

PRINCIPLES AND PRACTICE OF ACCOUNTING

(JULY 2021)

Answer 1:

- (a) (i) **False :**
Reason : Goods sold on approval or return basis are recorded as credit sales initially when they are sent out.
- (ii) **True :**
Reason : According to Section 53 of the companies Act 2013, a company cannot issue shares at a discount except in case of issue of sweat equity share.
- (iii) **False :**
Reason : Warehouse rent paid for storage of finished inventory are not included in the cost of finished inventory.
- (iv) **False :**
Reason : A person can hold both equity and preference share of the same company.
- (v) **False :**
Reason : On the death of a partner business of partnership does not ends, remaining partners carry on the business.
- (vi) **True :**
Reason : Cash Book is both subsidiary book as well as principal book.
- (b) The basic considerations in distinction between capital and revenue expenditures are:
- Nature of business.
 - Recurring nature of expenditure.
 - Purpose of expenses.
 - Effect on revenue generating capacity of business.
 - Materiality of the amount involved.

(c) **Calculation of Depreciation for the year ended 31 Mar. 2021**

		Rs.
	Depreciation on	
1.	Opening Balance (1.4.2020)	
	Machine Sold 1.7.2020 $(2,16,000 \times \frac{15}{100} \times \frac{3}{12})$	8,100
	Remaining Machine $(28,54,000 - 2,16,000) \times \frac{15}{100}$	3,95,700
2.	Machine Purchased on 1.7.2020	
	$(4,58,000 + 22,000) \times \frac{15}{100} \times \frac{9}{12}$	54,000
3.	Machine Purchased on 1.11.2020	
	$5,60,000 \times 15\% \times \frac{5}{12}$	35,000
	Total	4,92,800

Answer 2:

(a)

In the Books of Ratan Journal Entry

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Motor Vehicle Dr.		27,000	
	To P/L Adjustment			27,000
	(Being error rectified)			
(ii)	Suspense A/c Dr.		1,00,000	
	To P/L Adjustment			1,00,000
	(Being error rectified)			
(iii)	P/L Adjustment A/c Dr.		40,000	
	To Mr. X			40,000
	(Being error rectified)			
(iv)	Mr. Bhaskar Dr.		10,000	
	To Mr. Anand			10,000
	(Being rectified entry passed)			
(v)	Suspense A/c Dr.		10,000	
	To Chandu			10,000
	(Being error rectified)			
(vi)	TIR A/c Dr.		5,000	
	To Suspense A/c			5,000
	(Being error rectified)			
(vii)	Ram A/c Dr.		20,000	
	To P/L Adjustment			20,000
	(Being rectified entry passed)			
(viii)	Suspense A/c Dr.		1,980	
	To P/L Adjustment A/c			1,980
	(Being Error rectified)			
(ix)	P/L Adjustment A/c Dr.		1,08,980	
	To Ratan Capital			1,08,980
	(Being P/L Adjustment A/c Transferred to Ratan Capital A/c)			
(x)	Ratan Capital A/c Dr.		1,06,980	
	To Suspense			1,06,980
	(Being Suspense A/c to Transferred to Cap. A/c)			

(b)

Bank Reconciliation Statment

Particulars	Plus (Rs.)	Minus (Rs.)
Debit Balance as per Pass Book		3,500
Add-(ii) Cheque deposited but return by bank not entered in cash book	2,500	
(iv) Bill discounted dishonoured not entered in cash book	5,000	
(v) Cheque debited twice in cash book	1,500	
Less-(iii) Bills collected by bank not recorded in cash book		3,000
Total	9,000	6,500
Debit Balance as per cash book	2,500	

- (c) (i) **Calculation of Gross Margin-**
- | | |
|------------------------------|-------------------|
| Sales for the year | 7,50,000 |
| Add: Closing Inventory | <u>1,00,000</u> |
| | 8,50,000 |
| Less: Purchases for the year | <u>(5,00,000)</u> |
| Gross Margin | <u>3,50,000</u> |
- (ii) Rate of Gross Margin = $\frac{3,50,000}{8,50,000} \times 100$
 = 41.176%
- (iii) Cost of Closing Inventory = (1,00,000 - 41.176% of 1,00,000)
 = 1,00,000 - 41,176
 = Rs. 58,824

Answer 3:

(a) **Calculation of Average Due Date**

Due Date	Amount	No. of Year	Product
1.1.2017	10,000	0	0
1.1.2018	20,000	1	20,000
1.1.2019	30,000	2	60,000
1.1.2020	40,000	3	1,20,000
1.1.2021	50,000	4	2,00,000
	1,50,000		4,00,000

