

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) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.
 - (ii) Depreciation is a non-cash expense and does not result in any cash outflow.
 - (iii) Fees received for Life Membership is a revenue receipt as it is of recurring nature.
 - (iv) If Closing Stock appears in the Trial Balance:
The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet.
 - (v) Inventory Turnover Ratio is also known as Stock Turnover Ratio.
 - (vi) If del-creders commission is paid to consignee, the loss of bad debts is to be borne by the consignor. **(6 x 2 = 12 Marks)**
- (b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements. **(4 Marks)**
- (c) A Plant & Machinery costing ₹ 10,00,000 is depreciated on straight line assuming 10 year working life and zero residual value, for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 40,000. The remaining useful life was reassessed at 8 year. Calculate Depreciation for the fifth year. **(4 Marks)**

Answer

- (a) (i) **False:** Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.
- (ii) **True:** Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.
- (iii) **False:** Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.

- (iv) **True:** The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.
 - (v) **True:** Inventory Turnover Ratio is also known as Stock Turnover Ratio. It establishes the relationship between the cost of goods sold during the year and average inventory held during the year.
 - (vi) **False:** To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.
- (b) **Limitations which must be kept in mind while evaluating the Financial Statements are as follows:**
- (i) The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money
 - (ii) Balance sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in the long run and not for the past date.
 - (iii) Accounting ignores changes in some money factors like inflation etc.
 - (iv) There are occasions when accounting principles conflict with each other.
 - (v) Certain accounting estimates depend on the sheer personal judgment of the accountant.
 - (vi) Different accounting policies for the treatment of same item adds to the probability of manipulations.
- (c) **Calculation of depreciation for 5th year**
- (a) Depreciation per year charged for four years = ₹ 10,00,000 / 10 = ₹ 1,00,000
 - (b) WDV of the machine at the end of fourth year = ₹ 10,00,000 – ₹ 1,00,000 × 4 = ₹ 6,00,000.
 - (c) Depreciable amount after revaluation = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000
 - (d) Remaining useful life as per previous estimate = 6 years
 - (e) Remaining useful life as per revised estimate = 8 years
 - (f) Depreciation for the fifth year and onwards = ₹ 6,40,000 / 8 = ₹ 80,000.

Question 2

- (a) The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:
- (i) Sales Day Book was overcast by ₹ 1,000.
 - (ii) A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.
 - (iii) General expenses ₹ 180 was posted in the General Ledger as ₹ 810.
 - (iv) A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.
 - (v) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.
 - (vi) Cash received from Ram was debited to Shyam ₹ 1,500.
 - (vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

(10 Marks)

- (b) Define the term "Royalty" and give any four examples for the same. **(5 Marks)**
- (c) Attempt any **one** of the following two sub-parts i.e. Either (i) or (ii).
- (i) From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31st October, 2018 by means of product method charging interest @ 5% p.a.

Date	Particulars	(₹)
1 st July	Balance due from XY	1,500
20 th August	Sold goods to XY	2,500
28 th August	Goods returned by XY	400
25 th September	XY paid by cheque	1,600
20 th October	Received cash form XY	1,000

- (ii) Mr. Ganesh sends out goods on approval to few customers and includes the same in the Sales Account. On 31.03.2018, the Trade Receivables balance stood at ₹ 75,000 which included ₹ 6,500 goods sent on approval against which no intimation was received during the year. These goods were sent out at 30% over and above cost price and were sent to-
- Mr. Adhitya ₹ 3,900 and Mr. Bakkiram ₹ 2,600.

Mr. Adhitya sent intimation of acceptance on 25th April, 2018 and Mr. Bakkiram returned the goods on 15th April, 2018.

Make the adjustment entries and show how these items will appear in the Balance Sheet as on 31st March, 2018. Show also the entries to be made during April, 2018. Value of Closing Inventories as on 31st March, 2018 was ₹ 50,000. **(5 Marks)**

Answer

(a)

(i)	P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.	1,000	1,000
(ii)	X To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)	Dr.	5,000	5,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)	Dr.	630	630
(iv)	Bills Receivable A/c Bills Payable A/c To P (Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)	Dr. Dr.	1,550 1,550	3,100
(v)	P & L Adjustment A/c To Mrs. Neetu (Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)	Dr.	1,190	1,190
(vi)	Suspense A/c To Ram To Shyam (Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)	Dr.	3,000	1,500 1,500
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹90/-, ie: ₹1,325 – ₹1,235)	Dr.	90	90

Suspense A/c

	₹		₹
To P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram	1,500	By Difference in Trial	2,720
To Shyam	1,500	Balance (Balancing figure)	
To P&L Adjustment A/c	90		
	3,720		3,720

- (b) "Royalty" may be defined as Periodic payment made by one person (lessee) to another person (lessor) for using the right by the lessee vested in the lessor.

