J and K are partners in a firm. Their capitals are: J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2019 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

**Death of Partner**

15 The following is the Balance Sheet of M/s. LMN Bros as at 31st December, 2017, they share profit equally:

**Balance Sheet as at 31st December, 2017**

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital | L | 8,200 | Machinery | | 10,000 |
| | M | 8,200 | Furniture | | 5,600 |
| | N | 9,000 | Fixture | | 4,200 |
| General Reserve | | 3,000 | Cash | | 3,000 |
| Trade payables | | 4,700 | Inventories | | 1,900 |
| | | | Trade receivables | 9,000 | |
| | | | *Less:* Provision for Doubtful debts | 600 | 8,400 |
| | | 33,100 | | | 33,100 |

N died on 3rd January, 2018 and the following agreement was to be put into effect.

(a) Assets were to be revalued: Machinery to ₹ 11,700; Furniture to ₹ 4,600; Inventory to ₹ 1,500.

(b) Goodwill was valued at ₹ 6,000 and was to be credited with his share, without using a Goodwill Account.

(c) ₹ 2,000 was to be paid away to the executors of the dead partner on 5th January, 2018.

(d) After death of N, L and M share profit equally.

You are required to prepare:

(i) Journal Entry for Goodwill adjustment.

(ii) Revaluation Account and Capital Accounts of the partners.

**Financial Statements of Not for Profit Organizations**

16. From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:

**Receipts and Payments Account for the year ended 31 December, 2019**

| RECEIPTS | ₹ | | PAYMENTS | | ₹ |
|---|---|---|---|---|---|
| To Balance b/d | | | By Salaries: | | |
| Cash | 800 | | (₹ 7,200 for 2018) | | 31,200 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Bank | 5,200 | 6,000 | By | Hospital Equipment | | 17,000 |
| To | Subscriptions: | | | By | Furniture purchased | | 6,000 |
| | For 2018 | | 5,100 | By | Additions to Building | | 50,000 |
| | For 2019<br>For 2020 | | 24,500<br>2,400 | By | Printing and Stationery | | 2,400 |
| To | Government Grant: | | | By | Diet expenses | | 15,600 |
| | For building | | 80,000 | By | Rent and rates | | |
| | For maintenance | | 20,000 | | (₹ 300 for 2020) | | 2,000 |
| | Fees from sundry | | | By | Electricity and water | | |
| | Patients | | 4,800 | | charges | | 2,400 |
| To | Donations (not to be | | 8,000 | By | office expenses | | 2,000 |
| | capitalized) | | | By | Investments | | 20,000 |
| To | Net collections from | | | By | Balances: | | |
| | benefit shows | | 6,000 | | Cash | 1,400 | |
| | | | | | Bank | 6,800 | 8,200 |
| | | | 1,56,800 | | | | 1,56,800 |

| **Additional information:** | ₹ |
|---|---|
| Value of building under construction as on 31.12.2019 | 1,40,000 |
| Value of hospital equipment on 31.12.2019 | 51,000 |
| Building Fund as on 1.1. 2019 | 80,000 |
| Subscriptions in arrears as on 31.12.2018 | 6,500 |
| Investments in 8% Govt. securities were made on 1st July, 2019. | |

## Issue of Shares

17. On 1st April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:

    ₹ 30 on application, ₹ 30 on allotment, ₹ 20 on 1st October, 2017; and ₹ 20 on 1st February, 2018.

    By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018.

## Forfeiture of Shares

18. Mr. Hello who was the holder of 4,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at ₹ 65 per share paid-up as ₹75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company.

**Issue of Debentures**

19. Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

    ₹ 40 on application

    ₹ 50 on allotment

    You are required to give necessary journal entries regarding issue of debenture.

20. Write **short notes** on the following:

    (i) Objectives of preparing Trial Balance.

    (ii) Rules of posting of journal entries into Ledger.

    (iii) Importance of bank reconciliation statement to an industrial unit.

    (iv) Bill of exchange and various parties to it.

    (v) Fundamental Accounting Assumptions.

    (vi) Accounting conventions.

    (vii) Machine Hour Rate method of calculating depreciation.

## SUGGESTED ANSWERS/HINTS

**1.** **(i)** **False:** Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.

**(ii)** **True:** Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

**(iii)** **False:** The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

**(iv)** **False:** According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

**(v)** **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.

**2.** **(a)** **(i)** **Distinction between Money measurement concept and matching concept**

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money should be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

**(b)** Receipts which are obtained in course of normal business activities are revenue receipts (e.g. receipts from sale of goods or services, interest income etc.).

Revenue receipts should not be equated with the actual cash receipts. Revenue receipts are credited to the Profit and Loss Account.

