

Mock Test Paper - Series II: August, 2024

Date of Paper: 16th August, 2024

Time of Paper: 10.30 A.M. to 1.30 P.M.

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) **False:** Such wages being related to capital asset should be debited to the machinery account.
- (ii) **True:** Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
- (iii) **False:** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- (iv) **True:** In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.
- (v) **False:** The business of the partnership firm can be carried on by all the partners or by any one of them acting for all.
- (vi) **False:** Debenture interest is payable before the payment of any dividend on shares.
- (b) **Cash and mercantile system:** Cash system of accounting is a system by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid, no entry being made when a payment or receipt is merely due. Cash system is normally followed by professionals, educational institutions or non-profit making organizations.
- On the other hand, mercantile system of accounting is a system of classifying and summarizing transactions into assets, liabilities, equity (owner's fund), costs, revenues and recording thereof. A transaction is recognized when either a liability is created/ impaired and an asset is created/impaired. A record is made on the basis of amounts having become due for payment or receipt irrespective of the fact whether payment is made or received actually.
- Mercantile system of accounting is generally accepted accounting system by business entities
- (c) Using the Accounting Equation:
- Assets = Capital + Liabilities
- (i) 37,50,000

- (ii) 6,75,000
- (iii) 2,25,000
- (iv) 1,79,40,000

2. (a) Savin & Co.

| Dr. | | | Machinery Account | | | Cr. | | |
|-----------|----------------|------------|-------------------|---------------------------|------------|-----|--|--|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) | | | |
| 1.4.2021 | To Bank A/c | 1,00,000 | 31.3.2022 | By Balance c/d | 1,00,000 | | | |
| | | 1,00,000 | | | 1,00,000 | | | |
| 1.4.2022 | To Balance b/d | 1,00,000 | | | | | | |
| 1.10.2022 | To Bank A/c | 1,50,000 | 31.03.2023 | By Balance c/d | 2,50,000 | | | |
| | | 2,50,000 | | | 2,50,000 | | | |
| 1.4.2023 | To Balance b/d | 2,50,000 | 31.03.2024 | By Machinery Disposal A/c | 1,00,000 | | | |
| | | | 31.03.2024 | By Balance c/d | 1,50,000 | | | |
| | | 2,50,000 | | | 2,50,000 | | | |
| 1.4.2024 | To Balance b/d | 1,50,000 | | | | | | |

| Dr. | | | Provision for Depreciation Account | | | Cr. | | |
|------------|---|------------|------------------------------------|--|------------|-----|--|--|
| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) | | | |
| 31.03.2022 | To Balance c/d | 15,000 | 31.03.2022 | By Depreciation A/c | 15,000 | | | |
| | | 15,000 | | | 15,000 | | | |
| 31.03.2023 | To Balance c/d | 39,000 | 1.4.2022 | By Balance b/d | 15,000 | | | |
| | | | 31.03.2023 | By Depreciation A/c (₹ 12,750+₹11,250) | 24,000 | | | |
| | | 39,000 | | | 39,000 | | | |
| 31.03.2024 | To Machinery Disposal A/c [100000-61,413] | 38,587 | 1.4.2023 | By Balance b/d | 39,000 | | | |
| 31.03.2024 | To Balance c/d | 32,063 | 31.03.2024 | By Depreciation A/c | 20,813 | | | |
| | | | 31.03.2024 | By Depreciation-Machinery disposed | 10,837 | | | |
| | | 70,650 | | | 70,650 | | | |
| | | | 1.4.2024 | By Balance b/d | 32,063 | | | |

Dr. **Machinery Disposal Account** Cr.

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|------------|------------------|---------------|------------|-------------------------------------|---------------|
| 31.03.2024 | To Machinery A/c | 1,00,000 | 31.03.2024 | By Provision for Depreciation A/c | 38,587 |
| | | | 31.03.2024 | By Bank A/c | 50,000 |
| | | | 31.03.2024 | By Profit & Loss A/c (Loss on Sale) | 11,413 |
| | | 1,00,000 | | | 1,00,000 |

Working Notes:

1. Depreciation for the machine purchased on 1.10.2022.

$$\text{For the year 2022-23 (used for 6 months)} = ₹ 1,50,000 \times 15\% \times \frac{6}{12} = ₹ 11,250$$

$$\text{For the year 2023-24 (used for full year)} = ₹ 1,38,750 \times 15\% = ₹ 20,813$$

