(GCF-2,3,4,5,6, VCF-1,2, VDCF-1,2 & SCF-1,2)
DATE: 27.09.2021 MAXIMUM MARKS: 100 TIMING: 3 Hours

PAPER : PRINCIPLES & PRACTICE OF ACCOUNTING

Question no. 1 is compulsory.
Candidates are required to answer any four questions from the remaining five questions.

Answer 1:

(a) (i) **False:}{1 M} {**Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.**}{1 M}**

(ii) **False:}{1 M} {**Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.**}{1 M}**

(iii) **True:}{1 M} {**The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.**}{1 M}**

(iv) **False:}{1 M} {**The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person.**}{1 M}**

(v) **True:}{1 M} {**A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.**}{1 M}**

(vi) **True:}{1 M} {**As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.**}{1 M}**

Answer:

(b) Provision means "any amount written off or retained by way of providing for depreciation, renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy". It is important to know the difference between provisions and contingent liabilities. The distinction between both of them can be explained as follows:

	Provision	**Contingent liability**
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognized when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

{1 M for Each}

Answer:

(c) **Machinery Account**

Dr.		Rs.	2017		Cr.	
2017					**Rs.**	
Jan. 1	To Bank A/c	4,80,000	Dec. 31	By Depreciation A/c	60,000	}{1 M}
Jan. 1	To Bank A/c –					
	erection charges	20,000		By Balance c/d	6,40,000	
July 1	To Bank A/c	2,00,000				
		7,00,000			7,00,000	
2018			2018			
Jan. 1	To Balance b/d	6,40,000	July 1	By Depreciation on		
				sold machine	22,500	}{1 M}
July 1	To Bank A/c	5,00,000		By Bank A/c	2,90,000	
				By Profit and Loss A/c	1,37,500	}{1 M}
			Dec. 31	By Depreciation A/c	44,000	}{1 M}
				By Balance c/d	6,46,000	
		11,40,000			11,40,000	

Working Note:

Book Value of Machines

	Machine I Rs.	Machine II Rs.	Machine III Rs.
Cost	5,00,000	2,00,000	5,00,000
Depreciation for 2017	50,000	10,000	
Written down value	4,50,000	1,90,000	
Depreciation for 2018	22,500	19,000	25,000
Written down value	4,27,500	1,71,000	4,75,000
Sale Proceeds	2,90,000		
Loss on Sale	1,37,500		

Answer 2:

(a) **Cash Book (Bank Column)**

Date	Particulars	Amount	Date	Particulars	Amount	
2018		**Rs.**	**2018**			
Sept. 30	To Party A/c	18,000	Sept. 30	By Balance b/d	8,062	
	To Customer A/c	}{1 M}		By Bank charges	280	}{1 M}
	(Direct deposit)	1,15,400	}{1 M}	By Customer A/c		
	To B/R collected	59,000	}{1 M}	(B/R dishonoured)	1,60,000	}{1 M}
	To Balance c/d	1,75,942	}{1 M}	By Bills payable	2,00,000	}{1 M}
		3,68,342			3,68,342	

Bank Reconciliation Statement as on 30th September, 2018

Particulars	Amount	
	Rs.	
Overdraft as per Cash Book	1,75,942	
Add: Cheque deposited but not collected up to 30th Sept., 2018	11,14,000	}{1 M}
	12,89,942	
Less: Cheques issued but not presented for payment up to 30th Sept., 2018	(13,46,000)	}{1 M}
Credit by Bank erroneously on 6th Sept.	(30,000)	}{1 M}
Balance as per bank statement	86,058	

OR

Bank Reconciliation Statement as on 30th September, 2018

Particulars	(+)	(-)
		Rs.
Overdraft as per Cash Book		1,75,942
Cheque deposited but not collected up to 30th Sept., 2018		11,14,000 }{1 M}
Cheques issued but not presented for payment up to 30th Sept., 2018	13,46,000 }{1 M}	
Credit by Bank erroneously on 6th Sept.	30,000 }{1 M}	
	13,76,000	12,89,942
Balance as per bank statement	86,058	

Answer:

(b) (i) **If a Suspense Account is not opened.**

(a) Since sales book has been cast Rs. 2,100 short, the Sales Account has been similarly credited Rs. 2,100 short. The correcting entry is as follows:

Sales A/c

Dr. Date	Particulars	Rs.	Date	Particulars	Rs. Cr.
				By Wrong Totaling of Sales Book	2,100

{1/2 M}

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Gaurav & Co. credited. The entry is:

Returns Inward Account	Dr.	Rs. 1,800	
To Gaurav & Co.			Rs. 1,800
(Goods returned by the firm, previously omitted from the Returns Inward Book)			