**3. (a) (i)**

| | | ₹ | ₹ |
|---|---|---|---|
| Cash A/c | Dr. | 2,000 | |
| Land A/c | Dr. | 4,000 | |
| Furniture A/c | Dr. | 1,000 | |
| Stock A/c | Dr. | 2,000 | |
| To Creditors | | | 1,000 |
| To Bank overdraft | | | 2,000 |
| To Capital A/c | | | 6,000 |

(Being commencement of business by Mohan by taking over a running business).

**(ii)**

| | | | |
|---|---|---|---|
| Advertisement Expenses A/c | Dr. | 1,000 | |
| To Purchases A/c | | | 1,000 |

**(iii)**

| | | | |
|---|---|---|---|
| Cash A/c | Dr. | 300 | |
| Bad Debts A/c | Dr. | 300 | |
| To Rahim | | | ₹ 600 |

**(b)** (i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv) Revenue Expenditure.

(v) Capital Expenditure.

**4. (a)** **PETTY CASH BOOK**

| Receipts ₹ | Date 2019 | V. No. | Particulars | Total ₹ | Con-veyance ₹ | Cartage ₹ | Statio-nery ₹ | Postage & Telegrams ₹ | Wages ₹ | Sundries ₹ |
|---|---|---|---|---|---|---|---|---|---|---|
| 20,000 | April1 | | To Cash | | | | | | | |
| | 2 | 1 | By Conveyance | 500 | 500 | | | | | |
| | 3 | 2 | By Cartage | 2,500 | | 2,500 | | | | |
| | 4 | 3 | By Postage and Telegrams | 500 | | | | 500 | | |
| | 5 | 4 | By Wages | 600 | | | | | 600 | |
| | 5 | 5 | By Stationery | 400 | | | 400 | | | |
| | 6 | 6 | By Repairs to machine | 1,500 | | | | | | 1,500 |
| | 6 | 7 | By Conveyance | 100 | 100 | | | | | |
| | 7 | 8 | By Cartage | 400 | | 400 | | | | |
| | 7 | 9 | By Postage and Telegrams | 700 | | | | 700 | | |
| | 8 | 10 | By Cartage | 3,000 | | 3,000 | | | | |
| | 9 | 11 | By Stationery | 2,000 | | | 2,000 | | | |
| | 10 | 12 | By Sundry Expenses | 5,000 | | | | | | 5,000 |
| | | | | 17,200 | 600 | 5,900 | 2,400 | 1,200 | 600 | 6,500 |
| | | | By Balance c/d | 2,800 | | | | | | |
| 20,000 | | | | 20,000 | | | | | | |
| 2800 | | | To Balance b/d | | | | | | | |
| 17,200 | 11 | | To Cash | | | | | | | |

**(b)** (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

| ***Before Trial Balance*** | ***After Trial Balance*** | ***After Final Accounts*** |
|---|---|---|
| No Entry<br>Debit Trivedi A/c with ₹ 800 | Trivedi & Co. A/c Dr. 800<br>To Suspense A/c 800 | Trivedi & Co. A/c Dr. 800<br>To Suspense A/c 800 |

(ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

| ***Correct Entry*** | ***Entry Made Wrongly*** |
|---|---|
| Purchase A/c Dr. 420<br>To Mantri & Co. 420 | Mantri & Co. Dr. 240<br>To Sales 240 |

**Rectification Entry**

| *Before Trial Balance* | *After Trial Balance* | *After Final Accounts* |
|---|---|---|
| Sales A/c Dr. 240<br>Purchase A/c Dr. 420<br>To Mantri & Co. 660 | Sales A/c Dr. 240<br>Purchase A/c Dr. 420<br>To Mantri & Co. 660 | Profit & Loss Adj. A/c Dr.660<br>To Mantri & Co. 660 |

5. (i) **Cash Book (Bank Column)**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| **2019** | | ₹ | **2019** | | |
| Sept. 30 | | | Sept. 30 | | |
| | To Party A/c | 32,000 | | By Balance b/d | 8,124 |
| | To Customer A/c | | | By Bank charges | 1,160 |
| | (Direct deposit) | 2,34,800 | | By Customer A/c | 2,80,000 |
| | To Balance c/d | 22,484 | | (B/R dishonoured) | |
| | | 2,89,284 | | | 2,89,284 |

(ii) **Bank Reconciliation Statement as on 30th September, 2019**

| Particulars | Amount |
|---|---|
| | ₹ |
| Overdraft as per Cash Book | 22,484 |
| *Add:* Cheque deposited but not collected upto 30th Sept., 2019 | 26,28,000 |
| | 26,50,484 |
| *Less:* Cheques issued but not presented for payment upto 30th Sept., 2019 | (26,52,000) |
| Credit by Bank erroneously on 6th Sept. | (40,000) |
| Overdraft as per bank statement | 41,516 |