Examples:

1. For the extraction of oil, coal, and minerals.
2. To an author for sale of his books.
3. To a patentee for the use of patent.
4. For use of technical knowhow developed by a party

(c) (i) **XY in Account Current with AB as on 31st Oct, 2018**

		(₹)	Days	Product (₹)			(₹)	Days	Product (₹)
01.07.18	To Bal. b/d	1,500	123	1,84,500	28.08.18	By Sales	400	64	25,600
						Returns			
20.8.18	To Sales	2,500	72	1,80,000	25.09.18	By Bank	1,600	36	57,600
31.10.18	To Interest	37			20.10.18	By Cash	1,000	11	11,000
					20.10.18	By Balance of Products			2,70,300
					31.10.18	By Bal. c/d	1,037		
		<u>4,037</u>		<u>3,64,500</u>			<u>4,037</u>		<u>3,64,500</u>

Note:

$$\text{Interest} = ₹ 2,70,300 \times \frac{5}{100} \times \frac{1}{365} = ₹ 37 \text{ (approx.)}$$

(ii) **In the Books of Mr. Ganesh**

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2018	Sales A/c	Dr.		6,500	

March 31	To Trade receivables A/c (Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval)				6,500
March 31	Inventories with Customers on Sale or Return A/c To Trading A/c (Note 1) (Being the adjustment for cost of goods lying with customers awaiting approval)	Dr.		5,000	5,000
April 25	Trade receivables A/c To Sales A/c (Being goods costing worth ₹ 3,900 sent to Mr. Aditya on sale or return basis has been accepted by him)	Dr.		3,900	3,900

Balance Sheet of Mr. Ganesh as on 31st March, 2018 (Extracts)

Liabilities	₹	Assets	₹	₹
		Trade receivables (₹ 75,000 - ₹ 6,500)		68,500
		Inventories-in-trade	50,000	
		Add: Inventories with customers on Sale or Return	5,000	<u>55,000</u>
				<u>1,23,500</u>

Notes:

- (1) Cost of goods lying with customers = $100/130 \times ₹ 6,500 = ₹ 5,000$
- (2) No entry is required on 15th April, 2018 for goods returned by Mr. Bakkiram. Goods should be included physically in the Inventories.

Question 3

- (a) Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities	(₹)	Assets	(₹)
Trade payables	22,500	Land & Buildings	37,000
Outstanding Liabilities	2,200	Furniture & Fixtures	7,200
General Reserve	7,800	Closing stock	12,600
Capital Accounts:		Trade Receivables	10,700
Dinesh 15,000			

Ramesh	15,000			
Naresh	<u>10,000</u>	40,000	Cash in hand	2,800
			Cash at Bank	<u>2,200</u>
		<u>72,500</u>		<u>72,500</u>

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:

- Suresh shall bring ₹ 8,000 towards his capital.
- The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.
- Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.
- The value of Land & Buildings to be increased by ₹ 5,600 and the value of the goodwill be fixed at ₹ 18,000.
- The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

- Mr. Fazhil is a proprietor in business of trading. An abstract of his Trading and P&L account is as follows:

Trading and P&L A/c for the year ended 31st March, 2018

Particulars	(₹)	Particulars	(₹)
To Cost of Goods sold	<u>22,00,000</u>	By Sales	45,00,000
To Gross Profit C/d	<u>?</u>		<u>45,00,000</u>
		By Gross Profit B/d	<u>?</u>
To Salaries paid	12,00,000	By Other Income	45,000
To General Expenses	6,00,000		
To Selling Expenses	?		
To Commission to Manager (On net profit before charging such commission)	<u>1,00,000</u>		
To Net Profit	<u>?</u>		
	<u>?</u>		<u>?</u>

Selling expenses amount to 1% of total Sales

You are required to compute the missing figures.