{1 M}

(c) Sen Brothers have been debited Rs. 2,250 instead of being credited. This account should now be credited by Rs. 4,500 to remove the wrong debit and to give the correct credit. The entry will be done as follows:

Sen Brothers A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
				By errors in posting	4,500

{1/2 M}

(d) By this error Purchases Account has to be debited by Rs. 15,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account	Dr.	Rs. 15,000	
To Purchases Account			Rs. 15,000
(Correction of the mistake by which purchases Account was debited instead of the Furniture Account)			

{1 M}

(e) The discount of Rs. 1,200 received from Black & White should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Black & White would have been debited. This entry should be made :

Black & White	Dr.	Rs. 1,200		{1 M}
To Discount Account			Rs. 1,200	
(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)				

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited Rs. 180 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be rectified as follows:

Discount A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Omission of entry in the Cash Book	180			

{1/2 M}

(ii) **If a Suspense Account is opened:**

	Particulars		L.F.	Dr. Rs.	Cr. Rs.	
(a)	Suspense Account	Dr.		2,100		{1 M}
	To Sales Account				2,100	
	(Being the correction arising from under-casting of Sales Day Book)					
(b)	Return Inward Account	Dr.		1,800		{1/2 M}
	To Gaurav & Co				1,800	
	(Being the recording of unrecorded returns)					
(c)	Suspense Account	Dr.		4,500		{1 M}
	To Sen Brothers				4,500	
	(Being the correction of the error by which Sen Brothers was debited instead of being credited by Rs. 2,250).					
(d)	Furniture Account	Dr.		15,000		{1 M}
	To Purchases Account				15,000	
	(Being the correction of recording purchase of furniture as ordinary purchases)					
(e)	Black & White	Dr.		1,200		{1 M}
	To Discount Account (Being the recording of discount omitted to be recorded)				1,200	
(f)	Discount Account	Dr.		180		{1 M}
	To Suspense Account				180	
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).					

Answer 3:

(a)

A Products Ltd.

Dr. Consignment to Mumbai Account Cr.

Particulars		Rs.	Particulars		Rs.
To Goods sent on Consignment A/c			By C Stores		
1,000 5 kg. tins @ Rs 100	1,00,000 {1/2 M}		500, 5 kg. tins @ Rs. 150	75,000	
1,000 10 kg. tins. @ Rs. 180	1,80,000 {1/2 M}	2,80,000	800,10 kg. tins. @ Rs. 250	2,00,000	2,75,000 }{1 M}
To C Stores:			By Bank A/c (Damage charges)		5,000 }{1/2 M}
Freight	20,000		By Profit & Loss A/c-		
Insurance	10,000		abnormal loss (Net)		4,225 }{1 M}
Storage charge	20,000				
Commission	27,500 {1/2 M}	77,500 {1 M}	By Inventory on consignment A/c		83,025 }{1 M}
To Profit & Loss A/c – Profit		9,750 {1 M}			
		3,67,250			3,67,250

Working Notes:

(i) Calculation of Freight

Sale value of total consignment:	
1,000 5 kg. tins @ Rs. 150	1,50,000
1,000 10 kg. tins @ Rs. 250	2,50,000
	4,00,000
Freight @ 5% of above	20,000 }{1 M}

(ii) Inventories at the end:

450, 5 kg. tins @ Rs. 100 (Selling Price Rs. 67,500)	45,000
180,10 kg. tins. @ Rs. 180 (Selling Price Rs. 45,000)	32,400
	77,400
Add: Freight 5% of (Selling Price Rs. 1,12,500)	5,625
	83,025 }{1 M}

(iii) Loss in transit:

Cost of 50,5 kg. tins @ Rs. 100 & 20, 10 kg tins @ 180	8,600
Freight @ 5% of Selling Price Rs. 12,500	625
Gross abnormal Loss	9,225
Less : Damage charges received	(5,000)
Net abnormal Loss	4,225 }{1 M}

Answer:

(b)

Piyush in Account Current with Amit
for the period ending on 31st December, 2020

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2020		Rs.			2020		Rs.		
Sept. 1	To Balance b/d	900	122 {1/2 M}	1,09,800	Oct. 20	By Sales Returns	250	72 {1/2 M}	18,000

Oct. 15	To Sales A/c	1,450	77 {1/2 M}	1,11,650	Nov. 22	By Bank A/c	1,200	39 {1/2 M}	46,800	
Dec. 31	To Interest A/c	32	}{1 M}		Dec. 15	By Cash A/c	600	16 {1/2 M}	9,600	
					Dec. 31	By Balance of products			1,47,050	}{1/2 M}
						By Balance c/d	332	}{1 M}		
		2,382		2,21,450			2,382		2,21,450	

Calculation of interest:
Interest = 1,47,050/ 366 days X 8% = Rs. 32 (Rounded off)
Note: 366 days taken for interest calculation since 2020 is a leap year. Alternatively, 365 days can also be taken. In that case amount of interest will be Rs. 32.23 (Rounded off Rs. 32) and amount of balance c/d will be Rs. 332.23 (Rounded off Rs. 332).

