

**PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING**

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) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.
  - (ii) In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing; The accountant can use the balance in securities premium account to write off preliminary expenses.
  - (iii) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.
  - (iv) Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.
  - (v) A Limited is sending goods costing ₹ 50,000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.
  - (vi) A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date. **(6 x 2 = 12 Marks)**
- (b) What services can a Chartered Accountant provide to the society? **(4 Marks)**
- (c) The following are some of the transactions of M/s. Kamal & Sons for the year ended 31st March, 2020. You are required to make out their Sales Book.
- (i) Sold to M/s. Ashok & Mukesh on Credit :
    - 40 Shirts @ ₹ 900 per shirt
    - 30 trousers @ ₹ 1,000 per trouser
    - Less: Trade discount @ 10%
  - (ii) Sold furniture to M/s. XYZ & Co. on credit ₹ 8,000

(iii) Sold 15 shirts to Aman @ ₹750 each for cash.

(4 Marks)

**Answer**

- (a) (i) **False;** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.
- (ii) **True;** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.
- (iii) **True;** Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.
- (iv) **False;** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.
- (v) **False;** Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.
- (vi) **False;** If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.
- (b) The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

- (i) Maintenance of books of accounts;
- (ii) Statutory audit;
- (iii) Internal Audit;
- (iv) Taxation;
- (v) Management accounting and consultancy services;
- (vi) Financial advice and financial investigations etc.
- (vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

(c) **SALES BOOK**

Date	Particulars	Details ₹	L.F.	Amount ₹
31.03.2020	M/s. Ashok & Mukesh 40 shirts @ ₹ 900 per shirt 30 Trousers @ ₹1,000 per trouser	36,000 30,000		
		66,000		
	Less : 10% Trade Discount	(6,600)		
	(Sales as per invoice no. dated .....)			59,400

**Note:**

1. Cash sale entered in cash book and sale of furniture are entered in journal not in Sales Book.
2. It has been assumed that M/s Kamal & Sons is in business of selling shirts and trousers.

**Question 2**

- (a) On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹ 98,700. On comparison he finds the following :
- (1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.
  - (2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.
  - (3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.
  - (4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.
  - (5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.
  - (6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.
  - (7) The bank allowed interest on deposit ₹ 1,000.

- (8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2020.

(10 Marks)

- (b) Physical verification of stock in a business was done on 23rd February, 2020. The value of the stock was ₹ 28,00,000. The following transactions took place from 23rd February to 29th February, 2020 :

- (1) Out of the goods sent on consignment, goods at cost worth ₹ 2,30,000 were unsold.
- (2) Purchases of ₹ 3,00,000 were made out of which goods worth ₹ 1,20,000 were delivered on 5th March, 2020.
- (3) Sales were ₹ 13,60,000 which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 29th February, 2020, but no information is available regarding the remaining goods.
- (4) Goods are sold at cost plus 25%. However goods costing ₹ 2,40,000 had been sold for ₹ 1,50,000.

Determine the value of stock on 29th February, 2020.

(10 Marks)

**Answer**

- (a) (i) **Adjusted Cash Book as on 31-03-2020**

Particulars	₹	Particulars	₹
To Interest on deposit	1,000	By balance b/d	98,700
To Customer a/c - Cheque returned	1,500	By bank charges & interest (35 + 2,860)	2,895
To Balance c/d	1,03,595	By customer a/c - cheque dishonoured	500
		By Discount allowed (1,00,000 - 96,000)	4,000
	1,06,095		1,06,095

- (ii) **Bank Reconciliation Statement as on 31<sup>st</sup> March, 2020**

Particulars	₹	₹
Overdraft as per Adjusted Cash book		1,03,595
<u>Add:</u>		
Cheque deposited but not credited in the bank	2,600	
Cheque returned 'out of date' by the bank	3,500	<u>6,100</u>
		1,09,695
<u>Less:</u>		

Cheques issued but not presented in the bank		
Cheque deposited in another account wrongly credited to this account by the bank	(7,400)	
Cheque drawn in this a/c wrongly debited to another A/c	(1,550)	(9,750)
	<u>(800)</u>	
Overdraft balance as per Bank Statement		
		<u>99,945</u>