2. Depreciation for the machine purchased on 1.4.2021.

$$\text{Depreciation} = ₹ 1,00,000 \times 15\% = ₹ 15,000$$

$$\text{So, Depreciation for 2nd year} = ₹ 85,000 \times 15\% = ₹ 12,750$$

$$\text{Depreciation for 3rd year} = ₹ 72,250 \times 15\% = ₹ 10,837$$

(b) Bank Reconciliation Statement of Ms. Suman

| | | | | |
|-------------|--|--------------|--------------|---------------|
| | Balance as per Cash Book | | | (1,97,400) |
| <i>Add:</i> | Cheques issued but not presented for payment | | 14,800 | |
| | Crossed Cheque issued to Abdul not presented for payment | | 3,000 | |
| | Amounts collected by Bank on our behalf but not entered in the Cash Book | | | |
| | Dividend | 600 | | |
| | Insurance claim | <u>3,200</u> | | |
| | | 3,800 | | |
| | (-) Bank Commission | <u>400</u> | 3,400 | |
| | Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c | | <u>2,000</u> | <u>23,200</u> |
| | | | | (1,74,200) |

| | | | |
|--|--------------|--------------|-----------------|
| Less: Cheques deposited in the bank but no cleared (₹ 5,200 + ₹ 1,000) | | 6,200 | |
| Payments made by Bank on our behalf but not entered in the Cash Book | | | |
| Interest | 1,280 | | |
| Premium | 640 | | |
| Second call | <u>2,400</u> | 4,320 | |
| Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c | | <u>1,200</u> | <u>(11,720)</u> |
| Overdraft as per Pass Book | | | 1,85,920 |

**3. (a) Corrected Receipts and Payments Account of Gold Smith Club
for the year ended 31st March, 2024**

| Receipts | | ₹ | Amount ₹ | Payments | | Amount ₹ |
|----------|--|--------------|------------------|----------|----------------------------|------------------|
| To | Balance b/d | | 9,000 | By | Expenses | |
| To | Subscription | | | | (₹ 1,26,000 – | 72,000 |
| | Annual Income | 91,800 | | By | ₹ 54,000) | |
| | | | | By | Sports Material | 54,000 |
| | | | | | Balance c/d | 18,14,400 |
| | Less: Receivable as on 31.3.2024 | 5,400 | | | (Cash in Hand and at Bank) | |
| | Add: Advance received for the year 2024–2025 | 1,800 | | | | |
| | Add: Receivable as on 31.3.2023 | 3,600 | | | | |
| | Less: Advance received as on 31.3.2023 | <u>1,800</u> | 90,000 | | | |
| To | Other Fees | | 36,000 | | | |
| To | Donation for Building | | 18,00,000 | | | |
| To | Sale of Furniture | | 5,400 | | | |
| | | | <u>19,40,400</u> | | | <u>19,40,400</u> |

Income and Expenditure Account of Gold Smith Club
for the year ended 31st March, 2024

| Expenditure | | ₹ | Amount ₹ | Income | | Amount ₹ |
|-------------|-------------------------------|---------------|-----------------|--------|--|-----------------|
| To | Sundry Expenses | | 72,000 | By | Subscription | 91,800 |
| To | Sports Material | | | By | Other fees | 36,000 |
| | Balance as on 1.4.2023 | 1,33,200 | | By | Interest on investment (5% on ₹ 5,40,000) | 27,000 |
| | Add: Purchases | 54,000 | | By | Deficit: Excess of Expenditure over Income | 72,000 |
| | Less: Balance as on 31.3.2023 | <u>36,000</u> | 1,51,200 | | | |
| | Loss on sale of Furniture | | 3,600 | | | |
| | | | <u>2,26,800</u> | | | <u>2,26,800</u> |

Balance Sheet of Gold Smith Club
as on 31st March, 2024

| Liabilities | | Amount (₹) | Assets | Amount (₹) |
|---|---------------|------------------|--------------------------------|------------------|
| Capital Fund (W N) | 7,20,000 | | Furniture | 36,000 |
| Less: Excess of Expenditure over Income | <u>72,000</u> | 6,48,000 | Less: Sold | <u>9,000</u> |
| | | | 5% Investment | 5,40,000 |
| Building Fund | | 18,00,000 | Interest Accrued on Investment | 27,000 |
| Subscription Received in advance | | 1,800 | Sports Material | 36,000 |
| | | | Subscription Receivable | 5,400 |
| | | | Cash in Hand and at Bank | <u>18,14,400</u> |
| | | <u>24,49,800</u> | | <u>24,49,800</u> |

