

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

Question No. 1 is compulsory.

Answer 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.

(Time allowed: 3 Hours)

(100 Marks)

1. (a) State with reasons whether the following statements are True or False:
- (i) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
 - (ii) Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity.
 - (iii) The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.
 - (iv) When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.
 - (v) Goods worth Rs. 600 taken by the proprietor for personal use should be credited to Capital Account.
 - (vi) Quick ratio is also known as Cash Ratio. **(6 statements x 2 Marks = 12 Marks)**
- (b) Explain in brief objective and advantages of setting Accounting Standards. **(4 Marks)**
- (c) A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to Rs. 50,000. The following facts were established between 31st March and 15th April, 2018.
- (i) Sales Rs. 41,000 (including cash sales Rs. 10,000)
 - (ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)
 - (iii) Sales Return Rs. 1,000.
 - (iv) On 15th March, goods of the sale value of Rs. 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
- Goods are sold by the trader at a profit of 20% on sales.
- You are required to ascertain the value of Inventory as on 31st March, 2018. **(4 Marks)**

2. (a) Prepare a Petty Cash Book on the Imprest System from the following:

2017			Rs.
April	1	Received Rs. 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500
"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

- (b) On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

- (a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.
- (b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.
- (c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.
- (d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.
- (e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

(10 Marks + 10 Marks= 20 Marks)

- 3 (a) Manoj of Noida consigned to Kiran of Jaipur, goods to be sold at invoice price which represents 125% of cost. Kiran is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Manoj were Rs. 15,000. The account sales received by Manoj shows that Kiran has effected sales amounting to Rs. 1,50,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 12,000. 10% of consignment goods of the value of Rs. 18,750 were destroyed in fire at the Jaipur godown. Kiran remitted the balance in favour of Manoj.

You are required to prepare consignment account in the books of Manoj along with the necessary calculations. **(10 Marks)**

- (b) A and B entered into a joint venture to buy and sell mobile sets, on 1st July, 2017.

On 1.7.2017, A sent a draft for Rs. 3,75,000 in favour of B, and on 4.7.2017, the latter purchased 200 sets each at a cost of Rs. 3,000 each. The sets were sent to A by lorry under freight "to pay" for Rs. 3,000 and were cleared by A on 15.7.2017.

A effected sales in the following manner:

Date	No. of sets	Sale price per set	Discount on sale price
16.7.2017	3	4,500	10%
31.7.2017	80	4,200	-
15.8.2017	80	4,050	5%

On 25.8.2017, A settled the account by sending a draft in favour of B, profits being shared equally. B does not maintain any books.

You are required to prepare in A's books:

- Joint Venture with B A/c; and
- Memorandum Joint Venture A/c.

(10 Marks)

4. Smith Library Society showed the following position on 31st March, 2018:

Balance Sheet as on 31st March, 2018

Liabilities	Rs.	Assets	Rs.
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000	Furniture	50,000
		Books	4,00,000
		Investment in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	<u>25,000</u>
	<u>8,00,000</u>		<u>8,00,000</u>

The receipts and payment account for the year ended on 31st March, 2019 is given below:

	Rs.		Rs.
To Balance b/d		By Electric charges	7,200
Cash at bank	25,000	By Postage and stationary	5,000
Cash in hand	<u>25,000</u>	By Telephone charges	5,000
To Entrance fee	30,000	By Books purchased	60,000
To Membership subscription	2,00,000	By Outstanding expenses paid	7,000
To Sale proceeds of old papers	1,500	By Rent	88,000
To Hire of lecture hall	20,000	By Investment in securities	40,000
To Interest on securities.	8,000	By Salaries	66,000
		By Balance c/d	
		Cash at bank	20,000
		Cash in hand	<u>11,300</u>
	<u>3,09,500</u>		<u>3,09,500</u>

You are required to prepare income and expenditure account for the year ended 31st March, 2019 and a balance sheet as at 31st, March, 2019 after making the following adjustments:

Membership subscription included Rs. 10,000 received in advance.