(b) **Statement of Valuation of Stock on 29<sup>th</sup>February, 2020**

		₹
Value of stock as on 23 <sup>rd</sup> February, 2020		28,00,000
Add: Unsold stock out of the goods sent on consignment	2,30,000	
Purchases during the period from 23 <sup>rd</sup> February, 2020 to 29 <sup>th</sup> February, 2020	1,80,000	
Goods in transit on 29 <sup>th</sup> February, 2020	1,20,000	
Cost of goods sent on approval basis (80% of ₹ 1,60,000)	<u>1,28,000</u>	<u>6,58,000</u>
		34,58,000
Cost of sales during the period from 23 <sup>rd</sup> February, 2020 to 29 <sup>th</sup> February, 2020		
Sales (₹ 13,60,000-₹ 1,60,000)	12,00,000	
Less: Gross profit	<u>1,20,000</u>	
		<u>10,80,000</u>
Value of stock as on 29 <sup>th</sup> February, 2020		<u>23,78,000</u>

**Working Notes:**

1.	Calculation of normal sales:		
	Actual sales		13,60,000
	Less: Abnormal sales	1,50,000	
	Return of goods sent on approval	<u>1,60,000</u>	<u>3,10,000</u>
			<u>10,50,000</u>
2.	Calculation of gross profit:		
	Gross profit on normal sales $20/100 \times$		2,10,000

₹ 10,50,000		
Less: Loss on sale of particular (abnormal) goods (₹ 2,40,000-₹ 1,50,000)		<u>90,000</u>
Gross profit		<u>1,20,000</u>

**Question 3**

- (a) Maya consigned 400 boxes of shaving brushes, each box containing 100 shaving brushes. Cost price of each box was ₹ 3,000. Maya spent ₹ 500 per box as cartage, freight, insurance and forwarding charges. One box was lost on the way and Maya lodged claim with insurance company and could get 2,700 as claim on average basis. Consignee took delivery of the rest of the boxes and spent ₹ 1,99,500 as non recurring expenses and ₹ 1,12,500 as recurring expenses. He sold 370 boxes at the rate of ₹ 65 per shaving brush. He was entitled to 2% commission on sales plus 1% del-credere commission.

You are required to prepare Consignment Account.

**(5 Marks)**

- (b) Attempt any ONE of the following two sub-parts i.e. **either (i) or (ii)**. **(5 Marks)**
- (i) From the following particulars prepare an account current, as sent by Mr. Raju to Mr. Sunil as on 31st October 2020 by means of product method charging interest @ 12% p.a.

2020	Particulars	Amount (₹)
1 <sup>st</sup> July	Balance due from Sunil	840
15 <sup>th</sup> August	Sold goods to Sunil	1,310
20 <sup>th</sup> August	Goods returned by Sunil	240
22 <sup>nd</sup> September	Sunil paid by cheque	830
15 <sup>th</sup> October	Received cash from Sunil	560

OR

- (ii) Rakesh had the following bills receivable and bills payable against Mukesh.

Date	Bills Receivable	Tenure	Date	Bills Payable	Tenure
1 <sup>st</sup> June	3,400	3 month	29 <sup>th</sup> May	2,500	2 month
5 <sup>th</sup> June	2,900	3 month	3 <sup>rd</sup> June	3,400	3 month
9 <sup>th</sup> June	5,800	1 month	9 <sup>th</sup> June	5,700	1 month
12 <sup>th</sup> June	1,700	2 month			
20 <sup>th</sup> June	1,900	3 month			

15<sup>th</sup> August was a public holiday. However, 6<sup>th</sup> September, was also declared as sudden holiday.

Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

- (c) Suresh draws a bill for ₹15,000 on Anup on 15<sup>th</sup> April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18<sup>th</sup> April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31<sup>st</sup> October, 2020.

Pass necessary Journal entries for the above transactions in the books of Suresh.