Answer:
(c) (i) In the books of ABC. Ltd.
Journal Entries

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.	
March. 31	Sales A/c (Rs. 50 X 60)	Dr.		3,000		
	To XYZ Limited A/c				3,000	{1 M}
	(Being the 60 units of goods accepted by XYZ limited at 700 per unit.)					
	Sales A/c (40 X Rs. 750)	Dr.		30,000		
	To XYZ Limited A/c				30,000	
	(Being the cancellation of original entry for sale in respect of 40 units of goods not yet returned or approved by customers)					{2 M}
March. 31	Inventories with Customers on Sale or Return A/c	Dr.		20,000		
	To Trading A/c				20,000	{2 M}
	(Being the cost of goods sent to customers on approval or return basis not yet approved, adjusted)					

Note: Quantity of goods lying with XYZ as on 31.3.2020 = 100-60 = 40

OR

(ii) Let us take 13.08.2020 as Base date.

Bills receivable

Bill Date	Tenure	Due date	No. Of days from 13.08.2020	Amount	Product
12/06/20	3 months	15/09/2020	33 }{1/2 M}	5,000	1,65,000
10/07/20	1 month	13/08/2020	0	6,200	0
15/07/20	3 months	18/10/2020	66 }{1/2 M}	3,500	2,31,000
12/06/20	2 months	14/08/2020	1 }{1/2 M}	1,500	1,500
28/06/20	2 months	31/08/2020	18 }{1/2 M}	2,500	45,000
				18,700	4,42,500

Bills payable

Bill Date	Tenure	Due date	No. Of days from 13.08.2020	Amount	Product
27/05/20	3 months	30/08/2020	17 }{1/2 M}	3,700	62,900
07/06/20	3 months	11/09/2020	29 }{1/2 M}	4,000	1,16,000
10/07/20	1 month	13/08/2020	0	5,000	0
				12,700	1,78,900

Excess of products of bills receivable over bills payable = 4,42,500 - 1,78,900= 2,63,600

Excess of bills receivable over bills payable = 18,700 – 12,700 = 6,000

Number of days from the base date to the date of settlement is 2,63,600 /6,000 = 44(approx.) }{1 M}

Hence date of settlement of the balance amount is 44 days after 13.08.2020 i.e. 26th September, 2020. }{1 M}

On 26th September, 2020, Rajesh has to pay Mahesh Rs. 6,000 to settle the account.

Answer 4:

(a)

Income and Expenditure Account
for the year ended 31st March, 2020

		Rs.		Rs.
To Medicines consumed			By Prescription fees	6,60,000
Purchases	2,45,000	{1 M}{		
Less: Stock on 31.3.20	(95,000)	1,50,000	By Visiting fees	2,50,000
To Motor car expense		80,000	By Fees from lectures	24,000
To Wages and salaries (1,05,000 – 30,000)		75,000	}{1 M}	
To Rent for clinic		60,000		
To General charges		49,000		
To Interest on loan		36,000		
To Net Income		4,84,000	}{1 M}	
		9,34,000		9,34,000

Capital Account
for the year ended 31st March, 2020

	Rs.		Rs.
To Drawings:		By Cash/bank	2,00,000
Motor car expenses	40,000	By Cash/bank (pension)	3,00,000 }{1 M}
(one-third of Rs. 1,20,000)	{1 M}	By Net income from practice (derived from income and expenditure A/c)	4,84,000
Household expenses	1,80,000	}{1 M}	
Daughter's marriage exp.	2,15,000	}{1 M}	
Wages of domestic servants	30,000	}{1 M}	
Household furniture	25,000	}{1 M}	
To Balance c/d	4,94,000	}{1 M}	
	9,84,000		9,84,000

Answer:
(b)

Revaluation Account

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

Dr. Partners' Capital Accounts Cr.