Provide for outstanding rent Rs. 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ 5% p.a. including purchases made on 1.10.2018 for Rs. 40,000. **(20 Marks)**

- 5 (a) Neha & Co. is a partnership firm with partners Mr. P, Mr. Q and Mr. R, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2019 is as under:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land	10,000
Mr. P	80,000		Buildings	2,00,000
Mr. Q	20,000		Plant and machinery	1,30,000
Mr. R	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. Q will retire from partnership and in his place Mr. T will be admitted as a partner with effect from 1st April, 2019. For this purpose, the following adjustments are to be made:

- Goodwill is to be valued at Rs.1 lakh but the same will not appear as an asset in the books of the reconstituted firm.
- Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs.15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
- In the reconstituted firm, the total capital will be Rs. 2 lakhs which will be contributed by Mr. P, Mr. R and Mr. T in their new profit sharing ratio, which is 2:2:1.
 - The surplus funds, if any, will be used for repaying bank overdraft.
 - The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare

- Revaluation account;
- Partners' capital accounts;
- Bank account; and

(b) The following information of Hari Ltd. as on Dec 31st 2017 is given as below:

Equity and Liabilities		Assets		Rs.
Shareholder's Funds		1,12,500	Current Assets	1,50,000
Current Liabilities	1,50,000		Fixed Assets	2,25,000
Long Term Liabilities	<u>1,12,500</u>	<u>2,62,500</u>		
		<u>3,75,000</u>		<u>3,75,000</u>
Net sales				5,62,500
Interest Expense				6,000
Net Profit				39,375

On Dec 31st 2016, Total Assets were Rs.3,00,000 and the tax rate is 40%.

You are required to compute the following ratios of Hari Ltd. as on Dec. 31st 2017.

- (i) Long Term Debt to Total Assets Ratio
- (ii) Net Profit Ratio
- (iii) Return on Average Total Assets
- (iv) Return on Equity
- (v) Net Sales to Total Assets.

(10 + 10 = 20 Marks)

6. (a) Abhijeet who was the holder of 4,000 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share. The Directors forfeited the above shares and reissued 3,000 of such shares to Mr. X at Rs. 65 per share paid-up as Rs.75 per share.

You are required to prepare journal entries to record the above forfeiture and re-issue in the books of the company. **(10 Marks)**

- (b) Pihu Ltd. issued 300 lakh 8% debentures of Rs.100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : Rs. 50 on application and Rs. 44 on allotment.

You are required to prepare the necessary journal entries for issue of debentures. **(5 Marks)**

- (c) Explain the differences between Money measurement concept and Matching Concept

Or

Explain, in brief, the basic considerations for distinguishing between capital and revenue expenditures? **(5 Marks)**

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PAPER – 1: PRINCIPLES AND PRACTICE OF ACCOUNTING

ANSWERS

1. (a) (i) False - Debenture interest is payable before the payment of any dividend on shares.
 (ii) True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.
 (iii) False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.
 (iv) False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.
 (v) False: Goods taken by the proprietor for personal use should be credited to Purchases Account as less goods are left in the business for sale.
 (vi) False: Quick ratio is known as Acid Test Ratio and not Cash Ratio.

- (b) **Objective and Advantages of Accounting Standards:** An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

- (i) Reduction in variations.
 (ii) Disclosure beyond that required by law.
 (iii) Facilities comparison.

- (c) **Statement of Valuation of Stock on 31st March, 2018**

	Rs.	Rs.
Value of stock as on 15th April, 2018		50,000
Add: Cost of sales during the period from 31st March, 2018 to 15th April, 2018		
Sales (Rs. 41,000 – Rs. 1,000)	40,000	
Less: Gross Profit (20% of Rs. 40,000)	<u>8,000</u>	32,000
Cost of goods sent on approval basis (80% of Rs. 6,000)		<u>4,800</u>
		86,800