(10 Marks)

Answer

(a)

**Consignment Account**

Particulars	₹	Particulars	₹
To Goods sent on consignment A/c (400x ₹3,000)	12,00,000	By Consignee's A/c-Sales (370 x100x₹ 65)	24,05,000
To Cash A/c (expenses 400x₹500)	2,00,000	By Insurance Co./ Cash A/c (insurance claim)	2,700
To Consignee's A/c: Recurring expenses	1,12,500	By Profit and loss account (abnormal loss)	800
Non-recurring expenses	1,99,500	By Consignment stock A/c	1,16,000
Commission @ 2% on ₹24,05,000	48,100		
Del-credere commission @ 1% on ₹ 24,05,000	24,050		
To Profit and loss A/c (profit on consignment)	7,40,350		
	<u>25,24,500</u>		<u>25,24,500</u>

## Working note:

		₹
<b>Abnormal loss:</b>		
Cost of boxes lost during transit		3,000
Add: Expenses incurred by Maya		<u>500</u>
Gross Abnormal loss		3,500
Less: Insurance claim received		<u>(2,700)</u>
Net Abnormal loss		<u>800</u>
<b>Closing inventories</b>		<b>No. of Boxes</b>
Boxes consigned		400
Less: Boxes lost in transit		<u>(1)</u>
		399
Less: Boxes sold		<u>370</u>
<b>Closing inventories</b>		<u>29</u>
Cost of inventories at the end:		₹
29 boxes @ ₹3,000		87,000
Add: Expenses incurred by Maya (29x₹500)		14,500
Add: Proportionate (non-recurring) expenses incurred by the consignee (29/399x ₹1,99,500)		<u>14,500</u>
		<u>1,16,000</u>

(b) (i) **Mr. Sunil in Account Current with Mr. Raju**  
for the period ending on 31<sup>st</sup>October, 2020

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2020		₹			2020		₹		
July 1	To Balance b/d	840	123	1,03,320	Aug. 20	By Sales Returns	240	72	17,280
Aug 15	To Sales A/c	1,310	77	1,00,870	Sept. 22	By Bank A/c	830	39	32,370
Oct. 31	To Interest A/c	47.73			Oct. 15	By Cash A/c	560	16	8,960
					Oct. 31	By Balance of products			1,45,580
					Oct. 31	By Balance c/d	567.73		
		<u>2,197.73</u>		<u>2,04,190</u>			<u>2,197.73</u>		<u>2,04,190</u>



Calculation of interest:

$$\text{Interest} = 1,45,580/366 \times 12\% = ₹47.73$$

**Note:** Year 2020 is a leap year; hence 366 days are taken for interest calculation.

On the assumption of 365 days interest will be as below:-

$$\text{Interest} = 1,45,580/365 \times 12\% = ₹47.86 \text{ (or) } ₹48.$$

**Note:** The alternative answer based on backward method i.e. Epoque method is also possible.

(ii) Let us take 12.07.2020 as Base date.

#### Bills receivable

Due date	No. of days from 12.07.2020	Amount	Product
04/09/2020	54	3,400	1,83,600
08/09/2020	58	2,900	1,68,200
12/07/2020	0	5,800	0
14/08/2020	33	1,700	56,100
23/09/2020	73	<u>1,900</u>	<u>1,38,700</u>
		<u>15,700</u>	<u>5,46,600</u>

#### Bills payable

Due date	No. of days from 12.07.2020	Amount	Product
01/08/2020	20	2,500	50,000
07/09/2020	57	3,400	1,93,800
12/07/2020	0	<u>5,700</u>	<u>0</u>
		<u>11,600</u>	<u>2,43,800</u>

Excess of products of bills receivable over bills payable = 5,46,600 - 2,43,800 = 3,02,800

Excess of bills receivable over bills payable = 15,700 - 11,600 = 4,100

Number of days from the base date to the date of settlement is  $\frac{3,02,800}{4,100}$

= 73.85 (approx.)

Hence date of settlement of the balance amount is 74 days after 12<sup>th</sup> July i.e. 24<sup>th</sup> September.

On 24<sup>th</sup> September, 2020 Mukesh has to pay Rakesh ₹4,100 to settle the account.