**Note:** Bank has credited Neel by 40,000 in error on 6th September, 2019. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

6. **Statement showing the valuation of stock as on 31st March, 2019**

| | | ₹ |
|---|---|---|
| A | Value of Stock as on 10th April, 2019 | 1,67,500 |

| | | |
|---|---|---|
| B | *Add:* Cost of sales after 31st March, till stock taking (₹ 6,875 – ₹ 1,719) | 5,156 |
| C | *Less*: Purchases for the next period (net) | 8,100 |
| D | *Less*: Cost of Sales Returns | 225 |
| E | *Less*: Loss on revaluation of slow moving inventories | 600 |
| F | *Less*: Reduction in value on account of default | 300 |
| G | Value of Stock on 31st March, 2019 | 1,63,431 |

**Note:** Profit margin of 33.33 percent on cost means 25 percent on sale price.

**7. Machinery Account in the books of M/s. Green Channel Co.**

| | | ₹ | | | ₹ |
|---|---|---|---|---|---|
| 1.1.2015 | To Bank A/c | 1,60,000 | 31.12.2015 | By Depreciation A/c | 24,000 |
| | To Bank A/c | 40,000 | | (₹ 20,000 + ₹ 4,000) | |
| | (Erection charges) | | 31.12.2015 | By Balance c/d | 2,56,000 |
| 1.7.2015 | To Bank A/c | 80,000 | | (₹ 1,80,000 + ₹ 76,000) | |
| | | 2,80,000 | | | 2,80,000 |
| 1.1.2016 | To Balance b/d | 2,56,000 | 31.12.2016 | By Depreciation A/c | 28,000 |
| | | | | (₹ 20,000 + ₹ 8,000) | |
| | | | 31.12.2016 | By Balance c/d | 2,28,000 |
| | | | | (₹ 1,60,000 + ₹ 68,000) | |
| | | 2,56,000 | | | 2,56,000 |
| 1.1.2017 | To Balance b/d | 2,28,000 | 1.7.2017 | By Bank A/c | 1,00,000 |
| 30.9.2017 | To Bank A/c | 30,000 | | By Profit and Loss A/c | 50,000 |
| | | | | (Loss on Sale – W.N. 1) | |
| | | | 31.12.2017 | By Depreciation A/c | 18,750 |
| | | | | (₹ 10,000 + ₹ 8,000 + ₹ 750) | |
| | | | | By Balance c/d | 89,250 |
| | | | | (₹ 60,000 + ₹ 29,250) | |
| | | 2,58,000 | | | 2,58,000 |
| 1.1.2018 | To Balance b/d | 89,250 | 31.12.2018 | By Depreciation A/c | 13,387.5 |
| | | | | (₹ 9,000 + ₹ 4,387.5) | |
| | | | | By Balance c/d | 75,862.5 |
| | | | | (₹ 51,000 + ₹ 24,862.5) | |
| | | 89,250 | | | 89,250 |

**Working Notes:**

**Book Value of machines (Straight line method)**

| | Machine I ₹ | Machine II ₹ | Machine III ₹ |
|---|---|---|---|
| Cost | 2,00,000 | 80,000 | 30,000 |
| Depreciation for 2015 | 20,000 | 4,000 | |
| Written down value as on 31.12.2015 | 1,80,000 | 76,000 | |
| Depreciation for 2016 | 20,000 | 8,000 | |
| Written down value as on 31.12.2016 | 1,60,000 | 68,000 | |
| Depreciation for 2017 | 10,000 | 8,000 | 750 |
| Written down value as on 31.12.2017 | 1,50,000 | 60,000 | 29,250 |
| Sale proceeds | 1,00,000 | | |
| Loss on sale | 50,000 | | |

8. **Journal Entries in the Books of Mr. A**

| *Date* | | *Particulars* | *L.F.* | *Dr. Amount ₹* | *Cr. Amount ₹* |
|---|---|---|---|---|---|
| *2017* | | | | | |
| August | 1 | Bills Receivable A/c Dr. | | 10,000 | |
| | | To B | | | 10,000 |
| | | (Being the acceptance received from B to settle his account) | | | |
| August | 1 | Bank A/c Dr. | | 9,800 | |
| | | Discount A/c Dr. | | 200 | |
| | | To Bills Receivable | | | 10,000 |
| | | (Being the bill discounted for ₹ 9,800 from bank) | | | |
| November | 4 | B Dr. | | 10,000 | |
| | | To Bank Account | | | 10,000 |
| | | (Being the B's acceptance is to be renewed) | | | |
| November | 4 | B Dr. | | 240 | |
| | | To 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 | |
| | | To B | | 10,240 |
| | | (Being amount and acceptance of new bill received from B) | | |
| December | 31 | B A/c Dr. | 8,000 | |
| | | To 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 | |
| | | To B | | 8,000 |
| | | (Being the amount received and written off on B's insolvency) | | |