Less: Purchases during the period from 31st March, 2018 to 15th April, 2018

5,034

81,766

2. (a) **PETTY CASH BOOK**

Receipts Rs.	Date 2017	V. No.	Particulars	Total Rs.	Con- veyance Rs.	Cartage Rs.	Statio- nery Rs.	Postage & Telegrams Rs.	Wages Rs.	Sundries Rs.
20,000	April 1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

(b)

Balance as per Cash Book			(49,350)
Add :	Cheques issued but not presented for payment	3,700	
	Crossed Cheque issued to Abdul not presented for payment	750	
	Amounts collected by Bank on our behalf but not entered in the Cash Book		
	Dividend	150	
	Insurance claim	<u>800</u>	
		950	
	(-) Bank Commission	<u>15</u>	935
	Amount paid in A/c No. 2 credited by the Bank wrongly to this A/c	<u>500</u>	<u>5885</u>
			(43,465)
Less :	Cheques deposited in the bank but no cleared (Rs. 1,300 + Rs. 250)	1550	

Payments made by Bank on our behalf but not entered in the Cash Book			
Interest	320		
Premium	160		
Second call	<u>600</u>	1,080	
Cheques issued against A/c No. 2 but wrongly debited by the Bank to this A/c		<u>300</u>	(2,930)
Overdraft as per Pass Book			46,395

3. (a)

Books of Manoj

Consignment to Jaipur Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	1,87,500	By Goods sent on Consignment A/c (loading)	37,500
To Cash A/c	15,000	By Abnormal Loss	16,500
To Kiran (Expenses)	12,000	By Kiran (Sales)	1,50,000
To Kiran (Commission)	16,406	By Inventories on Consignment A/c	30,375
To Inventories Reserve A/c	5,625	By General Profit & Loss A/c	2,156
	<u>2,36,531</u>		<u>2,36,531</u>

Working Notes:

1. **Calculation of value of goods sent on consignment:**

Abnormal Loss at Invoice price = Rs. 18,750

Abnormal Loss as a percentage of total consignment = 10%.

Hence the value of goods sent on consignment = Rs. $18,750 \times 100 / 10$ = Rs. 1,87,500

Loading of goods sent on consignment = Rs. $1,87,500 \times 25 / 125$ = Rs. 37,500

2. **Calculation of abnormal loss (10%):**

Abnormal Loss at Invoice price = Rs. 18,750.

Abnormal Loss at cost = Rs. $18,750 \times 100 / 125$ = Rs. 15,000

Add: Proportionate expenses of Manoj (10 % of Rs. 15,000) = Rs. 1,500

Rs. 16,500

3. **Calculation of closing Inventories (15%):**

Manoj's Basic Invoice price of consignment = Rs. 1,87,500

Manoj's expenses on consignment = Rs. 15,000

Rs. 2,02,500

Value of closing Inventories = 15% of Rs. 2,02,500 = Rs. 30,375

Loading in closing Inventories = Rs. $37,500 \times 15 / 100$ = Rs. 5,625

Where Rs. 28,125 (15% of Rs. 1,87,500) is the basic invoice price of the goods sent on consignment remaining unsold.

4. **Calculation of commission:**

Invoice price of the goods sold	= 75% of Rs. 1,87,500 = Rs. 1,40,625
Excess of selling price over invoice price	= Rs. 9,375 (Rs. 1,50,000 - Rs. 1,40,625)
Total commission	= 10% of Rs. 1,40,625 + 25% of Rs. 9,375
	= Rs. 14,062.5 + Rs. 2,343.75
	= Rs. 16,406

(b)

A's Books

Joint Venture with B A/c

2017	Particulars	Amount (Rs.)	2017	Particulars	Amount (Rs.)
July 1	To Bank - draft sent on A/c	3,75,000	July 16	By Bank-sale proceeds	1,21,500
July 15	To Bank - freight	3,000	July 31	By Bank-sale proceeds	3,36,000
Aug 25	To Profit and Loss A/c share of profit	81,150	Aug 14	By Bank-sale proceeds	3,07,800
	To Bank - draft sent in settlement	3,06,150			
		7,65,300			7,65,300

Memorandum Joint Venture A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Cost of 200 sets	6,00,000	By Sales proceeds (net)	
To Freight	3,000	30 sets @ Rs. 4,050	1,21,500
To Profit :		80 sets @ Rs. 4,200	3,36,000
A	81,150	80 sets @ Rs. 3,847.5	3,07,800
B	81,150		
	1,62,300		
	7,65,300		7,65,300

4.