(c)

In the books of Suresh

## Journal Entries

Date	Particulars		Debit Amount	Credit Amount
2020			₹	₹
April 15	Bills receivable account To Anup's account (Being acceptance received from Anup for mutual accommodation)	Dr.	15,000	15,000
April 18	Bank account Discount account To Bills receivable account (Being bill discounted with bank)	Dr. Dr.	14,700 300	15,000
April 18	Anup's account To Bank account To Discount account (Being one-third proceeds of the bill sent to Anup)	Dr.	5,000	4,900 100
July 18	Anup's account To Bills payable account (Being Acceptance given)	Dr.	17,500	17,500
July 18	Bank account Discount account (400x3/4) To Anup's account (Being proceeds of second bill received from Anup)	Dr. Dr.	2,825 300	3,125
Oct.21	Bills payable account To Anup's account (Being bill dishonoured due to insolvency)	Dr.	17,500	17,500
Oct.31	Anup's account (10,000+3,125 ) To Bank account	Dr.	13,125	6,562.50

	To Deficiency account (Being insolvent, only 50% amount paid to Anup)			6,562.50
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**Question 4**

- (a) M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities	Amount (₹)	Assets	Amount (₹)
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	<u>2,13,000</u>	Trade Receivables	<u>1,59,000</u>
	10,77,000		10,77,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1<sup>st</sup> July, 2020. For this purpose, following adjustments are to be made:

- (a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.
- (b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.
- (c) In the reconstituted firm, the total capital will be 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.
- (d) The amount due to retiring partner shall be transferred to his loan account.
- You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes. **(10 Marks)**
- (b) From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Amount (₹)</i>
<i>Security Deposit - Students</i>	-	1,55,000
<i>Capital Fund</i>	-	13,08,000
<i>Building Fund</i>		19,10,000
<i>Tuition Fee Received</i>		8,10,000
<i>Government Grants</i>		5,01,000
<i>Interest &amp; Dividends on Investments</i>	-	1,75,000
<i>Hostel Room Rent</i>	-	1,65,000
<i>Mess Receipts (Net)</i>		2,05,000
<i>College Stores - Sales</i>	-	7,60,000
<i>Outstanding expenses</i>	-	2,35,000
<i>Stock of Stores and Supplies (opening)</i>	3,10,000	-
<i>Purchases - Stores &amp; Supplies</i>	8,20,000	-
<i>Salaries - Teaching</i>	8,75,000	-
<i>Salaries - Research</i>	1,25,000	-
<i>Scholarships</i>	85,000	-
<i>Students Welfare expenses</i>	37,000	-
<i>Games &amp; Sports expenses</i>	52,000	-
<i>Other investments</i>	12,75,000	-
<i>Land</i>	1,50,000	-
<i>Building</i>	15,50,000	-
<i>Plant and Machinery</i>	8,50,000	-
<i>Furniture and Fittings</i>	5,40,000	-
<i>Motor Vehicle</i>	2,40,000	-
<i>Provision for Depreciation :</i>		-
<i>Building</i>	-	4,90,000
<i>Plant &amp; Equipment</i>	-	5,05,000
<i>Furniture &amp; Fittings</i>	-	3,26,000
<i>Cash at Bank</i>	3,16,000	-
<i>Library</i>	3,20,000	
	<b>75,45,000</b>	<b>75,45,000</b>

Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching	₹ 52,000.
Research -	₹ 1,45,000
Students Welfare -	₹ 78,000
Games or Sports -	₹ 24,000

(b) Tuition fee receivable from Government for backward class Scholars ₹ 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates:

Building	5%
Plant & Equipment	10%
Furniture & Fixtures	10%
Motor Vehicle	20%

(10 Marks)

Answer

(a)

**Revaluation Account**

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

Dr.

**Partners' Capital Accounts**

Cr.

	A	B	C	D		A	B	C	D
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	33,255	22,170	55,425	-	By Balance b/d	1,24,000	96,000	1,60,000	-

To B's and C's capital A/cs	-	-	-	90,000	By D's Capital A/c (W.N.1)	-	60,000	30,000	-
To Investments A/c	-	46,000	-	-	By Bank A/c	29,255	-	25,425	2,10,000
To B's loan A/c	-	87,830	-	-					
To Balance c/d (W.N. 2)	1,20,000	-	1,60,000	1,20,000					
	1,53,255	1,56,000	2,15,425	2,10,000		1,53,255	1,56,000	2,15,425	2,10,000