**9. Consignment to Jaipur Account in the Books of Manoj**

| *Particulars* | ₹ | *Particulars* | ₹ |
|---|---|---|---|
| To Goods sent on Consignment A/c | 1,87,500 | By Goods sent on Consignment A/c (loading) | 37,500 |
| To Cash A/c | 15,000 | By Abnormal Loss | 16,500 |
| To Kiran(Expenses) | 12,000 | By Kiran(Sales) | 1,50,000 |
| To Kiran(Commission) | 16,406 | By Inventories on Consignment A/c | 30,375 |
| To Inventories Reserve A/c | 5,625 | By General Profit & Loss A/c | 2,156 |
| | 2,36,531 | | 2,36,531 |

**Working Notes:**

1. Calculation of value of goods sent on consignment:

   Abnormal Loss at Invoice price = ₹ 18,750

   Abnormal Loss as a percentage of total consignment = 10%.

   Hence the value of goods sent on consignment = ₹ 18,750 X 100/ 10 = ₹ 1,87,500

   Loading of goods sent on consignment = ₹ 1,87,500 X 25/125 = ₹ 37,500

2. Calculation of abnormal loss (10%):

   Abnormal Loss at Invoice price = ₹ 18,750.

   Abnormal Loss at cost = ₹ 18,750 X 100/125 = ₹ 15,000

   Add: Proportionate expenses of Manoj (10 % of ₹ 15,000) = ₹ 1,500

   ₹ 16,500

3. **Calculation of closing Inventories (15%):**

| | | |
|---|---|---|
| Manoj's Basic Invoice price of consignment | = | ₹ 1,87,500 |
| Manoj's expenses on consignment | = | ₹ 15,000 |
| | | ₹ 2,02,500 |

Value of closing Inventories = 15% of ₹ 2,02,500 = ₹ 30,375

Loading in closing Inventories = ₹ 37,500 x 15/100 = ₹ 5,625

Where ₹ 28,125 (15% of ₹ 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold= 75% of ₹ 1,87,500 = ₹ 1,40,625

Excess of selling price over invoice price = ₹ 9,375 ( ₹ 1,50,000 - ₹ 1,40,625)

Total commission = 10% of ₹ 1,40,625 + 25% of ₹ 9,375

= ₹ 14,062.5 + ₹ 2,343.75 = ₹ 16,406

**10. Goods on sales or return, sold and returned day book in the books of 'X'**

| *Date 2019* | *Party to whom goods sent* | *L.F* | *Amount ₹* | *Date 2019* | *Sold ₹* | *Returned ₹* |
|---|---|---|---|---|---|---|
| Dec.10 | M/s ABC | | 10,000 | Dec. 25 | 10,000 | - |
| Dec.12 | M/s DEF | | 15,000 | Dec. 16 | - | 15,000 |
| Dec.15 | M/s GHI | | 12,000 | Dec. 20 | 10,000 | 2,000 |
| Dec.20 | M/s DEF | | 16,000 | Dec. 24 | 16,000 | - |
| Dec.25 | M/s ABC | | 11,000 | Dec. 28 | 11,000 | - |
| Dec.30 | M/s GHI | | 13,000 | - | | |
| | | | 77,000 | | 47,000 | 17,000 |

**Goods on Sales or Return Total Account**

| 2019 | | *Amount ₹* | 2019 | | *Amount ₹* |
|---|---|---|---|---|---|
| Dec. 31 | To Returns | 17,000 | Dec. 31 | By Goods sent | |
| | To Sales | 47,000 | | on sales or return | 77,000 |
| | To Balance c/d | 13,000 | | | |
| | | 77,000 | | | 77,000 |

**11. Taking 19.6.2018 as a Base date**

| Transaction Date | Due Date | Amount | Amount | |
|---|---|---|---|---|
| 8.3.2018 | 11.7.2018 | 4,000 | 22 | 88,000 |
| 16.3.2018 | 19.6.2018 | 5,000 | 0 | 0 |
| 7.4.2018 | 10.9.2018 | 6,000 | 83 | 4,98,000 |
| 17.5.2018 | 20.8.2018 | 5,000 | 62 | 3,10,000 |
| | | 20,000 | | 8,96,000 |

Average Due Date $= \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2018 + ₹ 8,96,000/₹20,000

= 19.6.2018 + 44.8 days (or 45 days approximately)

= 3.8.2018

Mehnaaz wants to save interest of ₹ 157. The yearly interest is ₹ 20,000 × 18%

= ₹ 3,600.

Assume that days corresponding to interest of ₹ 157 are Y.