Smith Library Society

**Income and Expenditure Account
for the year ended 31st March, 2019**

Dr.					Cr.
Expenditure	Rs.	Rs.	Income		Rs.
To Electric charges		7,200	By Entrance fee (25% of Rs. 30,000)		7,500
To Postage and stationary		5,000	By Membership subscription	2,00,000	
To Telephone charges		5,000	Less: Received in advance	<u>10,000</u>	1,90,000
To Rent	88,000		By Sale proceeds of old papers		1,500
Add: Outstanding	<u>4,000</u>	92,000	By Hire of lecture hall		20,000
To Salaries	66,000				
Add: Outstanding	<u>3,000</u>	69,000			
To Depreciation (W.N.1)					

Electrical fittings	15,000		By Interest on securities	8,000	
Furniture	5,000		(W.N.2)		
Books	46,000	66,000	Add: Receivable	500	8,500
			By Deficit-excess of expenditure over income		16,700
		<u>2,44,200</u>			<u>2,44,200</u>

**Balance Sheet of Smith Library Society
as on 31st March, 2019**

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Asset</i>	<i>Rs.</i>	<i>Rs.</i>
Capital fund	7,93,000		Electrical fittings	1,50,000	
Add: Entrance fees	<u>22,500</u>		Less: Depreciation	<u>(15,000)</u>	1,35,000
	8,15,500		Furniture	50,000	
Less: Excess of expenditure over income	<u>(16,700)</u>	7,98,800	Less: Depreciation	<u>(5,000)</u>	45,000
Outstanding expenses:			Books	4,60,000	
Rent	4,000		Less Depreciation	<u>(46,000)</u>	4,14,000
Salaries	<u>3,000</u>	7,000	Investment:		
Membership subscription in advance		10,000	Securities	1,90,000	
		<u>8,15,800</u>	Accrued interest	<u>500</u>	1,90,500
			Cash at bank		20,000
			Cash in hand		<u>11,300</u>
					<u>8,15,800</u>

Working Notes:

1. Depreciation	Rs.
Electrical fittings 10% of Rs. 1,50,000	15,000
Furniture 10% of Rs. 50,000	5,000
Books 10% of Rs. 4,60,000	46,000
2. Interest on Securities	
Interest @ 5% p.a. on Rs. 1,50,000 for full year	7,500
Interest @ 5% p.a. on Rs. 40,000 for half year	<u>1,000</u> 8,500
Less: Received	<u>(8,000)</u>
Receivable	<u>500</u>

5. (a) Revaluation Account

	Rs.		Rs.
To Buildings A/c	10,000	By Investments A/c	3,000
To Plant and Machinery A/c	26,000	By Loss to Partners:	
To Provision for Doubtful Debts A/c	27,800	P	30,400
		Q	18,240
		R	<u>12,160</u>
	<u>63,800</u>		60,800
			<u>63,800</u>

Capital Accounts of Partners

Particulars	P	Q	R	T	Particulars	P	Q	R	T
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Revaluation A/c	30,400	18,240	12,160	-	By Balance b/d	80,000	20,000	30,000	-
To Investments A/c	-	15,000	-	-	By Reserves A/c	10,000	6,000	4,000	-
To Q's Loan A/c	-	22,760	-	-	By R and T's Capital A/c	10,000	30,000	-	-
To P and Q's Capital A/c	-	-	20,000	20,000	By Bank A/c (balancing figure)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>		<u>1,10,400</u>	<u>56,000</u>	<u>1,12,160</u>	<u>60,000</u>