Working Note:

Balance Sheet of Gold Smith Club as on 1st April, 2023

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|----------------------------------|-------------|-------------------------|-------------|
| Subscription Received in Advance | 1,800 | Furniture | 36,000 |
| Capital Fund (Balancing Figure) | 7,20,000 | Investment | 5,40,000 |
| | | Sports Material | 1,33,200 |
| | | Subscription Receivable | 3,600 |

| | | | |
|--|----------|--------------------------|----------|
| | | Cash in Hand and at Bank | 9,000 |
| | 7,21,800 | | 7,21,800 |

(b) (i) **If Guarantee is given by firm**

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

| Particulars | ₹ | Particulars | ₹ |
|---|-------------|------------------------|-------------|
| To P's Capital A/c (3/5 of ₹ 1,30,00,000) | 78,00,000 | By Profit and Loss A/c | 1,80,00,000 |
| To Q's Capital A/c (2/5 of ₹ 1,30,00,000) | 52,00,000 | | |
| To R's Capital A/c (1/6 of ₹ 1,80,00,000 or ₹ 50,00,000 whichever is more) | 50,00,000 | | |
| | 1,80,00,000 | | 1,80,00,000 |

(ii) **If Guarantee is given by P and Q equally**

Profit and Loss Appropriation Account for the year ending on 31st March, 2024

| Particulars | | ₹ | Particulars | ₹ |
|---|--------------------|-------------|---------------------------------------|-------------|
| To P's Capital A/c (3/6 of ₹ 1,80,00,000) | 90,00,000 | | By Profit and Loss, A/c (net profits) | 1,80,00,000 |
| Less: Deficiency borne for R (1/2 of 20,00,000) | <u>(10,00,000)</u> | 80,00,000 | | |
| To Q's Capital A/c (2/6 of ₹ 1,80,00,000) | 60,00,000 | | | |
| Less: Deficiency borne for R (1/2 of 20,00,000) | <u>(10,00,000)</u> | 50,00,000 | | |
| To R's Capital A/c (1/6 of ₹ 1,80,00,000) | 30,00,000 | | | |
| Add: Deficiency Recovery from P | 10,00,000 | | | |
| Add: Deficiency Recovery from Q | <u>10,00,000</u> | 50,00,000 | | |
| | | 1,80,00,000 | | 1,80,00,000 |

4. (a)

Revaluation Account

| | ₹ | | ₹ |
|---|----------|---------------------------|----------|
| To Plant & Machinery (3,40,000 x 15%) | 51,000 | By Land & Building A/c | 3,04,000 |
| To Provision for Bad & Doubtful Debts (1,20,000 x 5%) | 6,000 | | |
| To Outstanding Repairs to Building | 12,000 | | |
| To Albert's Capital A/c (5/8) | 1,46,875 | | |
| To Andrew's Capital A/c (3/8) | 88,125 | | |
| | 3,04,000 | | 3,04,000 |

Capital Accounts of Partners

| | Albert | Andre | David | | Albert | Andre | David |
|----------------------------|-----------|----------|----------|----------------------------|-----------|----------|----------|
| To Albert's Capital A/c | - | - | 40,000 | By Balance b/d | 8,20,000 | 6,60,000 | - |
| To Andrew's Capital A/c | | | 24,000 | By Revaluation A/c | 1,46,875 | 88,125 | - |
| To Andrew's Current A/c | - | 1,36,125 | | By Profit & Loss A/c | 1,40,000 | 84,000 | - |
| To Balance c/d | 12,00,000 | 7,20,000 | 4,80,000 | By Bank | | | 5,44,000 |
| | | | | By David's Capital A/c | 40,000 | 24,000 | |
| | | | | By Albert's Current A/c | 53,125 | | |
| | 12,00,000 | 8,56,125 | 5,44,000 | | 12,00,000 | 8,56,125 | 5,44,000 |