Answer

(a) Revaluation Account

2018			₹	2018		₹
April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To Furniture and fittings		720		By Land and Building	5,600
	To Capital A/cs: (Profit revaluation transferred)					
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

Partners' Capital Accounts

Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹	Particulars	Dinesh ₹	Ramesh ₹	Naresh ₹	Suresh ₹
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	–
					By General Reserve	3,900	2,600	1,300	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By Cash	–	–	–	8,000
					By Naresh & Suresh	4,500	1,500	–	–
					By Outstanding Liabilities (Ram)	700	–	–	
					By Revaluation A/c	2,872.50	1,915	957.50	–
	26,972.50	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:**Calculation of sacrificing ratio**

Partners	New share	Old share	Sacrifice	Gain
Dinesh	$\frac{1}{4}$	$\frac{3}{6}$	$\frac{6}{24}$	
Ramesh	$\frac{1}{4}$	$\frac{2}{6}$	$\frac{2}{24}$	
Naresh	$\frac{1}{4}$	$\frac{1}{6}$		$\frac{2}{24}$
Suresh	$\frac{1}{4}$			$\frac{6}{24}$

Entry for goodwill adjustment

Naresh (2/24 of ₹18,000)	Dr.		1,500	
Suresh (6/24 of ₹18,000)	Dr.		4,500	
To Dinesh (6/24 of ₹18,000)				4,500
To Ramesh (2/24 of ₹18,000)				1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	₹	₹	Assets	₹	₹
Trade payables		22,500	Land and Buildings		42,600
Outstanding Liabilities (2,200-700)		1,500	Furniture		6,480
Capital Accounts of Partners :			Inventory of goods		14,000
Mr. Dinesh	26,972.50		Trade receivables	10,700	
Mr. Ramesh	21,015.00		Less: Provisions	(535)	10,165
Mr. Naresh	10,757.50		Cash in hand		2,800
Mr. Suresh	3,500.00	62,245	Cash at Bank (2,200+8,000)		10,200
		86,245			86,245

(b) Trading and P&L A/c for the year ended 31st March 2018

Dr.

Cr.

Particulars	₹	Particulars	₹
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	23,00,000		
	45,00,000		45,00,000
To Salaries A/c	12,00,000	By Gross Profit b/d	23,00,000

To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses (1% of 45,00,000)	45,000		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	4,00,000		
	<u>23,45,000</u>		<u>23,45,000</u>

Question 4

- (a) Raj of Gwalior consigned 15,000 kgs of Ghee at ₹ 30 per kg to his agent Siraj at Delhi. He spent ₹ 5 per kg as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. ₹ 9,000 was paid to consignor directly by the Insurance company as Insurance claim.

Siraj sold 7,500 kgs. at ₹ 60 per kg. He spent ₹ 33,000 on advertisement and recurring expenses.

You are required to calculate:

- The amount of abnormal loss
 - Value of stock at the end and
 - Prepare Consignment account showing profit or loss on consignment, if Siraj is entitled to 5% commission on sales.
- (b) Prepare a bank reconciliation statement from the following particulars as on 31st March, 2018.

Particulars	(₹)
Debit balance as per bank column of the cash book	18,60,000
Cheque issued to creditors but not yet presented to the Bank for payment	3,60,000
Dividend received by the bank but not entered in the Cash book	2,50,000
Interest allowed by the Bank	6,250
Cheques deposited into bank for collection but not collected by bank up to this date	7,70,000
Bank charges not entered in Cash book	1,000
A cheque deposited into bank was dishonoured, but no intimation received	1,60,000
Bank paid house tax on our behalf, but no intimation received from bank in this connection	1,75,000

(10 Marks + 10 Marks = 20 Marks)

Answer**(a) Consignment Account**

	₹			₹
To Goods sent on consignment A/c (15,000 kg x ₹ 30)	4,50,000	By Consignee's A/c-Sales (7,500 kg x ₹ 60)		4,50,000
To Cash A/c (Expenses 15,000 kg x ₹ 5)	75,000	By Abnormal Loss A/c (Insurance claim - WN)	9,000	
To Consignee's A/c: Advertisement & Recurring expenses	33,000	Add: Abnormal Loss (WN) (Profit and Loss Account)	<u>5,000</u>	14,000
Commission @ 5% on ₹4,50,000	22,500	By Consignment Stock A/c		2,46,690
To Profit and loss A/c (Profit on Consignment)	1,30,190			
	<u>7,10,690</u>			<u>7,10,690</u>