	A	B	C	D		A	B	C	D
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
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 {1/2 M}	30,000 {1/2 M}	–
To Investments A/c	–	46,000	–	–	By Bank A/c	29,255 {1 M}	–	25,425 {1 M}	2,10,000 {1 M}
To B's loan A/c	–	87,830 {1 M}	–	–					
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 Rs. 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: {1 M}

		Rs.
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: {1 M}

	Rs.
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

Answer 5:

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

	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1.	Profit and Loss Adjustment Account Dr.		12,500	
	To Building Account			12,500
	(Repairs amounting Rs. 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)			

{1 M} {1 M} {1 M} {1 M} {1 M}

Answer:

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

Employees = 9 x Rs. 44,000 x 12 = Rs. 47,52,000
Trainees = 2 x Rs. 21,000 x 6 = Rs. 2,52,000
Salaries charged to P & L A/c Rs. 50,04,000 }{2 M}

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

Employees = 9 x Rs. 44,000 x 11 + 9 x Rs. 40,000 = Rs. 47,16,000
Trainees = 2 x Rs. 21,000 x 5 = Rs. 2,10,000
Amount paid as salaries Rs. 49,26,000 }{2 M}

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

Employees = 9 x Rs. 44,000 = Rs. 3,96,000
Trainees = 2 x Rs. 21,000 = Rs. 42,000
Outstanding salaries Rs. 4,38,000 }{1 M}

Answer:

(c) **Manufacturing A/c**

Particulars	Rs.	Particulars	Rs.
To Raw Material Consumed (Balancing Figure)	9,15,000 }{1 M}	By Trading A/c (W.N. 4)	18,32,000 }{1 M}
To Wages (W.N. 2)	3,15,000 }{1/2 M}		
To Depreciation (W.N. 1)	3,95,000 }{1/2 M}		
To Direct Expenses (W.N. 3)	2,07,000 }{1/2 M}		
	18,32,000		**18,32,000**

Raw Material A/c

Particulars	Rs.	Particulars	Rs.
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 }{1/2 M}	By Closing Stock A/c (Balancing Figure)	6,52,000 }{1 M}
	15,67,000		15,67,000

Working Notes:

(1) Since purchase of Machinery worth Rs. 12,00,000 has been omitted.
So, depreciation omitted from being charged = 12,00,000 X 15%
= Rs. 1,80,000
Correct total depreciation expense = Rs. (2,15,000 + 1,80,000)
= 3,95,000 }{1 M}

(2) Wages worth Rs. 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 Rs. 3,15,000 will be shown in manufacturing account.
}{1 M}

(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 = Rs. (2,49,000 - 42,000)	
= Rs. 2,07,000 }{1 M}	

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	Rs.
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 }{1 M}

(5) **Creditors A/c**

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 Raw Materials A/c (Bal. figure)	14,40,000 }{1 M}
	30,10,000		30,10,000

Answer 6:
(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 Rs. 2 per share)			

2. Equity Share Application A/c	Dr.	40,000		{1 M}
To Equity Share Capital A/c			40,000	
(Being share allotment made for 20,000 shares at Rs. 2 per share)				
3. Equity Share Allotment A/c	Dr.	60,000		{1 M}
To Equity Share Capital A/c			60,000	
(Being allotment amount due on 20,000 equity shares at Rs. 3 per share as per Directors' resolution no... dated...)				
4. Bank A/c	Dr.	60,000		{1 M}
To Equity Share Allotment A/c			60,000	
(Being allotment money received for 20,000 equity shares at Rs. 3 per share)				
5. Equity Share First Call Account	Dr.	80,000		{1 M}
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		{1 M}
To Equity Share First Call Account			78,800	
(Being full amount of first call money received except on 300 shares)				
7. Equity Share Final Call Account	Dr.	20,000		{1 M}
To Equity Share Capital A/c			20,000	
(Being first call and final call money due)				
8. Bank Account	Dr.	19,700		{1 M}
To Equity Share Final Call Account			19,700	
(Being full amount of final call money received except on 300 shares)				
9. Equity Share Capital A/c (300 x Rs. 10)	Dr.	3,000		{1 M}
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….)				
10. Bank A/c (300 x Rs. 8)	Dr.	2,400		{1 M}
Forfeited Shares A/c	Dr.	600		
To Equity Share Capital A/c			3,000	
(Being re-issue of 300 shares @ Rs. 8 each as per Board's Resolution No…..dated….)				
11. Forfeited Shares A/c	Dr	900		{1 M}
To Capital Reserve A/c			900	
(Being profit on re-issue transferred to Capital Reserve)				

Answer:

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

Date	Particulars		Dr. Rs.	Cr. Rs.	
(i)	Fixed Assets A/c	Dr.	13,00,000		{1 M}
	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	{1 M}
	(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 Debentures Application A/c			27,00,000	{1 M}
	(Being the application money received on 5,000 debentures @ Rs. 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….)				{1 M}
(iii)	Bank A/c	Dr.	14,00,000		
	To Bank Loan A/c (See Note)			14,00,000	
	(Being a loan of Rs. 14,00,000 taken from bank by issuing debentures of Rs. 15,00,000 as collateral security)				{1 M}

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

Answer:

(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 M}
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. {2 M}
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. {1 M}

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