Avg. Due Date = Base Date + $\frac{\text{Total of Product}}{\text{Total of Amt.}}$

= 1.1.2017 + $\frac{4,00,000}{1,50,000}$

= 1.1.2017 + 2.6666 Years

= 1.1.2017 + (2.6666 x 12) month

= 1.1.2017 + 32 Month

= 1 Sept. 2019

Interest = $1,50,000 \times \frac{12}{100} \times \frac{44}{12}$

= Rs. 66,000

(b)

In the Books of ABC Ltd.
Goods on Sale or Return, Sold and Return Book

Date 2021	Party to whom goods are sent	Amount	Date 2021	Sale	Return	Balance
10 Mar.	PQR	25,000	25 Mar.	25,000	--	--
12 Mar.	DEF	15,000	16 Mar.	--	15,000	--
15 Mar.	GHI	40,000	20 Mar.	32,000	8,000	--
20 Mar.	DEF	10,000	24 Mar.	10,000	--	--
25 Mar.	PQR	22,000	28 Mar.	22,000	--	--
30 Mar.	XYZ	35,000		--	--	35,000
		1,47,000		89,000	23,000	35,000

Goods on Sales or Return Total A/c

Date	Particulars	Amt.	Date	Particulars	Amt.
31.3.2021	To Sales	89,000	31.3.2021	By Goods sent on sale or return	1,47,000
	To Return	23,000			
	To Bal. c/d	35,000			
		1,47,000			1,47,000

(c)

**In the Books of Max Chemical Works
 Consignment A/c**

Particulars		Rs.	Particulars	Rs.
To Goods sent on consignment		1,68,000	By Goods sent on consignment	28,000
To Cash			By Abnormal Loss (50 Box) (Note-2)	11,000
Freight & Insurance		14,000	By Raja Medical Store	
To Raja Medical			Sale - 500 Box	1,60,000
Carriage	9,750		By Consignment Stock (Note 3)	41,250
Selling Exp.	6,000			
Commission (1,60,000 x 6%)	9,600	25,350		
To Stock Reserve (150 x 40)		6,000		
To P/L A/c		26,900		
		2,40,250		2,40,250

Working :

- Invoice Price per Box = $\frac{1,68,000}{700} = 240$
- Abnormal Loss
 $50 \times 200 = 10,000$
 Add: $\frac{14,000}{700} \times 50 = \underline{1,000}$
11,000
- Calculation of Consignment Stock
 No. of unsold box (700-50-500) = 150 Box

I. Price of 150 Box (150x240) = 36,000

Add: Consignor Exp. 3,000

$$\left(\frac{14,000}{700} \times 150 \right)$$

Add: Consignee Exp. 2,250

$$\left(\frac{9,750}{650} \times 150 \right)$$

41,250

Answer 4:

(a)

**In the Books of M/s Designer Wear
 Trading and P/L A/c
 (for the year ending 31 March 2021)**

Particulars		Rs.	Particulars	Rs.
To Purchase		17,00,000	By Sales A/c	20,00,000
To Gross Profit		8,50,000	By Cl. Stock	5,50,000
		25,50,000		25,50,000
To Interest A/c		33,300	By Gross Profit	8,50,000
To Electricity	40,000			
(+) O/s Electricity	20,000	60,000		
To Cartage outward		60,000		
To Entertainment Exp.		5,000		
To Misc. Exp.		15,000		
To Telephone Charge		50,000		
To Trading Exp.		45,000		
To Maintenance Exp.		25,000		
To Depreciation				
Building	30,000			
Furniture	1,000	31,000		
To Net Profit		5,25,700		
		8,50,000		8,50,000

**Balance Sheet
 (as at 31.3.2021)**

Liabilities		Rs.	Assets		Rs.
Capital	3,00,000		Building	6,00,000	
(+) Add. Cap.	2,00,000		(-) Dep.	(30,000)	5,70,000
(-) Drawing	(60,000)		Furniture	10,000	
(+) Net Profit	5,25,700	9,65,700	(-) Dep.	(1,000)	9,000
Bank Loan	3,00,000		Security Deposit		7,000
(-) Repayment	(60,000)	2,40,000	Closing Stock		5,50,000
Electricity Exp. Payable		20,000	Bank		89,700
		12,25,700			12,25,700

Working:

Bank A/c

Particulars	Rs.	Particulars	Rs.
To Capital	3,00,000	By Building	6,00,000
To Bank Loan	3,00,000	By Bank Loan	60,000
To Capital	2,00,000	By Interest	33,300
To Sales	20,00,000	By Security Deposit	7,000
		By Furniture	10,000
		By Electricity Exp.	40,000
		By Cartae Outward	60,000
		By Entertainment Exp.	5,000
		By Misc. Exp.	15,000
		By Purchase	17,00,000
		By Telephone Charge	50,000
		By Travelling Exp.	45,000

		By Maintenance Exp.	25,000
		By Drawing	60,000
		By Bal. c/d	89,700
	28,00,000		28,00,000

(b)

**In the Books AMA Society
 Income and Expenditure A/c
 (for the year ending 31.3.2021)**

Expenditure		Rs.	Income		Rs.
To Medicine	3,00,000		By Subscription	5,00,000	
(+) Op. Stock	1,00,000		(-) Op. O/s	(15,000)	
(-) Cl. Stock	(1,50,000)		(+) Cl. O/s	22,000	
(+) Cl. Creditor	1,30,000		(+) Op. Adv.	12,000	
(-) Op. Creditor	(90,000)	2,90,000	(-) Cl. Adv.	(7,000)	5,12,000
To Hononorum		1,00,000	By Donation		1,50,000
To Salaries		2,80,000	By Interest on Invest		90,000
To Sundry Exp.		10,000	By Charity Show Collection	1,25,000	
To Depreciation			(-) Charity Show Exp.	(15,000)	1,10,000
Equipment	60,000				
Dep.	20,000	80,000			
To Surplus		1,02,000			
		8,62,000			8,62,000

**Balance Sheet
 (as on 31.3.2021)**

Liabilities		Rs.	Assets		Rs.
Capital Fund	18,03,000		Equipment	1,50,000	
(+) Surplus	1,02,000	19,05,000	(+) Op. Bal.	2,10,000	
Adv. Subs.		7,000		3,60,000	
Due for Medicine	1,30,000		(-) Dep.	(60,000)	3,00,000
			Investment (10%)		10,00,000
			O/s Subscription		22,000
			Stock of Medicine		1,50,000
			Building	5,00,000	
			(-) Dep.	(20,000)	4,80,000
			Cash		90,000
		20,42,000			20,42,000

Answer 5:

(a)

**In the Books of M/s Shyam & Co.
 Purchase Book**

Date	Particulars	L.F.	Details	Total Amt.
i)	Red and Company			
	10 Pair of Black Shoes @ Rs. 800/-		8,000	
	5 Pair of Brown Shoes @ Rs. 900/-		4,500	
			12,500	
	(-) Trade Discount 10%		(1,250)	11,250
	Total			11,250

- ii) Purchase of computer is not recorded in purchase book.
 iii) Cash purchase is not recorded in purchase book.

(b) (i) **Joint Life Policy A/c**

Date	Particulars	Amt.	Date	Particulars	Amt.
10.6.17	To Bank A/c	3,000	31.12.17	By P/L A/c	3,000
10.6.18	To Bank A/c	3,000	31.12.18	By P/L A/c	2,100
				By Bal. c/d	900
		3,000			3,000
1.1.19	To Bal. b/d	900	31.12.19	By P/L A/c	1,900
10.6.19	To Bank A/c	3,000		By Bal. c/d	2,000
		3,900			3,900
1.1.20	To Bal. b/d	2,000	31.12.20	By P/L A/c	1,400
10.6.20	To Bank A/c	3,000		By Bal. c/d	3,600
		5,000			5,000
1.1.21	To Bal. b/d	3,600	15.4.21	By Bank A/c	3,600

- (ii) (1) Liabilities for Income Tax - Transfer to Provision
 (2) Retained Profit - Transfer to Reserve
 (3) Proposed Dividend - Neither related to provision nor reserve
 (4) Increase in Provision for d.d. - Transfer to provision
 (5) Bad debt written off - Neither related to provision nor reserve

(c) **Ram Capital A/c**

Particulars	Rs.	Particulars	Rs.
To Ram Current	1,920	By Bal. b/d	21,600
To Ram Executor	1,00,802	By Laxman & Bharat Capital	81,122
	1,02,722		1,02,722

Working:

1. **Calculation of goodwill**

$$\begin{aligned}
 \text{a) Average Profit} &= \frac{70,400 + 56,320 + 48,160 + 17,408}{4} \\
 &= \text{Rs. } 48,072 \\
 \text{b) Goodwill} &= \text{Av. Profit} \times \text{NYP} \\
 &= 48,072 \times 3 \\
 &= \text{Rs. } 1,44,216 \\
 \text{c) Ram share in goodwill} &= 1,44,216 \times \frac{9}{16} \\
 &= \text{Rs. } 81,121.5 \\
 &= \text{Rs. } 91,122
 \end{aligned}$$