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 kg

Total cost (400 x ₹ 30) 12,000

Add: expenses incurred by the consignor @ ₹5 per kg 2,000

Gross Amount of abnormal loss 14,000

Less: Insurance claim (9,000)Net abnormal loss 5,000

2. Valuation of Inventories

	Quantity (Kgs)	Amount (₹)
Total Cost (15,000 kg x ₹30)	15,000	4,50,000
Add: Expenses incurred by the consignor		75,000
Less: Value of Abnormal Loss – 400 kgs (WN 1)	<u>(400)</u>	<u>(14,000)</u>
	14,600	5,11,000
Less: Normal Loss	<u>(100)</u>	
	14,500	5,11,000
Less: Quantity of ghee sold	<u>(7,500)</u>	
Quantity of Closing Stock	7,000	
Value of 7,000 kgs – (5,11,000/14,500) x 7,000		<u>2,46,690</u>

(b) **Bank Reconciliation Statement as on 31st March, 2018**

Particulars	Details ₹	Amount ₹
Debit balance as per Cash Book		18,60,000
Add: Cheque issued but not yet presented to bank for payment	3,60,000	
Dividend received by bank not entered in cash book	2,50,000	
Interest credited by bank	<u>6,250</u>	<u>6,16,250</u>
		24,76,250
Less: Cheques deposited into bank but not yet collected	7,70,000	
Bank charges debited by Bank	1,000	
Cheque deposited into bank was dishonoured	1,60,000	
House tax paid by bank	<u>1,75,000</u>	<u>(11,06,000)</u>
Credit balance as per Pass Book		<u>13,70,250</u>

Question 5

(a) You are provided with the following:

Balance Sheet as on 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Capital Fund	1,06,200	Building	1,50,000
Subscription received in Advance	6,000	Outstanding Subscription	3,800
Outstanding Expenses	14,000	Outstanding Locker Rent	2,400
Loan	40,000	Cash in hand	20,000
Sundry Creditors	<u>10,000</u>		
Total	<u>1,76,200</u>		<u>1,76,200</u>

The Receipts and Payment Account for the year ended on 31st March, 2018

Receipts	(₹)	Payment	(₹)
To Balance b/d		<u>By Expenses:</u>	
Cash in Hand	20,000	For 2017	12,000
<u>To Subscriptions:</u>		For 2018	<u>20,000</u>
For 2017	2000	By Land	40,000

For 2018	21,000		By Interest	4,000
For 2019	<u>1,000</u>	24,000	By Miscellaneous Expenses	4,700
To Entrance Fees		38,000	By Balance c/d	
To Locker Rent		7,000	Cash in Hand	18,300
To Sale proceeds of old newspapers		1,000		
To Miscellaneous Income		<u>9,000</u>		
		<u>99,000</u>		<u>99,000</u>

You are required to prepare Income and Expenditure account for the year ended 31st March, 2018 and a Balance Sheet as at 31st March, 2018 (Workings should form part of your answer).

- (b) With the following ratios and further information given below, you are required to prepare a Trading account and Profit & Loss account and a Balance Sheet of Sri Ganesh:

- (i) Gross Profit Ratio = 25%
- (ii) Net Profit/Sales = 20%
- (iii) Stock Turnover Ratio = 10
- (iv) Net Profit/Capital = 1/5
- (v) Capital to Total other Liabilities = 1/2
- (vi) Fixed Assets/Capital = 5/4
- (vii) Fixed Assets/Total Current Assets = 5/7
- (viii) Fixed Assets = ₹ 10,00,000
- (ix) Closing Stock = ₹ 1,00,000

(10 Marks + 10 Marks = 20 Marks)