Then, 3,600 × Y/365 = ₹ 157

or Y = 157 × 365/3,600 = 15.9 days or 16 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 157 by way of interest, she should prepone the payment of amount involved by 16 days from the Average Due Date. Hence, she should make the payment on 18.7.2018 (3.8.2018 – 16 days).

**12. Mr. A in Account Current with Mr. X**

**(Interest upto 15th March, 2019 @ 10% p.a.)**

| *Dr.* | | | | | | | | | | | *Cr.* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Date* | | *Particulars* | *Amount* | *Days* | *Product* | *Date* | | *Particulars* | *Amount* | *Days* | *Product* |
| *2019* | | | | | | *2019* | | | | | |
| Jan. 01 | To | Balance b/d | 4,000 | 75 | 3,00,000 | Jan. 29 | By | Purchase account | 1,200 | 46 | 55,200 |
| Jan. 15 | To | Sales account | 2,230 | 60 | 1,33,800 | Feb. 10 | By | Cash account | 1,000 | 34 | 34,000 |
| Mar. 13 | To | Red Ink product (₹ 2,000 × 29) | | | 58,000 | Mar. 13 | By | Bills Receivable account | 2,000 | | |
| Mar. 15 | To | Interest account $\left(\frac{₹4{,}02{,}600 \times 10 \times 1}{100 \times 366}\right)$ | 110 | | | Mar. 15 | By | Balance of product | | | 4,02,600 |
| | | | | | | | By | Balance c/d (amount to | 2,140 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | be paid) | | |
| | | | 6,340 | 4,91,800 | | | | 6,340 | 4,91,800 |

**13.** **Rectification Entries**

| | *Particulars* | *Dr.* | *Cr.* |
|---|---|---|---|
| | | *Amount* | *Amount* |
| | | ₹ | ₹ |
| (i) | Returns inward account | Dr. 2,575 | |
| | Sales account | Dr. 1,725 | |
| | To Purchases account | | 2,575 |
| | To Returns outward account | | 1,725 |
| | (Being sales return and purchases return wrongly included in purchases and sales respectively, now rectified) | | |
| (ii) | Drawings account | Dr. 3,500 | |
| | To Purchases account | | 3,500 |
| | (Being goods withdrawn for own consumption included in purchases, now rectified) | | |
| (iii) | Plant and machinery account | Dr. 450 | |
| | To Wages account | | 450 |
| | (Being wages paid for installation of plant and machinery wrongly debited to wages, now rectified) | | |
| (iv) | Advertisement expenses account | Dr. 825 | |
| | To Purchases account | | 825 |
| | (Being free samples distributed for publicity out of purchases, now rectified) | | |

**Trading and Profit and Loss Account of Mr. XYZ**

**for the year ended 31st March, 2019**

*Dr.* *Cr.*

| | | | *Amount* | | | | *Amount* |
|---|---|---|---|---|---|---|---|
| | | ₹ | ₹ | | | ₹ | ₹ |
| To | Opening stock | | 32,250 | By | Sales | 2,13,575 | |
| To | Purchases | 1,53,100 | | | *Less*: Sales return | 2,575 | 2,11,000 |
| | *Less*: Purchases return | 1,725 | 1,51,375 | By | Closing stock | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| To | Carriage inward | | 1,125 | | $\left(₹\,80{,}000 \times \frac{100}{80} \times \frac{100}{80}\right)$ | | 1,25,000 |
| To | Wages | | 11,715 | | | | |
| To | Gross profit c/d | | 1,39,535 | | | | |
| | | | 3,36,000 | | | | 3,36,000 |
| To | Salaries | | 22,550 | By | Gross profit b/d | | 1,39,535 |
| To | Rent | | 4,300 | By | Bad debts recovered | | 450 |
| To | Advertisement expenses | | 4,175 | | | | |
| To | Printing and stationery | | 1,250 | | | | |
| To | Bad debts | | 1,100 | | | | |
| To | Carriage outward | | 1,350 | | | | |
| To | Provision for doubtful debts | | | | | | |
| | 5% of ₹ 1,20,000 | 6,000 | | | | | |
| | *Less:* Existing provision | 3,200 | 2,800 | | | | |
| To | Provision for discount on debtors | | | | | | |
| | 2.5% of ₹ 1,14,000 | 2,850 | | | | | |
| | *Less:* Existing provision | 1,375 | 1,475 | | | | |
| To | Depreciation: | | | | | | |
| | Plant and machinery | 3,000 | | | | | |
| | Furniture and fittings | 1,025 | 4,025 | | | | |
| To | Office expenses | | 10,160 | | | | |
| To | Interest on loan | | 3,000 | | | | |
| To | Net profit (Transferred to capital account) | | 83,800 | | | | |
| | | | 1,39,985 | | | | 1,39,985 |

