PRINCIPLES AND PRACTICE OF ACCOUNTING
(DECEMBER 2020)

Answer 1:

(a) **(i)** **False :**
Reason : Profit or Loss due to revaluation of Assets & Liabilities belongs to old partners and hence it is transferred to old partners capital account in there old profit sharing ratio.

(ii) **True :**
Reason : According to the provision of Section 52 of Companies Act 2013 the amount of securities premium can be utilise in writting off preliminary expenses. In the given situation company has sufficient fund in securities premium account to write off preliminary expenses.

(iii) **True :**
Reason : Insurance claim received from Insurance Company on account of plant and machinery damaged by fire is a capital receipt. It is not a normal business activity, it is a reliasation of asset. Hence it is treated a capital receipt.

(iv) **False :**
Reason : Office furniture & fixture purchased are capital expenditure which had been treated a revenue expenditure. It is error of a principal not a error of omission.

(v) **False :**
Reason : Goods sent by consiner to consinee doesn't mean transferring of ownership. It is just a transfer of physical possession of goods. So a performa invoice is sent by the consiner to consinee. So the opinion of accountant of A Limited sending a sale invoice is wrong.

(vi) **False :**
Reason : In this situation business is no more a going concern. So at the time of preparation of balance sheet assets should be disclosed at their net realisable value in balance sheet instead off historical cost.

(b) A chartered accountant with his education, training, analytical mind and experience is best qualified to provide multiple need-based services to the ever growing society. The practice of accoutancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. 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. Following are area of services :

1. Maintenance of Books of Accounts.
2. Statutory Audit.
3. Internal Audit.
4. Taxation.
5. Management Accounting and Consultancy Services.
6. Financial Advice.

(c) In the books of M/s Kamal & Sons.

Sales Book

Date	Particulars	Details	L.F.	Amount
	M/s. Ashok and Mukesh 40 Shirts @ Rs. 900 30 Trousers @ Rs. 1,000	 36,000 30,000		
		66,000		
	Less: 10% Trade discount	6,600		59,400
		Total		59,400

Note :
Sale of furniture and sale of goods for cash are not entered in sales book.

Answer 2:

(a) Bank Reconciliation Statement as on 31/3/20

	Particular		Plus	Minus
	Balance as per Cash Book (o/d)	Cr.		98,700
(1)	Cheque issued but not presented for payment		7,400	
	Cheque issued but returned not entered in cash book		1,500	
(2)	Cheque deposited but not credited upto 31/3/20			2,600
	Cheque deposited but dishonoured			500
(3)	Bank changes and Intt. changed by bank (35 + 2860)			2,895
(4)	Wrong credit given by bank		1,550	
(5)	Cheque issued but not debited by bank		800	
(6)	Cheque retruned out of date			3,500
(7)	Intt. allowed by bank		1,000	
(8)	Cheque received after discount but recorded in cash book at gross amount			4,000
			12,250	1,12,195
	Balance as per Pass Bok (o/d)	Dr.		99,945

(b) Statement of Valuation of Stock on 29th Feb. 2020

	Value of Stock as on 23/02/20		28,00,000
Add :	Unsold stock out of the goods sent on consignment		2,30,000
	Purchases during the period from 23/2/20 to 29/2/20		3,00,000
	Cost of goods lying with customer on sale or return basis	1,60,000	
	(-) GP @ 25% on cost	32,000	1,28,000
			34,58,000
Less :	Cost of sales during the period from 23/2/20 to 29/2/20		
	Sales (13,60,000 – 1,60,000)	12,00,000	
	Less : Gross Profit	1,20,000	10,80,000
	Value of stock as on 29/2/2020		23,78,000

W.No. 1:

Calculation of Normal Sales

Actual Sales	=	13,60,000
Less : Abnormal Sales	=	1,50,000
Less : Return of goods sent on approval	=	1,60,000
		10,50,000

W.No. 2:

Calculation of Gross Profit

Gross profit on normal sales 20/100 x 10,50,000	=	2,10,000
Less : Loss on sale of particular (abnormal) goods		
(Rs. 2,40,000 – Rs. 1,50,000)	=	90,000
		1,20,000

Answer 3:

(a)

In the Books of Maya

Consignment A/c

To goods sent on consignment		12,00,000	By Abnormal loss (W.N.-1)	3,500
To Cash a/c		2,00,000	By Consignee a/c	24,05,000
To Consignee's a/c			(370 x 100 x 65)	
Non recurring exp.	1,99,500		By Unsold stock (W.N.-2)	1,16,000
Recurring exp.	1,12,500			
Commission	72,150	3,84,150		
(24,05,000 x 3%)				
To P/L a/c		7,40,350		
		25,24,500		25,24,500

W.No. 1:

Calculation of Abnormal Loss

Pur. Cost	=	1 x 3000	=	3,000
Exps.	=	1 x 500	=	500
				3,500

W.No. 2:

Calculating Unsold STock

Pur. Cost	=	29 x 3000	=	87,000
Consinger Exp.	=	29 x 500	=	14,500
Consignee Exps.	=	$\frac{1{,}99{,}500}{399}$ x 29	=	14,500
			=	1,16,000

Abnormal Loss A/c

To Consignment a/c	3,500	By Insurance Claim a/c	2,700
		By P/L a/c	800
	3,500		3,500

(b) (i)

Mr. Sunil in Account Current with Mr. Raju
(Interest to 31st Oct, 2020 @ 12% p.a.)