Answer

- (a) **Income and Expenditure Account for the year ended 31st March, 2018**

Expenditure	₹	Income	₹
To Expenses	20,000	By Subscriptions (21,000 + 6,000)	27,000
To Interest	4,000	By Locker rent (7,000 - 2,400)	4,600
To Misc. Expenses	4,700	By Sale proceeds of old newspapers	1,000
To Surplus	<u>12,900</u>	By Misc. income	<u>9,000</u>
	<u>41,600</u>		<u>41,600</u>

Balance Sheet as at 31st March, 2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital fund			Land and Building	1,90,000
Bal. as on 1.4.2017	1,06,200		Subscription receivable (2017)	1,800
Add: Entrance fee	38,000		(3,800 – 2,000)	
Add: Surplus	<u>12,900</u>	1,57,100	Cash in hand	18,300
Loan		40,000		
Creditors		10,000		
Outstanding expenses (2017) (14,000-12,000)		2,000		
Subscription received in advance		<u>1,000</u>		
		<u>2,10,100</u>		<u>2,10,100</u>

Note: Entrance fees have been capitalized in the above solution.

(b) Trading and Profit and Loss Account for the year ended.....

	₹		₹
To Opening Stock	20,000	By Sales	8,00,000
To Purchases (Balancing figure)	6,80,000		
To Gross Profit c/d	<u>2,00,000</u>	By Closing stock	<u>1,00,000</u>
	<u>9,00,000</u>		<u>9,00,000</u>
To Expenses	40,000	By Gross Profit b/d	2,00,000
To Net Profit	1,60,000		
	<u>2,00,000</u>		<u>2,00,000</u>

Balance Sheet of Sri Ganesh as at.....

Liabilities	₹	Assets	₹
Capital		Fixed assets	10,00,000
Opening Balance	6,40,000		
Add: Net Profit	<u>1,60,000</u>	Closing stock	1,00,000
	8,00,000		
Current Liabilities	<u>16,00,000</u>	Other Current assets	<u>13,00,000</u>
	<u>24,00,000</u>		<u>24,00,000</u>

1. Fixed Asset is ₹10,00,000
 $\text{Fixed Assets} / \text{Capital} = 5/4$
 $\text{Therefore, Capital} = ₹10,00,000 \times 4/5 = ₹8,00,000$
2. Capital is $\frac{1}{2}$ of Total Liabilities
 $\text{Therefore Liabilities} = ₹8,00,000 \times 2 = ₹16,00,000$
3. Net Profit is $\frac{1}{5}$ of Capital
 $\text{Therefore Net Profit} = ₹8,00,000 \times 1/5 = ₹1,60,000$
4. Net Profit is 20% of Sales
 $\text{Therefore Sales} = ₹1,60,000 \times 100/20 = ₹8,00,000$
5. Gross Profit Ratio = 25% of Sales
 $\text{Therefore, Gross Profit} = ₹8,00,000 \times 25\% = ₹2,00,000$
6. Stock Turnover Ratio (i.e. Cost of Sales/Average Inventory) is 10
 $\text{Cost of Sales} = \text{Sales} - \text{Gross Profit}$
 $= ₹8,00,000 - ₹2,00,000$
 $= ₹6,00,000$
 $\text{Therefore Average Inventory} = ₹6,00,000 / 10 = ₹60,000$
7. Closing Stock is ₹1,00,000
 $\text{Average Inventory} = ₹60,000$
 $\text{Therefore, Opening Stock} = (₹60,000 \times 2) - ₹1,00,000 = ₹20,000$
8. Fixed Assets is ₹10,00,000
 $\text{Fixed Assets} / \text{Total Current Assets} = 5/7$
 $\text{Therefore, Total Current Assets} = ₹10,00,000 \times 7/5 = ₹14,00,000$
 $\text{Closing Stock} = ₹1,00,000$
 $\text{Therefore other Current Assets} = ₹13,00,000$

Question 6

- (a) Give necessary journal entries for the forfeiture and re-issue of shares:
- (i) X Ltd. forfeited 300 shares of ₹ 10 each fully called up, held by Ramesh for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were re-issued to Suresh for ₹ 8 per share.