Ram Executor A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.21	To Bank A/c (Instal)		1.10.20	By Ram Capital	1,00,802
	(25,200.5 + 2,520)	27,720.5	31.3.21	By Interest	
31.3.21	To Bal. c/d	75,601.5		$\frac{(1,00,802 \times 5\% \times 6)}{12}$	2,520

		1,03,322			1,03,322
30.9.21	To Bank A/c		1.4.21	By Bal. b/d	75,601.5
	(25,200.5 + 1,890)	27,090.5	30.9.21	By Interest	
31.3.22	To Bank A/c			$\frac{(75,601.5 \times 5\% \times 6)}{12}$	1,890
	(25,200.5 + 1,260)	26,460.5	31.3.22	By Interest	
31.3.22	To Bal. c/d	25,200.5		$\frac{(50,401 \times 5\% \times 6)}{12}$	1,260
		78,751.5			78,751.5
30.9.22	To Bank a/c	25,830.5	1.4.22	By Bal. b/d	25,200.5
			30.9.22	By Interest	
				$\frac{(25,200.5 \times 5\% \times 6)}{12}$	630
		25,830.5			25,830.5

Amt. of each instalment (without interest) = $\frac{1,00,802}{4} = \text{Rs. } 25,200.5$

Answer 6:

(a) Working:

- (1) **Apply** **Allot**
- | | | |
|-----------------|--------|---------------|
| 2,00,000 | Refund | Nil |
| <u>1,00,000</u> | Adjust | <u>75,000</u> |
| <u>3,00,000</u> | | <u>75,000</u> |
- (2) **Calculation of Amt. Adjusted with Final Call**
- | | | |
|------------------------------------|---|-------------------|
| App. Money (1,00,000 x 9) | = | 9,00,000 |
| (-) Actual App. Money (75,000 x 9) | = | <u>(6,75,000)</u> |
| Adjust with Final Call | | <u>2,25,000</u> |
- (3) **No. of Share allotted to Mr. Raj**
- $$1,500 \times \frac{75,000}{1,00,000} = 1,125 \text{ Shares}$$
- (4) **Calculation of Calls in arrear**
- | | | |
|--|---|-----------------|
| App. Money received from Raj (1,500 x 9) | = | 13,500 |
| (-) Actual App. Money (1,125 x 9) | = | <u>(10,125)</u> |
| Advance | | <u>3,375</u> |
-
- | | | |
|---------------------------------|---|----------------|
| Final Call from Raj (1,125 x 6) | = | 6,750 |
| (-) Advance | | <u>(3,375)</u> |
| Calls in Arrear | | <u>3,375</u> |

In the Books of X Ltd.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank a/c 3,00,000 x 9	Dr.	27,00,000	
	To Eq. Share App. & Allotment A/c			2,70,000
	(Being App. Money Received on 3,00,000 shares & Rs. 9 each)			
2.	Eq. Share App. & Allot.	Dr.	27,00,000	
	(75,000 x 4) To Eq. Share Capital			3,00,000
	(75,000 x 5) To Securities Premium			3,75,000
	(2,00,000 x 9) To Bank			18,00,000

	To Eq. Shares 1st & final call (Being App. Money Transferred)			2,25,000
3.	Eq. Shares 1st & Final Call A/c Dr.		4,50,000	
	(75,000 x 6) To Eq. Share Capital (Being 1st & Final call due)			4,50,000
4.	Bank A/c Dr.		2,21,625	
	Calls in arrear a/c Dr.		3,375	
	To Eq. Share 1st & Final Call (Being Final Call Money Received)			2,25,000
5.	Eq. Share Capital A/c Dr.		11,250	
	To Share Forfeiture			7,875
	To Calls in Arrear			3,375
	(Being 1125 Eq. Share forfeited for the Non Payment of Final Call)			
6.	Bank A/c 1125 x 6 Dr.		6,750	
	Share Forfeiture 1125 x 4 Dr.		4,500	
	(1,125 x 10) To Eq. Share Capital (Being forfeited shares reissued at (4 discount))			11,250
7.	Share Forfeiture A/c Dr.		3,375	
	To Capital Reserve A/c (Being share forfeiture transferred to capital reserve)			3,375
	$\left(\frac{7,875}{1,125} \times 1,125 \right) - 4,500$			

(b) Advantage of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages:

- Division of work:** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.
- Specialization and efficiency:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.
- Saving of the time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.
- Availability of information:** Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.
- Facility in checking:** When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

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