Date	Particulars	Due Date	Amount	Days	Product	Date	Particulars	Due Date	Amount	Day	Product
1/7	To Balance b/d		840	123	1,03,320	20/8	By Sales Return	20/8	240	72	17,280
15/8	To Sales a/c	15/8	1,310	77	1,00,870	22/9	By Bank a/c	22/9	830	39	32,370
31/10	To Interest (1,45,580 x $\frac{12}{100}$ x $\frac{1}{366}$)		48			15/10	By Cash a/c	15/10	560	16	8,960
						31/10	By Balance of Product				1,45,580
						31/10	By Balance c/d		568		
			2198	2,04,190					2198		2,04,190
1/11	To Balance b/d		568								

(b) (ii) **Calculation of Avg. Due Date for B/R**

Date	Tenure	Due Date	No. of Days from Base Date	Amount	Product
1/6	3 M	4/9	54	3,400	1,83,600
5/6	3 M	8/9	58	2,900	1,68,200
9/6	1 M	12/7	0	5,800	0
12/6	2 M	14/8	33	1,700	56,100
20/6	3 M	23/9	73	1,900	1,38,700
				15,700	5,46,600

Base Date = 12/7

For Bills Payable

29/5	2 M	1/8	20	2,500	50,000
3/6	3 M	7/9	57	3,400	1,93,800
9/6	1 M	12/7	0	5,700	0
				11,600	2,43,800

$$\text{Avg. Due Date} = \text{Base Date} + \frac{\text{Balance of Product}}{\text{Balance of unit}}$$

$$= 12/7 + \frac{5,46,600 - 2,43,800}{15,700 - 11,600}$$

$$= 12/7 + \frac{3,02,800}{4,100}$$

= 12/7 + 74 days = 24/9

(c)

In the Books of Suresh			
15/4/20	B/R a/c Dr.	15,000	
	To Anup a/c		15,000
18/4/20	Bank a/c Dr.	14,700	
	Dis. a/c Dr.	300	
	To B/R a/c		15,000
18/4/20	Anup a/c Dr.	5,000	
	To Bank a/c		4,900
	To Dis. A/c		100
18/7/20	Anup a/c Dr.	17,500	
	To B/P a/c		17,500
18/7/20	Bank a/c Dr.	2,825	
	Dis. a/c Dr.	300	
	To Anup a/c		3,125
21/10/20	B/P a/c Dr.	17,500	
	To Anup a/c		17,500
31/10/20	Anup a/c Dr.	13,125	
	To Bank a/c		6562.50
	To Deficiency a/c		6562.50

W.No. 1:

Discount to be borne by Sureh

Suresh = $10,000 + 2,825 = \frac{12,825}{17,100} \times 400 = 300$

Answer 4:

(a)

Revaluation Account
Dr. **as on 1st July, 2020** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Building a/c	11,000	By Investment	4,000
To Plant & Machinery a/c	80,000	By Loss to Partner's	
To Trade Receivables	23,850	A	33,355
		B	22,170
		C	55,425
	1,14,850		1,14,850

Partner's Capital a/c
Dr. **as on 1st July, 2020** **Cr.**

Particulars	A	B	C	D	Particulars	A	B	C	D
To Revaluation	33,255	22,170	55,425	--	By Balance b/d	1,24,000	96,000	1,60,000	--
To Investment	--	46,000	--	--	By D Capital a/c	--	60,000	30,000	--
To B Capital	--	--	--	60,000	By Balance c/d	--	--	--	90,000
To C Capital	--	--	--	30,000					
To Balance	90,745	87,830	1,34,575	--					
	1,24,000	1,56,000	1,90,000	90,000		1,24,000	1,56,000	1,90,000	90,000
To Balance b/d	--	--	--	90,000	By Balance b/d	90,745	87,830	1,34,575	--
To B's Loan	--	87,830	--	--	By Bank	29,255	--	25,425	2,10,000
To Balance c/d	1,20,000	--	1,60,000	1,20,000					
	1,20,000	87,830	1,60,000	2,10,000		1,20,000	87,830	1,60,000	2,10,000