**Balance Sheet of Mr. XYZ as on 31st March, 2019**

| | | Amount | | | *Amount* |
|---|---|---|---|---|---|
| *Liabilities* | ₹ | ₹ | *Assets* | ₹ | ₹ |
| Capital account | 65,000 | | Plant and machinery | 20,000 | |
| *Add*: Net profit | 83,800 | | *Less*: Depreciation | 3,000 | 17,000 |
| | 1,48,800 | | Furniture and fittings | 10,250 | |
| *Less*: | 11,500 | 1,37,300 | *Less*: Depreciation | 1,025 | 9,225 |

| | | | | | |
|---|---|---|---|---|---|
| Drawings | | | | | |
| Bank overdraft | | 80,000 | Closing stock | | 1,25,000 |
| Sundry creditors | | 47,500 | Sundry debtors | 1,20,000 | |
| Payable salaries | | 2,450 | *Less*: Provision for doubtful debts | 6,000 | |
| | | | Provision for bad debts | 2,850 | 1,11,150 |
| | | | Prepaid rent | | 300 |
| | | | Cash in hand | | 1,450 |
| | | | Cash at bank | | 3,125 |
| | | 2,67,250 | | | 2,67,250 |

**14.**

| *Valuation of Goodwill:* | | ₹ |
|---|---|---|
| (1) | *Average Capital Employed* | |
| | Total Assets *less* Trade payables as on 31.12.2019 | 6,25,000 |
| | *Add:* 1/2 of the amount withdrawn by partners | 75,000 |
| | | 7,00,000 |
| | *Less:* 1/2 of the profit earned in 2019 | (1,00,000) |
| | | 6,00,000 |
| (2) | *Super Profit :* | |
| | Profit of M/s Vasudevan, Sundeararajan & Agrawal | 2,00,000 |
| | Normal profit @ 30% on ₹ 6,00,000 | 1,80,000 |
| | Super Profit | 20,000 |
| (3) | *Value of Goodwill* | |
| | 5 Years' Purchase of Super profit (₹ 20,000 × 5) = ₹ 1,00,000 | |

**(b) (i) Capitalisation Method:**

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

**(ii) Super Profit Method:**

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

**15. (a) (i) Journal Entry in the books of the M/s LMN**

| Date | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| Jan 3 2018 | L's Capital A/c | Dr. | 1,000 | |
| | M's Capital A/c | Dr. | 1,000 | |
| | To N's Capital A/c | | | 2,000 |
| | (Being the required adjustment for goodwill through partner's capital accounts) | | | |

**(ii) Revaluation Account**

| Dr. Particulars | ₹ | Particulars | Cr. ₹ |
|---|---|---|---|
| To Furniture A/c (₹ 5,600 – 4,600) | 1,000 | By Machinery A/c (₹ 11,700 - 10,000) | 1,700 |
| To Inventory A/c (₹ 1,900 – 1,500) | 400 | | |
| To Partners' Capital A/cs (L - ₹ 100, M - ₹ 100, N - ₹ 100) | 300 | | |
| | 1,700 | | 1,700 |

**Partners' Capital Accounts**

| | L | M | N | | L | M | N |
|---|---|---|---|---|---|---|---|
| To N (Goodwill) | 1,000 | 1,000 | – | By Balance b/d | 8,200 | 8,200 | 9,000 |
| To Cash A/c | – | – | 2,000 | By General Reserve A/c | 1,000 | 1,000 | 1,000 |
| To Executors A/c | – | – | 10,100 | By Revaluation A/c (Profit) | 100 | 100 | 100 |
| To Balance C/d | 8,300 | 8,300 | – | By L (Goodwill) | – | – | 1000 |
| | | | | By M (Goodwill) | – | – | 1000 |
| | 9,300 | 9,300 | 12,100 | | 9,300 | 9,300 | 12,100 |

**Working Note:**

**Statement showing the Required Adjustment for Goodwill**

| Particulars | L | M | N |
|---|---|---|---|
| Right of goodwill before death | 1/3 | 1/3 | 1/3 |
| Right of goodwill after death | 1/2 | 1/2 | – |
| Gain / (Sacrifice) | (+) 1/6 | (+) 1/6 | (-) 1/3 |

**16.** **Jeevan Hospital**

**Income & Expenditure Account**
**for the year ended 31 December, 2019**

| Expenditure | (₹) | Income | (₹) |
|---|---|---|---|
| To Salaries | 24,000 | By Subscriptions | 24,500 |
| To Diet expenses | 15,600 | By Govt. Grants (Maintenance) | 20,000 |
| To Rent & Rates | 1,700 | By Fees, Sundry Patients | 4,800 |
| To Printing & Stationery | 2,400 | By Donations | 8,000 |
| To Electricity & Water-charges | 2,400 | By Benefit shows (net collections) | 6,000 |
| To Office expenses | 2,000 | By Interest on Investments | 800 |
| To Excess of Income over expenditure transferred to Capital Fund | 16,000 | | |
| | 64,100 | | 64,100 |