**Working Notes:**

## 1. Adjustment of goodwill

Goodwill of the firm is valued at ₹ 3 lakhs

Sacrificing ratio:

$$A \quad 3/10 - 3/10 = 0$$

$$B \quad 2/10 - 0 = 2/10$$

$$C \quad 5/10 - 4/10 = 1/10$$

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

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

₹

$$B: 90,000 \times 2/3 = 60,000$$

$$C: 90,000 \times 1/3 = 30,000 \quad 90,000$$

## 2. Capital of partners in the reconstituted firm:

₹

Total capital of the reconstituted firm (given) 4,00,000

A (3/10) 1,20,000

C (4/10) 1,60,000

D (3/10) 1,20,000

(b)

**AS College**  
**Income and Expenditure Account**  
**for the year ending 31st March, 2020**

Expenditure	₹	₹	Income	₹	₹
To Salaries: Teaching		8,75,000	By Tutions & other fee		8,92,000
Research		1,25,000	By Govt. Grants		5,01,000
To Material & Supplies Consumed			By Income from Investments		1,75,000
Teaching		52,000	By Hostel room Rent		1,65,000
Research		1,45,000	By Mess Receipts		2,05,000
			By Profit-stores sales		1,14,000
To Sports & Games Expenses					
Cash	52,000				
Materials	<u>24,000</u>	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	<u>78,000</u>	1,15,000			
To Scholarships		85,000			
To Depreciation:					
Building		77,500			
Plant & Equipment		85,000			
Furniture		54,000			
Motor Vehicle		48,000			
To Excess of Income over Expenditure		3,14,500			
		<u>20,52,000</u>			<u>20,52,000</u>

**AS College**  
**Balance Sheet as on 31st March, 2020**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets:		
Opening balance	13,08,000		Land		1,50,000
			Building Cost	15,50,000	

Add: Excess of Income over Expenditure	<u>3,14,500</u>	16,22,500	Less: Dep.	<u>(5,67,500)</u>	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
Current Liabilities:			Less: Dep.	<u>(5,90,000)</u>	2,60,000
Outstanding Expenses		2,35,000	Furniture & Fittings:		
Security Deposit		1,55,000	Cost	5,40,000	
			Less: Dep.	<u>(3,80,000)</u>	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	<u>(48,000)</u>	1,92,000
			Library		3,20,000
			Investments		12,75,000
			Stock (stores)-		
			Material & Supplies		1,85,000
			Tuition fees receivable		82,000
			Cash in hand & at Bank		<u>3,16,000</u>
		<u>39,22,500</u>			<u>39,22,500</u>

**Working Notes:**

(1)	Material & Supplies-Closing Stock		₹	₹
	Opening Stock			3,10,000
	Purchases			<u>8,20,000</u>
				11,30,000
	Less: Cost of Goods Sold		6,46,000	
	Material Consumed		<u>2,99,000</u>	<u>(9,45,000)</u>
	Balance			<u>1,85,000</u>
(2)	Provisions for Depreciation			



	Building	Plant & Equipment	Furniture & Fitting
	₹	₹	₹
Opening Balance	4,90,000	5,05,000	3,26,000
Addition	<u>77,500</u>	<u>85,000</u>	<u>54,000</u>
Closing Balance	<u>5,67,500</u>	<u>5,90,000</u>	<u>3,80,000</u>

**Question 5**

(a) M/s. Applied Laboratories were unable to agree the Trial Balance as on 31<sup>st</sup> March, 2020 and have raised a suspense account for the difference. Next year the following errors were discovered:

- (i) Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.
- (ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.
- (iii) Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.
- (iv) Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.
- (v) A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.

You are required to pass journal entries to rectify the above mistakes. **(5 Marks)**

(b) Max & Co. employs a team of 9 workers who were paid ₹ 40,000 per month each in the year ending 31<sup>st</sup> December, 2018. At the start of 2019, the company raised salaries by 10% to ₹ 44,000 per month each.

On 1 July, 2019 the company hired 2 trainees at salary of ₹ 21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February, etc.

You are required to calculate :

- (i) Amount of salaries which would be charged to the profit and loss account for the year ended 31<sup>st</sup> December, 2019.
- (ii) Amount actually paid as salaries during 2019.
- (iii) Outstanding salaries as on 31<sup>st</sup> December, 2019. **(5 Marks)**

- (c) Following are the Manufacturing A/c, Creditors A/c and Raw Material A/c provided by M/s. Shivam related to financial year 2019-20. There are certain figures missing in these accounts.