- (ii) X Ltd. forfeited 200 shares of ₹ 10 each (₹ 7 called up) on which Naresh had paid application and allotment money of ₹ 5 per share. Out of these, 150 shares were re-issued to Mahesh as fully paid up for ₹ 6 per share.
- (iii) X Ltd. forfeited 100 shares of ₹ 10 each (₹ 6 called up) issued at a discount of 10% to Dimple on which she paid ₹ 2 per share. Out of these, 80 shares were re-issued to Simple at ₹ 8 per share and called up for ₹ 6 share.
- (b) Pure Ltd. issues 1,00,000 12% Debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue.
- Calculate the amount of discount to be written-off in each of the 5 years.
- (c) Karan purchased goods from Arjun, the average due date for payment in cash is 10.08.23018 and the total amount due is ₹ 1,75,800. How much amount should be paid by Karan to Arjun, if total payment is made on following dates and interest is to be considered at the rate of 15% p.a.
- (i) On average due date
- (ii) On 28th August, 2018
- (iii) On 29th July, 2018

(10 + 5 + 5 = 20 Marks)

Answer**(a) (i) Journal Entries in the books of X Ltd.**

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c To Equity Share Allotment money A/c (300 x ₹ 3) To Equity Share Final Call A/c (300 x ₹ 4) To Forfeited Shares A/c (300 x ₹ 3) (Being the forfeiture of 300 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Ramesh as per Board's resolution No.....dated.....)	Dr.	3,000	900 1,200 900
(b)	Bank Account (300 x 8) Forfeited Shares Account (300x 2) To Equity Share Capital Account (Being the re-issue of 300 forfeited shares @ ₹ 8 each as fully paid up to Suresh as per	Dr. Dr.	2,400 600	3,000

(c)	Board's resolution No.....dated.....) Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	300	300
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(ii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (200 x ₹ 7) To Equity Share First Call A/c (200 x ₹ 2) To Forfeited Shares A/c (200 x ₹ 5) (Being the forfeiture of 200 equity shares of ₹ 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No..... dated.....)	Dr.	1,400	400 1,000
(b)	Bank Account Forfeited Shares Account To Equity Share Capital Account (Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No..... dated.....)	Dr. Dr.	900 600	1,500
(c)	Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr.	150	150

Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5)	₹750
Less: Forfeiture of 150 shares	<u>(₹600)</u>
Profit on re-issue of shares	<u>₹150</u>

(iii)

Date			Dr. ₹	Cr. ₹
(a)	Equity Share Capital A/c (100 x ₹ 6)	Dr.	600	

	To Equity Share Final Call A/c (100 x ₹ 3)			300
	To Discount on issue of shares (100 x ₹ 1)			100
	To Forfeited Shares A/c (100 x ₹ 2)			200
	(Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No.....dated.....)			
(b)	Bank Account (80 x ₹ 6)	Dr.	480	
	Discount on issue of shares (80 x ₹ 1)	Dr.	80	
	Forfeited Shares A/c (80 x ₹ 1)	Dr.	80	
	To Equity Share Capital Account (80 x ₹ 8)			640
	(Being the re-issue of 80 shares fully paid up as per Board's Resolution No.....dated.....)			
(c)	Forfeited Shares Account		80	
	To Capital Reserve Account			80
	(Being the profit on re-issue, transferred to capital reserve)			

Working Note:

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2) ₹ 200.00	
Forfeited shares balance for 80 shares	₹ 160
Less: Forfeiture of 80 shares	<u>(₹ 80.00)</u>
Profit on re-issue of shares	₹ 80.00

Note: It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has been given strictly based on the information provided in the question.

- (b) Total amount of discount comes to ₹ 60,000 (₹ 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures	Ratio in which discount	Amount of discount to be
Outstanding		to be written-off	written-off
1st	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2nd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
3rd	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

4th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
5th	₹ 10, 00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

(c)

A	B	C	D = B ± C
	Principal Amount	Interest from Average Due Date to Actual date of Payment	Total amount to be paid
(i)	Payment on average due date		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x 0/365 = 0	₹ 1,75,800
(ii)	Payment on 28th Aug. 2018		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x 18/365 = 1,300 Interest to be charged for period of 18 days from 10 th August 2018 to 28 th Aug. 2018	₹ 1,77,100
(iii)	Payment on 29th July, 2018		
	₹ 1,75,800	₹ 1,75,800 x 15/100 x (12)/365 = (867) Rebate has been allowed for unexpired credit period of 12 days from 29.7.2018 to 10.8.2018	₹ 1,74,933