Calculation of New Profit Sharing Ratio and gaining ratio:

David's Share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

Albert's Share = $5/8 \times 4/5 = 20/40 = 5/10$

Andrew's Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of Thomas & Associates as on 31.3.2024

| Liabilities | | ₹ | Assets | | |
|-------------------|-----------|---|--------------------|---------------|-----------|
| Capital Accounts: | | | Land & Buildings | | 10,64,000 |
| Albert | 12,00,000 | | Plant & Machinery | 3,40,000 | |
| Andrew | 7,20,000 | | Less: Depreciation | <u>51,000</u> | 2,89,000 |

| | | | | | |
|---------------------------------|----------|------------------|----------------------|--------------|------------------|
| David | 4,80,000 | 24,00,000 | Furniture | | 2,18,960 |
| Andrew's Current A/c | | 1,36,125 | Stock | | 2,90,520 |
| Trade Creditors | | 1,09,600 | Sundry Debtors | 1,20,000 | |
| Outstanding Repairs to Building | | 12,000 | Less: Provision | <u>6,000</u> | 1,14,000 |
| | | | Cash at Bank | | 6,28,120 |
| | | | Albert's current A/c | | <u>53,125</u> |
| | | <u>26,57,725</u> | | | <u>26,57,725</u> |

Working Note:

Required Balance of Capital Accounts

David's Capital after writing off Goodwill = 5,44,000 – 64,000 = 4,80,000

David's Share of Profit = 1/5

Thus, Capital of the firm shall be = 4,80,000 x 5 = 24,00,000

Albert's Capital = 24,00,000 x 5/10 = 12,00,000 and

Andrew's Capital = 24,00,000 x 3/10 = 7,20,000

(b) (i) Amount of salaries to be charged to P & L A/c for the year ended 31stDecember, 2023

Employees = 9 x ₹ 1,32,000 x 12 = ₹ 1,42,56,000

Trainees = 2 x ₹ 63,000 x 6 = ₹ 7,56,000

Salaries charged to P & L A/c ₹ 1,50,12,000

(ii) Amount actually paid as salaries during 2023

Employees = 9 x ₹ 1,32,000 x 11 + 9 x ₹ 1,20,000 = ₹ 1,41,48,000

Trainees = 2 x ₹ 63,000 x 5 = ₹ 6,30,000

Amount paid as salaries ₹ 1,47,78,000

(iii) Outstanding salaries as on 31.12.2023

Employees = 9 x ₹ 1,32,000 = ₹ 11,88,000

Trainees = 2 x ₹ 63,000 = ₹ 1,26,000

Outstanding salaries ₹ 13,14,000

5. (a) Trading and Profit & Loss Account for the year ended 31-03-2024

| | ₹ | ₹ | | ₹ |
|----------------------------|---|-----------------|------------------|-----------------|
| To Opening stock | | 38,600 | By Sales | 8,54,000 |
| To Purchases | | 6,13,750 | By Closing stock | 55,700 |
| To Gross profit c/d (b.f.) | | 2,57,350 | | |
| | | <u>9,09,700</u> | | <u>9,09,700</u> |

| | | | | |
|---|--------------|-----------------|---------------------------|-----------------|
| To Salaries (75,000 + 14,000 - 12,000) | | 77,000 | By Gross Profit b/d | 2,57,350 |
| To Rent and taxes | | 11,800 | By Interest on investment | 10,200 |
| To General expenses | | 22,500 | (9,750+450) | |
| To Depreciation: | | | | |
| Machinery @ 10% | 8,500 | | | |
| Furniture @ 10% | <u>2,450</u> | 10,950 | | |
| To Bad Debts | 7,200 | | | |
| To Provision for doubtful debts | <u>7,000</u> | 14,200 | | |
| To Balance being profit carried to Capital A/c (b.f.) | | | | |
| | | 1,31,100 | | |
| | | <u>2,67,550</u> | | <u>2,67,550</u> |