## Raw Material A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c	1,27,000	By Raw Materials Consumed	
To Creditors A/c	-	By Closing Stock	-

## Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000		-

## Manufacturing A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material A/c	-	By Trading A/c	17,44,000
To Wages	3,65,000		
To Depreciation	2,15,000		
to Direct Expenses	2,49,000		

## Additional Information:

- (i) Purchase of machinery worth ₹ 12,00,000 on 1<sup>st</sup> April; 2019 has been omitted, Machinery is chargeable at a depreciation rate of 15%.
- (ii) Wages include the following:
- Paid to factory workers - ₹ 3,15,000
- Paid to labour at office - ₹ 50,000
- (iii) Direct expenses included the following :
- Electricity charges - ₹ 80,000 of which 25% pertained to office
- Fuel charges - ₹ 25,000
- Freight inwards - ₹ 32,000
- Delivery charges to customers - ₹ 22,000

You are required to prepare revised Manufacturing A/c and Raw Material A/c. (10 Marks)

**Answer**

**(a) Rectification entries in the books of M/s Applied Laboratories**

	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Profit and Loss Adjustment Account Dr. To Building Account (Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)		12,500	12,500
2.	Profit and Loss Adjustment Account Dr. To Suspense Account (Addition of freight column in purchase journal was under casted, now rectification entry made)		1,500	1,500
3.	Suspense Account Dr. To Rani & Co. (Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)		2,100	2,100
4.	Profit and Loss Adjustment Account Dr. To Furniture account (Being sale of furniture wrongly entered in sales book, now rectified)		30,000	30,000
5.	Raja & Co. Dr. To Bills receivable account (Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)		20,000	20,000

**(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31<sup>st</sup>December, 2019**

Employees = 9 x ₹ 44,000 x 12 = ₹47,52,000

Trainees = 2 x ₹ 21,000 x 6 = ₹ 2,52,000

Salaries charged to P & L A/c ₹50,04,000

**(ii) Amount actually paid as salaries during 2019**

Employees = 9 x ₹ 44,000 x 11 + 9 x ₹ 40,000 = ₹ 47,16,000

Trainees	= 2 x ₹21,000 x 5	= ₹ <u>2,10,000</u>
Amount paid as salaries		₹ <u>49,26,000</u>

**(iii) Outstanding salaries as on 31.12.2019**

Employees	= 9 x ₹ 44,000	= ₹ 3,96,000
Trainees	= 2 x ₹ 21,000	= ₹ <u>42,000</u>
Outstanding salaries		₹ <u>4,38,000</u>

(c)

**Manufacturing A/c**

Particulars	₹	Particulars	₹
To Raw Material Consumed (Balancing Figure)	9,15,000	By Trading A/c (W.N. 4)	18,32,000
To Wages (W.N. 2)	3,15,000		
To Depreciation (W.N. 1)	3,95,000		
To Direct Expenses (W.N. 3)	2,07,000		
	<b>18,32,000</b>		<b>18,32,000</b>

**Raw Material A/c**

Particulars	₹	Particulars	₹
To Opening Stock A/c	1,27,000	By Raw Material Consumed (from Manufacturing A/c above)	9,15,000
To Creditors A/c (W.N. 5)	14,40,000	By Closing Stock A/c (Balancing Figure)	6,52,000
	<b>15,67,000</b>		<b>15,67,000</b>

**Working Notes:**

- Since purchase of Machinery worth ₹ 12,00,000 has been omitted.  
So, depreciation omitted from being charged = 12,00,000 X 15%  
= ₹ 1,80,000  
Correct total depreciation expense = ₹ (2,15,000 + 1,80,000)  
= 3,95,000
- Wages worth ₹ 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged P&L A/c. So the revised wages amounting ₹ 3,15,000 will be shown in manufacturing account.

(3) Expenses to be excluded from direct expenses:

Office Electricity Charges (80,000 X 25%)	20,000
Delivery Charges to Customers	<u>22,000</u>
Total expenses not part of Direct Expenses	<u>42,000</u>
=> Revised Direct Expenses = ₹ (2,49,000 - 42,000)	
= ₹ 2,07,000	

Fuel charges are related to factory expenses and also freight inwards are incurred for bringing goods to factory/ godown so they are part of direct expenses.