Bank Account

	Rs.		Rs.
To P's capital A/c	10,400	By Bank Overdraft A/c	44,000
To R's capital A/c	78,160	By Balance c/d	1,04,560
To T's capital A/c	60,000		
	<u>1,48,560</u>		<u>1,48,560</u>

(b) Long Term Debt to Total assets = $\frac{\text{Long Term Debt}}{\text{Total Assets}}$

$$= \frac{1,12,500}{3,75,000}$$

$$= 1:3.33$$

(i) Net Profit Ratio = $\frac{\text{Net Profit} \times 100}{\text{Net Sales}}$

$$= \frac{39,375 \times 100}{5,62,500}$$

$$= 7\%$$

(ii) Return on Average Total Assets Ratio = $\frac{\text{Net Profit} + \text{Interest}(1-t) \times 100}{\text{Average Total Assets}}$

$$= \frac{39,375 + 6,000(1-0.40) \times 100}{(3,00,000 + 3,75,000) / 2}$$

$$= \frac{42,975 \times 100}{3,37,500}$$

$$= 12.73\%$$

(iii) Return on Equity = $\frac{\text{Net Profit} \times 100}{\text{Shareholders' Funds}}$

$$= \frac{39,375 \times 100}{1,12,500}$$

$$= 35\%$$

$$\begin{aligned}
 \text{(iv) Net Sales to Total Assets Ratio} &= \frac{\text{Net Profit}}{\text{Total Assets}} \\
 &= \frac{5,62,500}{3,37,500} \\
 &= 1.67: 1
 \end{aligned}$$

6. (a)

<i>Journal</i>		<i>Dr.</i>	<i>Cr.</i>
		<i>Rs.</i>	<i>Rs.</i>
Preference Share Capital A/c (4,000 x Rs.75) To Preference Share Allotment A/c To Preference Share First Call A/c To Forfeited Share A/c (Being the forfeiture of 4,000 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated....)	Dr.	3,00,000	1,00,000 1,00,000 1,00,000
Bank A/c (3,000 x Rs.65) Forfeited Shares A/c (3,000 x Rs.10) To Preference Share Capital A/c (Being re-issue of 3,000 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No.....dated....)	Dr. Dr.	1,95,000 30,000	2,25,000
Forfeited Shares A/c To Capital Reserve A/c (Note 1) (Being profit on re-issue transferred to Capital/Reserve)	Dr.	45,000	45,000

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share =Rs. 1,00,000/4,000 = Rs. 25

Loss on re-issue =Rs. 75 – Rs. 65 = Rs. 10

Surplus per share re-issued Rs. 15

Transferred to capital Reserve Rs. 15 x 3,000 = Rs. 45,000.

(b)

Books of Pihu Ltd.

Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount (Rs.' Lakhs)</i>	<i>Credit Amount (Rs.' Lakhs)</i>
	Bank A/c To Debenture Application A/c (Debentures application money received)	Dr.	15,000	15,000
	Debenture Application A/c To 8% Debentures A/c (Application money transferred to 8% debentures account)	Dr.	15,000	15,000
	Debenture Allotment A/c	Dr.	13,200	

Loss on issue of debenture A/c To 8% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)	Dr.	3,300	15,000 1,500
Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	13,200	13,200

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of Rs.100 + 5% of Rs.100) x 300 lakh

= (Rs. 6 + Rs. 5) x 300 lakh

= Rs. 3,300 lakh

(c) Difference between Money measurement concept and matching concept

As per **Money Measurement concept**, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

In **Matching concept**, all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

Or

The basic considerations in distinction between capital and revenue expenditures are:

- (i) Nature of business: For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.
- (ii) Recurring nature of expenditure: If the frequency of an expense is quite often in an accounting year then it is said to be an expenditure of revenue nature while non-recurring expenditure is infrequent in nature and do not occur often in an accounting year.
- (iii) Purpose of expenses: Expenses for repairs of machine may be incurred in course of normal maintenance of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.
- (iv) Materiality of the amount involved: Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.