**Balance Sheet as at 31st Dec., 2019**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital Fund : | | | Building : | | |
| Opening balance | 49,300 | | Opening balance | 90,000 | |
| Excess of Income | | | Addition | 50,000 | 1,40,000 |
| Over Expenditure | 16,000 | 65,300 | Hospital Equipment : | | |
| Building Fund : | | | Opening balance | 34,000 | |
| Opening balance | 80,000 | | Addition | 17,000 | 51,000 |
| *Add :* Govt. Grant | 80,000 | 1,60,000 | Furniture | | 6,000 |
| Subscriptions | | | Investments- | | |
| received in advance | | 2,400 | 8% Govt. Securities | | 20,000 |
| | | | Subscriptions receivable | | 1,400 |
| | | | Accrued interest | | 800 |

| | | | | | |
|---|---|---|---|---|---|
| | | | Prepaid expenses (Rent) | | 300 |
| | | | Cash at Bank | | 6,800 |
| | | | Cash in hand | | 1,400 |
| | | 2,27,700 | | | 2,27,700 |

**Working Notes:**

**(1) Balance sheet as at 31st Dec., 2019**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Fund | | Building | 90,000 |
| (Balancing Figure) | 49,300 | Equipment | 34,000 |
| Building Fund | 80,000 | Subscription Receivable | 6,500 |
| Creditors for Expenses : | | Cash at Bank | 5,200 |
| Salaries payable | 7,200 | Cash in hand | 800 |
| | 1,36,500 | | 1,36,500 |

| | | ₹ |
|---|---|---|
| **(2)** | **Value of Building** | |
| | Balance on 31st Dec. 2019 | 1,40,000 |
| | Paid during the year | 50,000 |
| | Balance on 31st Dec. 2018 | 90,000 |
| **(3)** | **Value of Equipment** | |
| | Balance on 31st Dec. 2019 | 51,000 |
| | Paid during the year | (17,000) |
| | Balance on 31st Dec. 2018 | 34,000 |
| **(4)** | **Subscription due for 2018** | |
| | Receivable on 31st Dec. 2018 | 6,500 |
| | Received in 2019 | 5,100 |
| | Still Receivable for 2018 | 1,400 |

**17. Pehal Ltd.**

**Journal**

| *2017* | | | *Dr.* ₹ | *Cr.* ₹ |
|---|---|---|---|---|
| May 20 | Bank Account | Dr. | 18,00,000 | |
| | To Share Application A/c | | | 18,00,000 |
| | (Application money on 60,000 shares at ₹ 30 per share received.) | | | |
| June 1 | Share Application A/c | Dr. | 18,00,000 | |
| | To Share Capital A/c | | | 18,00,000 |

| | | | | |
|---|---|---|---|---|
| | (The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated ......) | | | |
| | Share Allotment A/c | Dr. | 18,00,000 | |
| | To Share Capital A/c | | | 18,00,000 |
| | (Being share allotment made due at ₹ 30 per share. Directors' resolution no...... dated ......) | | | |
| July 15 | Bank Account | Dr. | 18,00,000 | |
| | To Share Application and Allotment A/c | | | 18,00,000 |
| | (The sums due on allotment received.) | | | |
| Oct. 1 | Share First Call Account | Dr. | 12,00,000 | |
| | To Share Capital Account | | | 12,00,000 |
| | (Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...) | | | |
| Oct. 20 | Bank Account | Dr. | 12,00,000 | |
| | To Share First Call Account | | | 12,00,000 |
| | (Receipt of the amounts due on first call.) | | | |
| *2018* | | | | |
| Feb. 1 | Share Second and Final Call A/c | Dr. | 12,00,000 | |
| | To Share Capital A/c | | | 12,00,000 |
| | (Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no... dated...) | | | |
| March 31 | Bank Account | Dr. | 12,00,000 | |
| | To Share Second & Final Call A/c | | | 12,00,000 |
| | (Amount received against the final call on 60,000 shares at ₹20 per share.) | | | |

**18. In the books of Company**

**Journal**

| *Particulars* | | *Dr.* ₹ | *Cr.* ₹ |
|---|---|---|---|
| Preference Share Capital A/c (4,000 x ₹75) | Dr. | 3,00,000 | |
| To Preference Share Allotment A/c | | | 1,00,000 |
| To Preference Share First Call A/c | | | 1,00,000 |
| To Forfeited Share A/c | | | 1,00,000 |

| | | | |
|---|---|---|---|
| (Being the forfeiture of 4,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....) | | | |
| Bank A/c (3,000 x ₹65) | Dr. | 1,95,000 | |
| Forfeited Shares A/c (3,000 x ₹10) | Dr. | 30,000 | |
| To Preference Share Capital A/c | | | 2,25,000 |
| (Being re-issue of 3,000 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....) | | | |
| Forfeited Shares A/c | Dr. | 45,000 | |
| To Capital Reserve A/c (Note 1) | | | 45,000 |
| (Being profit on re-issue transferred to Capital Reserve) | | | |