Balance Sheet as on 31st March, 2024

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|--------------------------------------|-----------------|-----------------|---|----------------|-----------------|
| Prakash's Capital on 1st April, 2023 | 3,32,150 | | Machinery | 85,000 | |
| Add: Fresh Capital | 50,000 | | Less: Depreciation | <u>(8,500)</u> | 76,500 |
| Add: Profit for the year | <u>1,31,100</u> | | Furniture | 24,500 | |
| | 5,13,250 | | Less: Depreciation | <u>(2,450)</u> | 22,050 |
| Less: Drawings | <u>(96,000)</u> | 4,17,250 | Inventory-in-trade | | 55,700 |
| Sundry creditors | | 2,08,200 | Sundry debtors | 3,50,000 | |
| Outstanding expenses | | 14,000 | Less: Provision for Doubtful debts | <u>(7,000)</u> | 3,43,000 |
| | | | Investment (including accrued interest ₹ 450) | | 85,450 |
| | | | Cash at bank | | 36,600 |
| | | | Cash in hand | | 20,150 |
| | | <u>6,39,450</u> | | | <u>6,39,450</u> |

Working Notes:

1. Balance sheet as on 1-4-2023

| | ₹ | | ₹ |
|-------------------------------|----------|------------------------------------|----------|
| Sundry creditors | 60,200 | Machinery | 85,000 |
| Capital (balancing figure) | 3,32,150 | Furniture | 24,500 |
| Outstanding salaries | 12,000 | Inventory | 38,600 |
| | | Sundry debtors | 1,55,000 |
| | | 12% Investments | 85,000 |
| | | Bank balance (from Cash statement) | 16,250 |
| | 4,04,350 | | 4,04,350 |

2. Total Debtors Account

| | | ₹ | | | ₹ |
|---------|-------------------------------------|----------|---------|----------------------------|----------|
| 1.4.23 | To Balance b/d | 1,55,000 | 31.3.24 | By Cash | 4,81,000 |
| 31.3.24 | To Credit sales (1,70,800/20x80) | 6,83,200 | 31.3.24 | By Bad debts | 7,200 |
| | | | | By Balance c/d (Bal. Fig.) | 3,50,000 |
| | | 8,38,200 | | | 8,38,200 |

3. Total Creditors Account

| | | ₹ | | | ₹ |
|---------|----------------------------|----------|---------|---|----------|
| 31.3.24 | To Cash | 3,43,000 | 1.4.23 | By Balance b/d | 60,200 |
| 31.3.24 | To Balance c/d (Bal. Fig.) | 2,08,200 | 31.3.24 | By Credit Purchases (1,22,750/20x80) | 4,91,000 |
| | | 5,51,200 | | | 5,51,200 |

(b) Journal Entries in the books of Snowberry Ltd.

| 2024 | | | Dr. ₹ in lakhs | Cr. ₹ in lakhs |
|---------|---|-----|-------------------|-------------------|
| April 2 | Equity Share Final Call A/c | Dr. | 2,000 | |
| | To Equity Share Capital A/c (Final call of ₹ 2 per share on 10 crore equity shares made due) | | | 2,000 |
| | Bank A/c | Dr. | 2,000 | |
| | To Equity Share Final Call A/c (Final call money on 10 crore equity shares received) | | | 2,000 |

| | | | | |
|--------|--|-----|-------|-------|
| June 1 | Capital Redemption Reserve A/c | Dr. | 1,000 | |
| | Securities Premium A/c | Dr. | 2,000 | |
| | Capital Reserve A/c | Dr. | 485 | |
| | General Reserve A/c | Dr. | 515 | |
| | To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.....) | | | 4,000 |
| | Bonus to Shareholders A/c | Dr. | 4,000 | |
| | To Equity Share Capital A/c (Capitalisation of profit) | | | 4,000 |

Notes to Accounts

| | | | ₹ in lakhs |
|-----------|---|----------------|---------------|
| 1. | Share Capital | | |
| | Authorised share capital | | |
| | 20 crore shares of ₹ 10 each | | <u>20,000</u> |
| | Issued, subscribed and fully paid up share capital | | |
| | 14 crore Equity shares of ₹ 10 each, fully paid up | | 14,000 |
| | (Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus) | | |
| | 2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up | | <u>2,000</u> |
| | | | <u>16,000</u> |
| 2. | Reserves and Surplus | | |
| | Capital Reserves | 485 | |
| | Less: Utilized for bonus issue | <u>(485)</u> | - |
| | Capital Redemption reserve | 1,000 | |
| | Less: Utilized for bonus issue | <u>(1,000)</u> | - |
| | Securities Premium | 2,000 | |
| | Less: Utilized for bonus issue | <u>(2,000)</u> | - |
| | General Reserve | 1,040 | |
| | Less: Utilized for bonus issue | <u>(515)</u> | 525 |
| | Surplus (Profit and Loss Account) | | <u>273</u> |
| | Total | | <u>798</u> |