(4) Revised Balance to be transferred to Trading A/c:

Particulars	₹
Current Balance transferred	17,44,000
Add: Depreciation charges not recorded earlier	1,80,000
Less: Wages related to Office	(50,000)
Less: Office Expenses	<u>(42,000)</u>
Revised balance to be transferred	<b><u>18,32,000</u></b>

(5) **Creditors A/c**

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	<u>6,60,000</u>	By Raw Materials A/c	
	30,10,000	(Bal. figure)	<u>14,40,000</u>
			30,10,000

### Question 6

(a) ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

₹ 2 per share on application

₹ 3 per share on allotment

₹ 4 per share on first call

₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John as fully paid up at a discount of ₹ 2 per share.

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited. **(10 Marks)**

(b) Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows :

- (i) To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.
- (ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.
- (iii) To the banker as collateral security for a loan of ₹ 14,00,000 - ₹ 15,00,000 nominal value,

You are required to pass necessary Journal Entries. **(5 Marks)**

(c) Discuss the factors taken into consideration for calculation of depreciation. **(5 Marks)**

### Answer

(a)

1. Bank A/c To Equity Share Application A/c (Being the application money received for 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
2. Equity Share Application A/c To Equity Share Capital A/c (Being share allotment made for 20,000 shares at ₹ 2 per share)	Dr.	40,000	40,000
3. Equity Share Allotment A/c To Equity Share Capital A/c (Being allotment amount due on 20,000 equity shares at ₹ 3 per share as per Directors' resolution no... dated...)	Dr.	60,000	60,000
4. Bank A/c To Equity Share Allotment A/c (Being allotment money received for 20,000 equity shares at ₹ 3 per share)	Dr.	60,000	60,000
5. Equity Share First Call Account To Equity Share Capital A/c (Being first call money due on 20,000 equity shares @ Rs. 4 per share )	Dr.	80,000	80,000

6. Bank Account To Equity Share First Call Account (Being full amount of first call money received except on 300 shares)	Dr.	78,800	78,800
OR			
Bank Account Calls in Arrear A/c To Equity Share First Call Account (Being full amount of first call money received except on 300 shares)	Dr. Dr.	78,800 1,200	80,000
7. Equity Share Final Call Account To Equity Share Capital A/c (Being first call and final call money due )	Dr.	20,000	20,000
8. Bank Account To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares)	Dr.	19,700	19,700
OR			
Bank Account Calls in Arrear A/c To Equity Share Final Call Account (Being full amount of final call money received except on 300 shares)	Dr. Dr.	19,700 300	20,000
9. Equity Share Capital A/c (300 x ₹ 10) To Equity Share First Call Account To Equity Share Final Call Account To Forfeited Shares A/c Being forfeiture of 300 equity shares for non- payment of call money as per Board's Resolution No.....dated ....)	Dr.	3,000	1,200 300 1,500
OR			
Equity Share Capital A/c To Forfeited Shares A/c To Calls in Arrears (Being 300 shares forfeited on which first call and final	Dr.	3,000	1,500 1,500

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

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

<b>Date</b>	<b>Particulars</b>		<b>Dr.</b> ₹	<b>Cr.</b> ₹
(i)	Fixed Assets A/c To Vendor A/c (Being the purchase of fixed assets from vendor)	Dr.	13,00,000	13,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 12% Debentures A/c (Being the issue of debentures of ₹ 15,00,000 to vendor to satisfy his claim)	Dr. Dr.	13,00,000 2,00,000	15,00,000
(ii)	Bank A/c To Debentures Application A/c (Being the application money received on 5,000 debentures @ ₹ 540 each)	Dr.	27,00,000	27,00,000
	Debentures Application A/c Discount on issue of Debentures A/c To 12% Debentures A/c (Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No....dated....)	Dr. Dr.	27,00,000 3,00,000	30,00,000
(iii)	Bank A/c	Dr.	14,00,000	



To Bank Loan A/c (See Note) (Being a loan of ₹14,00,000 taken from bank by issuing debentures of ₹15,00,000 as collateral security)			14,00,000
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**Note:** In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

**(c) Following factors are taken into consideration for calculation of depreciation.**

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.
2. **Estimated useful life of the asset** - Useful Life' is either (i) the period over which a depreciable asset is expected to be used by the enterprise or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.
3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.