(b) **Income and Expenditure A/c**
for the year ended March 2020

Dr. **Cr.**

Expenditure		Rs.	Income		Rs.
To Salary	8,75,000		By Tuition Fee	8,10,000	
+	52,000	9,27,000	+ o/s	82,000	8,92,000
To Salary (Research)	1,25,000		By Govt. Grant		5,01,000
+	1,45,000	2,70,000	By Interest and Dividend on Investment		1,75,000
To Scholarship		85,000	By Hostel Room Rent		1,65,000
To Student Welfare Exp. (37,000 + 78,000)		1,15,000	By Mess Receipt		2,05,000
To Games and Sports Exp. (52,000 + 24,000)		76,000	By Profit on Sale of College Stores		1,14,000
To Depreciation					
Building		77,500			
Plant and Equipment		85,000			
Furniture and Fittings		54,000			
Motor Vehicle		48,000			
To Surplus		3,14,500			
		20,52,000			20,52,000

Balance Sheet

Liablities		Rs.	Assets		Rs.
Capital Fund			Land		1,50,000
Opening	13,08,000		Building	15,50,000	
Add: Surplus	3,14,500	16,22,500	Less: Provision	5,67,500	9,82,500
Securities Deposit		1,55,000	Plant & Equipment	8,50,000	
Building Fund		19,10,000	Less: Provision	5,90,000	2,60,000
Outstanding Expenses		2,35,000	Furniture	5,40,000	
			Less: Provision	3,80,000	1,60,000
			Motor Vehicle	2,40,000	
			Less: Provision	48,000	1,92,000
			Library		3,20,000
			Other Investment		12,75,000
			Fees Receivable		82,000
			Closing Stock		1,85,000
			Cash at Bank		3,16,000
		39,22,500			39,22,500

Working Note :

Opening Stock	=	3,10,000
(+) Purchases	=	8,20,000
		11,30,000
(-) Material Supplies Consumed		2,99,000
(-) Cost of Good Sold (7,60,000 – (7,60,000 x 15%)		6,46,000
Closing Stock		1,85,000

Answer 5:

(a) **In the Books of M/s Applied Labroratories**

Journal

Date	Particular		L.F.	Dr.(Rs.)	Cr.(Rs.)
1.	P&L Adjustment a/c	Dr.		12,500	
	To Building a/c				12,500
2.	P&L Adjustment a/c	Dr.		1,500	
	To Suspense a/c				1,500
3.	Suspense a/c	Dr.		2,100	
	To Rani & Co. a/c				2,100
4.	P&L Adjustment a/c	Dr.		30,000	
	To Furniture a/c				30,000
5.	Raja & Co. a/c	Dr.		20,000	
	To B/R a/c				20,000
6.	Capital a/c	Dr.		44,000	
	To P&L Adjustment a/c				44,000

P&L Adjustment A/c

Dr. **Cr.**

Particular	Rs.	Particular	Rs.
To Building	12,500	By Capital (BF)	44,000
To Suspense	1,500		
To Furniture	30,000		
	44,000		44,000

(b)

(i) Amount of Salary which would be charged to the P&L a/c for the year ended 31 Dec. 19

P&L A/c

Year ended 31 Dec. 19

Dr.

Particular		Rs.	Particular	Rs.
To Salary	49,26,000			
(-) o/s (2018)	3,60,000			
(+) o/s (2019)	4,38,000	50,04,000		

(ii) Amount Actually Paid as Salary during 2019 for a Employees

Dec. 2018	=	40,000 x 9	=	3,60,000
Jan. 2019 to Nov. 2019	=	44,000 x 9 x 11	=	<u>43,56,000</u>
				<u>47,16,000</u>

For 2 Trainees

July 2019 to Nov. 2019	=	21,000 x 2 x 5	=	2,10,000
Total Salary Paid	=	47,16,000 + 2,10,000	=	49,26,000 Rs.

(iii) Outstanding Salary as on 31 Dec. 2019

for a Employees (Dec.19)	=	44,000 x 9	=	3,96,000
for 2 Trainees (Dec. 19)	=	21,000 x 2	=	<u>42,000</u>
				<u>4,38,000</u>

(c) **Raw Material A/c**

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Opening Stock a/c	1,27,000	By Raw Material Consumed	9,15,000
To Creditor's a/c	14,40,000	By Closing Stock (BF)	6,52,000
	15,67,000		15,67,000

Creditor A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bank a/c	23,50,000	By Balance b/d	15,70,000
To Balance c/d	6,60,000	By Purchaser (BF)	14,40,000
	30,10,000		30,10,000

Manufacturing A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Raw Material (BF)	9,15,000	By Trading a/c (W.No. 4)	18,32,000
To Wages (W.No. 2)	3,15,000		
To Depreciation (W.No. 1)	3,95,000		
To Direct Exp. (W.No. 3)	2,07,000		
	18,32,000		18,32,000

W.No. 1 :
Calculate Correct Amount of Depreciation
Since Purchases of machinery worth Rs. 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 Rs.