6. (a) (i) **Journal Entries in the books of Gama Ltd.**

| Date | | | Dr. ₹ | Cr. ₹ |
|------|---|------------|------------------|----------------------------|
| (a) | Equity Share Capital A/c To Equity Share Allotment money A/c (9000 x ₹ 3) To Equity Share Final Call A/c (9000 x ₹ 4) To Forfeited Shares A/c (9000 x ₹ 3) (Being the forfeiture of 9000 equity shares of ₹ 10 each for non-payment of allotment money and final call, held by Varun as per Board's resolution No.....dated.....) | Dr. | 90,000 | 27,000 36,000 27,000 |
| (b) | Bank A/c (9,000 x 8) Forfeited Shares A/c (9,000x 2) To Equity Share Capital A/c (Being the re-issue of 9,000 forfeited shares @ ₹ 8 each as fully paid up to Katen as per Board's resolution No.....dated.....) | Dr. Dr. | 72,000 18,000 | 90,000 |
| (c) | Forfeited Shares A/c To Capital Reserve A/c (Being the profit on re-issue, transferred to capital reserve) | Dr. | 9,000 | 9,000 |

(ii) **Journal Entries in the book of Mr. Y**

| | | Dr. ₹ | Cr. ₹ |
|---|------------|--------------------|----------------------------------|
| Preference Share Capital A/c (10,000 x ₹ 70) To Preference Share Allotment A/c (10,000 x ₹ 20) To Preference Share First Call A/c (10,000 x ₹ 20) To Forfeited Share A/c (Being the forfeiture of 10,000 preference shares ₹ 70 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....) | Dr. | 7,00,000 | 2,00,000 2,00,000 3,00,000 |
| Bank A/c (8,000 x ₹60) Forfeited Shares A/c (8,000 x ₹10) | Dr. Dr. | 4,80,000 80,000 | |

| | | | |
|--|-----|----------|----------|
| To Preference Share Capital A/c (Being re-issue of 8,000 shares at ₹ 60 per share paid-up as ₹ 70 as per Board's Resolution No.....dated....) | | | 5,60,000 |
| Forfeited Shares A/c To Capital Reserve A/c (WN 1) (Being profit on re-issue transferred to Capital/Reserve) | Dr. | 1,60,000 | 1,60,000 |

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 3,00,000/10,000 = ₹ 30

Loss on re-issue = ₹ 70 – ₹ 60 = ₹ 10

Surplus per share re-issued ₹ 20

Transferred to capital Reserve ₹ 20 x 8,000 = ₹ 1,60,000.

(b) In the books of Shell chemicals Ltd.

Journal Entries

| | | ₹ | ₹ |
|--|-----|----------|------------------|
| 9% Preference Share Capital A/c To Calls in Arrears A/c To Shares Forfeited A/c (For Shares Forfeited because of non-payment of calls as holders are unknown) | Dr. | 1,00,000 | 20,000 80,000 |
| Bank A/c (W N) To Equity Share Capital A/c (Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated....) | Dr. | 2,00,000 | 2,00,000 |
| General Reserve A/c To Capital Redemption Reserve A/c (For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares) | Dr. | 7,00,000 | 7,00,000 |
| 9% Preference Share Capital A/c To Preference Shareholders A/c (For amount payable to preference shareholders) | Dr. | 9,00,000 | 9,00,000 |
| Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders) | Dr. | 9,00,000 | 9,00,000 |

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

| | |
|---|-----------------|
| Face value of shares redeemed | 9,00,000 |
| Less: Profit available for distribution as dividend: General Reserve | <u>7,00,000</u> |
| | <u>2,00,000</u> |
| Therefore, number of shares to be issued = ₹ 2,00,000/ ₹ 10 = 20,000 shares. | |

- (c) (i) Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.
- (ii) The specific identification method, First-In–First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Or

- (c) (i) Revenue Expenditure.
(ii) Capital Expenditure.
(iii) Capital Expenditure.
(iv) Revenue Expenditure.
(v) Capital Expenditure.