**Working Note:**

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =₹ 1,00,000/4,000 = ₹ 25

Loss on re-issue =₹ 75 – ₹ 65 = ₹ 10

Surplus per share re-issued ₹ 15

Transferred to capital Reserve ₹ 15 x 3,000 = ₹ 45,000.

**19.** **Books of Pihu Ltd.**

**Journal**

| Particulars | L.F. | Debit (₹ ) | Credit (₹ ) |
|---|---|---|---|
| Bank A/c | Dr. | 20,00,00,000 | |
| To Debenture Application A/c | | | 20,00,00,000 |
| (Debenture application money received) | | | |
| Debenture Application A/c | Dr. | 20,00,00,000 | |
| To 9% Debentures A/c | | | 20,00,00,000 |
| (Application money transferred to 9% debentures account consequent upon allotment) | | | |
| Debenture allotment A/c | Dr. | 25,00,00,000 | |
| Discount on issue of debentures A/c | Dr. | 5,00,00,000 | |

| | | | |
|---|---|---|---|
| To 9% Debentures A/c<br>(Amount due on allotment) | | | 30,00,00,000 |
| Bank A/c | Dr. | 25,00,00,000 | |
| To Debenture Allotment A/c | | | 25,00,00,000 |
| (Money received consequent upon allotment) | | | |

**20. (i)** Preparation of trial balance serves the following objectives:

1 **Checking of the arithmetical accuracy of the accounting entries:** Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.

2. **Basis for preparation of financial statements:** Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. **Summarized ledger:** Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

**(ii) Rules regarding posting of entries into ledger**

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective account accordingly.
2. It is a practice to use words ‘To’ and ‘By’ while posting transactions in the ledger.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

**(iii)** Banks are essential to modern society, but for an industrial unit, it serves as a necessary instrument in the commercial world. Most of the transactions of the business are done through bank whether it is a receipt or payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. All the transactions, which have been operated through bank, if not verified properly, the industrial unit may not be sure about its liquidity position in the bank on a particular date. There may be some cheques which have been issued, but not presented for payment, as well as there may be some deposits which has been deposited in the bank, but not collected or credited so far. Some expenses might have been debited or bills might have been dishonoured. It is not known to the industrial unit in time, it may lead to wrong conclusions. The errors committed by bank may not be known without preparing bank reconciliation statement. Preparation of bank reconciliation statement prevents the chances of embezzlement. Hence, bank reconciliation statement is very important and is a necessity of an industrial unit as it plays a key role in the liquidity control of the industry.

**(iv)** A **bill of exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

(i) The **drawer**, who draws the bill, that is, the creditor to whom the money is owing;

(ii) The **drawee**, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and

(iii) The **payee**, the person who is to receive the payment. The drawer in many cases is also the payee.

**(v)** **Fundamental Accounting Assumptions**: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS) 1 on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. *Going concern:* The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

2. *Consistency:* It is assumed that accounting policies are consistent from one period to another.

3. *Accrual:* Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue." The accrual 'basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortization. Financial statements prepared on the accrual basis inform users not only of

past events involving the payment and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual basis is also referred to as mercantile basis of accounting.

(vi) **Accounting conventions** emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting conventions need not have universal application.

(vii) **Machine Hour Rate method of calculating depreciation**: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machinery worked for. Under machine hour rate method of calculating depreciation, the life of a machine is not estimated in years but in hours. Thus depreciation is calculated after estimating the total number of hours that machine would work during its whole life; however, it may have to be varied from time to time, on a consideration of the changes in the economic and technological conditions which might take place, to ensure that the amount provided for depreciation corresponds to that considered appropriate in the changed circumstances. Proper records are maintained for running hours of the machine and depreciation is computed accordingly. For example, the cost of a machine is ₹10,00,000 and life of the machine is estimated at 50,000 hours. The hourly depreciation will be calculated as follows:

$$\text{Hourly Depreciation} = \frac{\text{Total cost of Machine}}{\text{Estimated life of Machine}}$$

$$= \frac{₹10,00,000}{50,000 \text{ hours}} = ₹\ 20 \text{ per hour}$$

If the machine runs for say, 2,000 hours in a particular period, depreciation for the period will be 2,000 hours × ₹ 20 = ₹ 40,000.