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	36,000		
	30 Trousers @ ₹1,000 per trouser	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
		By bank charges & interest (35 + 2,860)	2,895
To Customer a/c- Cheque returned	1,500	By customer a/c - cheque dishonoured	500
To Balance c/d	1,03,595	By Discount allowed (1,00,000 -96,000)	4,000
	1,06,095		1,06,095

(ii) Bank Reconciliation Statement as on 31st March, 2020

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Cheque returned 'out of date' by the bank	3,500	6,100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

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)	
	(800)	(9,750)
Overdraft balance as per Bank Statement		99,945

(b) Statement of Valuation of Stock on 29th February, 2020

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

Working Notes:

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

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

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 (₹)**
1st July	Balance due from Sunil	840
15th August	Sold goods to Sunil	1,310
20th August	Goods returned by Sunil	240
22nd September	Sunil paid by cheque	830
15th 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
1st June	3,400	3 month	29th May	2,500	2 month
5th June	2,900	3 month	3rd June	3,400	3 month
9th June	5,800	1 month	9th June	5,700	1 month
12th June	1,700	2 month			
20th June	1,900	3 month			

15th August was a public holiday. However, 6th 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 15th 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 18th 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 31st 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:		By Profit and loss account (abnormal loss)	800
Recurring expenses	1,12,500		
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		
	25,24,500		25,24,500

Working note:

	₹
Abnormal loss:	
Cost of boxes lost during transit	3,000
Add: Expenses incurred by Maya	500
Gross Abnormal loss	3,500
Less: Insurance claim received	(2,700)
Net Abnormal loss	800
Closing inventories	**No. of Boxes**
Boxes consigned	400
Less: Boxes lost in transit	(1)
	399
Less: Boxes sold	370
Closing inventories	29

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)	14,500
	1,16,000

(b) (i) **Mr. Sunil in Account Current with Mr. Raju**

for the period ending on 31st October, 2020

Date	*Particulars*	*Amount*	*Days*	*Products*	*Date*	*Particulars*	*Amount*	*Days*	*Products*
2020		₹			2020		₹		
July1	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		
		2,197.73		2,04,190			2,197.73		2,04,190

Calculation of interest:

Interest = 1,45,580/366 X 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:-

Interest = 1,45,580/355 x 12% = ₹47.86 (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	1,900	1,38,700
		15,700	5,46,600

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	5,700	0
		11,600	2,43,800

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 (appox.)

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

On 24th 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	Dr.	15,000	
	To Anup's account			15,000
	(Being acceptance received from Anup for mutual accommodation)			
April 18	Bank account	Dr.	14,700	
	Discount account	Dr.	300	
	To Bills receivable account			15,000
	(Being bill discounted with bank)			
April 18	Anup's account	Dr.	5,000	
	To Bank account			4,900
	To Discount account			100
	(Being one-third proceeds of the bill sent to Anup)			
July 18	Anup's account	Dr.	17,500	
	To Bills payable account			17,500
	(Being Acceptance given)			
July 18	Bank account	Dr.	2,825	
	Discount account (400x/3/4)	Dr.	300	
	To Anup's account			3,125
	(Being proceeds of second bill received from Anup)			
Oct.21	Bills payable account	Dr.	17,500	
	To Anup's account			17,500
	(Being bill dishonoured due to insolvency)			
Oct.31	Anup's account (10,000+3,125)	Dr.	13,125	
	To Bank account			6,562.50

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

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	*2,13,000*	*Trade Receivables*	*1,59,000*
	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 1st 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 :*

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

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 (46,000 - 42,000)		4,000
	To Plant and Machinery	80,000		By Partners' Capital A/cs (loss on revaluation)		
	To Trade receivable (Bad Debts)	23,850		A (3/10)	33,255	
				B (2/10)	22,170	
				C (5/10)	55,425	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 3/10 - 3/10 = 0

   B 2/10 - 0 = 2/10

   C 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 x 2/3 = 60,000	
C:	90,000 x 1/3 = 30,000	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	24,000	76,000			
To Students Welfare Expenses					
Cash	37,000				
Materials	78,000	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			
		20,52,000			20,52,000

AS College

Balance Sheet as on 31st March, 2020

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

Add: Excess of Income over Expenditure	3,14,500	16,22,500	Less: Dep.	(5,67,500)	9,82,500
Building Fund		19,10,000	Plant & Machinery Cost	8,50,000	
Current Liabilities:			Less: Dep.	(5,90,000)	2,60,000
Outstanding Expenses		2,35,000	Furniture &		
Security Deposit		1,55,000	Fittings:		
			Cost	5,40,000	
			Less: Dep.	(3,80,000)	1,60,000
			Motor Vehicles		
			Cost:	2,40,000	
			Less: Dep.	(48,000)	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		3,16,000
		39,22,500			39,22,500

Working Notes:

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

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

Question 5

(a) *M/s. Applied Laboratories were unable to agree the Trial Balance as on 31st 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 31st 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 31st December, 2019.

(ii) Amount actually paid as salaries during 2019.

(iii) Outstanding salaries as on 31st 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 1st 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.		12,500	
	To Building Account			12,500
	(Repairs amounting ₹ 12,500 wrongly debited to building account, now rectified)			
2.	Profit and Loss Adjustment Account Dr.		1,500	
	To Suspense Account			1,500
	(Addition of freight column in purchase journal was under casted, now rectification entry made)			
3.	Suspense Account Dr.		2,100	
	To Rani & Co.			2,100
	(Goods returned by Rani & Co. had been posted wrongly to the debit of her account, now rectified)			
4.	Profit and Loss Adjustment Account Dr.		30,000	
	To Furniture account			30,000
	(Being sale of furniture wrongly entered in sales book, now rectified)			
5.	Raja & Co. Dr.		20,000	
	To Bills receivable account			20,000
	(Bill receivable dishonoured debited to Bills receivable account instead of customer account, now rectified)			

(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31st 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	= ₹ 2,10,000
Amount paid as salaries		₹ 49,26,000

(iii) Outstanding salaries as on 31.12.2019

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

(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		
	18,32,000		**18,32,000**

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
	15,67,000		15,67,000

Working Notes:

(1) 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

(2) 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	22,000
Total expenses not part of Direct Expenses	42,000

=> 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	(42,000)
Revised balance to be transferred	**18,32,000**

(5) **Creditors A/c**

Particulars	₹	Particulars	₹
To Bank A/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Raw Materials A/c (Bal. figure)	14,40,000
	30,10,000		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	Dr.	40,000	
To Equity Share Application A/c			40,000
(Being the application money received for 20,000 shares at ₹ 2 per share)			
2. Equity Share Application A/c	Dr.	40,000	
To Equity Share Capital A/c			40,000
(Being share allotment made for 20,000 shares at ₹ 2 per share)			
3. Equity Share Allotment A/c	Dr.	60,000	
To Equity Share Capital A/c			60,000
(Being allotment amount due on 20,000 equity shares at ₹ 3 per share as per Directors' resolution no... dated...)			
4. Bank A/c	Dr.	60,000	
To Equity Share Allotment A/c			60,000
(Being allotment money received for 20,000 equity shares at ₹ 3 per share)			
5. Equity Share First Call Account	Dr.	80,000	
To Equity Share Capital A/c			80,000
(Being first call money due on 20,000 equity shares @ Rs. 4 per share)			

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

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

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

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.