W.No. 2 :
Calculate Correct Wages
Wages worth Rs. 50,000 will be excluded from manufacturing account as they pertain to office and hence will be charged to P&L a/c.

W.No. 3 :
Calculate Correct Direct Expenses
Expenses to be Excluded from Direct Expenses.

Office electricity charges (80,000 x 25%)	=	20,000
Delivery charges to customer's	=	22,000
		42,000

Revised Direct Expenses = 2,49,000 – 42,000 = 2,07,000 Rs.

W.No. 4 :
Revised Balance to be transferred to Trading A/c

	Current Balance Transferred	17,44,000
Add:	Depreciation charges not recorded earlier	1,80,000
Less:	Wages releted to office	(50,000)
Less:	Office expenses	(42,000)
	Revised Balance to be transferred	18,32,000

Answer 6:

(a) **Journal of ABC Limited**

Date	Particular	L.F.	Dr.(Rs.)	Cr.(Rs.)
1.	Bank a/c Dr.		40,000	
	To Equity Share Application a/c			40,000
	(Being application money received on 20000 shares @ 2 per share)			
2.	Equity Share Application a/c Dr.		40,000	
	To Equity Share Capital a/c			40,000
	(Being application money on 20000 shars transferred to equity share capital account)			
3.	Equity Share Allotment a/c Dr.		60,000	
	To Equity Share Capital a/c			60,000
	(Being allotment money due on 20000 shares @ 3 per share)			
4.	Bank a/c Dr.		60,000	
	To Equity Share Allotment a/c			60,000
	(Being allotment money received)			
5.	Equity Share First Call a/c Dr.		80,000	
	To Equity Share Capital a/c			80,000
	(Being first call money due on 20000 shares @ 4)			
6.	Bank a/c Dr.		78,800	
	To Equity Share First Call a/c			78,800
	(Being first call money required w.no. 1)			
7.	Equity Share Final Call a/c Dr.		20,000	
	To Equity Share Capital a/c			20,000
	(Being final call due on 20000 shares @ 1 Rs. per share)			
8.	Bank a/c Dr.		19,700	
	To Equity Share Final Call a/c			19,700
	(Being final call money received)			
9.	Equity Share Capital a/c Dr.		3,000	
	To Equity Share First Call a/c (300 x 4)			1,200
	To Equity Share Final Call a/c (300 x 1)			300
	To Forfeited Share ac			1,500
	(Being the forfeiture of 300 shares of Rs. 10 each for non payment of first and final call)			
10.	Bank a/c Dr.		2,400	
	Forfeited Share a/c Dr.		600	
	To Equity Share Capital a/c			3,000
	(Being re-issue of 300 shares @ Rs. 8 each on 2 Rs. discount)			
11.	Forfeied Shares a/c Dr.		900	
	To Capital Reserve a/c			900
	(Being profit on re-issue of forfeited shares transferred to capital reserve)			

W.No. 1 : First Call Money Received

First call money due	=	80,000
(-) Calls in arrear (300x4)	=	1,200
First Call Money Received		78,800

W.No. 2 : Final Call Money Received

Final call money due	=	20,000
(-) Calls in arrears (300x1)	=	300
Final Call Money Received		19,700

W.No. 3 : Amount Transferred to Capital Reserve a/c

Gross Balance of Share Forefeiture a/c on 300 shares	=	1,500
(-) Discount on Re-issue of 300 forfeited shares	=	600
Amount Transferred to Capital Reserve		900

(b)

In the Books of Y Company
Journal Entries

Date	Particular		L.F.	Dr. (Rs.)	Cr. (Rs.)
(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 Debenture a/c	Dr.		2,00,000	
	To 12% debentures a/c				15,00,000
	(Being the issue of debentures of Rs. 15,00,000 to vendor to satisfy his claim)				
(ii)	Bank a/c	Dr.		27,00,000	
	To Debenture Application a/c				27,00,000
	(Being the application money received on 5000 debentures @ Rs. 540)				
	Debenture 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 5000 12% Debentures @ 90%)				
(iii)	Bank a/c	Dr.		14,00,000	
	To Bank Loan a/c				14,00,000
	(Being a loan of Rs. 14,00,000 taken from Bank by Issuing Debentures of Rs. 15,00,000 as Colleteral Security)				

(c) **Cost of Asset :**

Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquistion, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency. We have discussed this in more detail in coming paragraphs.

Useful life of the asset :
'Usefuil 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.

Scrap (residual value) :
Determination of the residual value is normally a difficult matter. 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.

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