TALDA LEARNING CENTRE

Building Conceptions…

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COMMON PROFICIENCY COURSE

FUNDAMENTALS OF ACCOUNTING

By

CA AMIT TALDA

For Complete Revision

Talada's Learning Centre

11+12 Commerce/CA/CS/CMA

Your Name: **Batch:**

THEORETICAL FRAMEWORK

Book Keeping	**Source Documents**	Represent all documents in business which contains financial records and act as evidence of the transactions which have taken place.
Recording (Journalizing)	**Book of Original Entry (Chorological manner)**	These are books which are used in recording the transactions for the first time. The books are maintained for memorandum purpose only and will not form part of the double entry system. Examples include; Purchase day book, Cash book, Sales day book and purchases return day book. (**Principal Books**)
Classifying (Posting & Balancing)	**Ledger Accounts (Analytical Manner)**	These form part of double entry system and used to record the Transactions for the period. These are accounts where information relating to a particular asset, liability, capital, income and expenses are recorded. (**Secondary Books**)
Summarizing *(Net Profit is ascertained)	**Trial Balance (Statement form)**	Contains the totals from various ledger accounts and act as a *Preliminary check* on accounts before producing final accounts. (**Arithmetic Accuracy**)(**List of Accounts**)(**Not a conclusive proof**)
	Final Accounts	Financial Statements are produced to show the financial Performance and financial position of a business entity.
Analyzing	**Ratio Analysis & Cash flow statement**	After the preparation of final accounts, the results and financial position is analyzed using ratio analysis techniques and meaningful results is interpreted. Various decision of owner are based on this analysis and interpretation. Various charts are also used for interpretations and communication of results to the owner.

ACCOUNTING CONCEPTS

Entity Concept	Business is separate from its owner. **Effects:** • Owner's Capital is shown as a Liability in the Business. • Amount taken by Owner from business is recorded as Drawings. • Owner's expenses are not recorded in the books of business and if payment is made from business, it is recorded as Drawings. • Proprietor cannot use the bank account of business for his personal transactions.
Money Measurement Concept	Only those transactions, which can be measured in terms of money, are recorded. **Effects:** • Employees are not recorded as an Asset in the Balance Sheet. • Inherently generated goodwill is not recorded in the books. • Qualitative information is not recorded in the books of account.
Periodicity Concept	According to this concept accounts should be prepared after every period & not at the end of the life of the entity. Usually this period is one calendar year. In India we follow from 1st April of a year to 31st March of the immediately following year. **Effects:** • Adjustment of Prepaid and outstanding is done at the end of the period. (Matching Principle)
Accrual Concept	Accrual means recognition of revenue and costs as they are earned or incurred and not as money is received or paid. Expenses accrue when benefit is received and income is accrued when benefit is given. **Effects:** • Advance money received is not treated as a sale.
Matching Concept	In this concept, all expenses matched with the revenue of that period should only be taken into consideration. This concept is based on accrual concept as it considers the occurrence of expenses and income and do not concentrate on actual inflow or outflow of cash. **Effects:** • Adjustment of Prepaid and outstanding is done at the end of the period.
Going Concern Concept (indefinite life)	The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed. **Effects:** • That the assets are classified as current assets and fixed assets. • The liabilities are classified as short-term liabilities and long-term liabilities.
Cost Concept	By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Hence, All the fixed assets are recorded at Historical Cost only and market value of fixed assets is ignored.

Conservatism Concept	Conservatism states that the accountant should not anticipate income and should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value. **Effects:** • Provision for doubtful debts is created at the end of the year. • Stock is valued at Cost or NRV, Whichever is less.
Consistency Concept	In order to achieve comparability of the financial statements of an enterprise through time, the accounting policies are followed consistently from one period to another; a change in an accounting policy is made only in certain exceptional circumstances. An enterprise should change its accounting policy in any of the following circumstances only: a. To bring the books of accounts in accordance with the issued Accounting Standards. b. To compliance with the provision of law. c. When under changed circumstances it is felt that new method will reflect more true and fair picture in the financial statement.
Materiality Concept (Exception to Full disclosure concept)	Materiality principle permits other concepts to be ignored, if the effect is not considered material. This principle is an exception of full disclosure principle. According to materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements and any insignificant item which will only increase the work of the accountant but will not be relevant to the users' need should not be disclosed in the financial statements. **Effects:** • Assets with low value like calculators, books, tools, etc are written off in one year instead of capitalizing the same. • Omission of paisa and showing the round figure in the financial statements.
Dual Aspect Concept	Every Transaction has two effects: Debit and Credit. Both are opposite and equal also known as Double Entry System. <u>Accounting equation has been derived on the basis of dual aspect concept</u> as under: Assets = Liabilities + Equity (Balance Sheet Equation) Net Profit = Income – Expenses (Profit & Loss Equation)

CLASSIFICATION OF ACCOUNTS

Real Account	Related to Assets of the business(tangible and intangible both)	Machinery, Furniture, Land and building, Vehicles, Goodwill, Patents, copyrights, Stock, etc
Person Account	Related to natural, artificial persons & representational person	Debtors, creditors, proprietor, bank, Bank Loan, Dividend payable, Outstanding liabilities, Prepaid expenses, etc
Nominal Account	Related to Income, Expenses, Loss and Gains	Salary, Advertisement, Stationery, Travelling, Sales, Interest, etc

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PROFIT & LOSS ACCOUNT (For the year)

Particular	Type	Particulars	Type
Opening Stock	***Real***	Sales	Nominal
Purchases	***Nominal***	***Closing Stock***	***Real***
Direct Expenses	Nominal		
Gross Profit	***Not an Account***		
Salary	Nominal	**Gross Profit**	
Rent	Nominal	Discount Received	Nominal
Legal Fees	Nominal	Interest Received	Nominal
Travelling	Nominal	Commission Received	Nominal
Printing & Stationery	Nominal	Rent Received	Nominal
Electricity Exp	Nominal	Dividend Received	Nominal
Telephone Expense	Nominal		
Office Exp	Nominal		
Interest Paid	Nominal		
Repairs & Maintenance	Nominal		
Insurance Exp	Nominal		
Advertisement Exp	Nominal		
Discount Allowed	Nominal		
Accounting Charges	Nominal		
Bad Debts	Nominal		
Depreciation	Nominal		
Net Profit	***Not an Account***		

BALANCE SHEET (Only Real & Personal Accounts)(As on a date)

Liabilities	Type	Assets	Type
Non Current Liabilities		Non Current Assets	
Share Capital	Personal	Goodwill & Patent	Real
Reserves & Surplus	Personal	Plant and Machinery	Real
Bank Loan	Personal	Land and Building	Real
Debentures	Personal	Furniture and Fixtures	Real
Public Deposits	Personal	Vehicles	Real
Unsecured Loans	Personal	Long term investments	Real
Current Liabilities		Current Assets	
Sundry Creditors	Personal	Sundry Debtors	Personal
Dividend Payable	Personal	Loans and Advances	Personal
Bill Payable	***Personal***	Cash	Real
Bank Overdraft	Personal	***Bill Receivable***	***Personal***
Outstanding Expenses	Personal	Stock	Real
		Prepaid Expenses	Personal
		Bank balance	Personal

GOLDEN RULES OF ACCOUNTING: (Lucas Pacioli is the father of accounting)

1. Personal account is governed by the following two rules:
Debit the receiver
Credit the giver

2. Real account is governed by the following two rules:
Debit what comes in
Credit what goes out

3. Nominal account is governed by the following two rules:

Debit all expenses and losses
Credit all incomes and gains

Users of Financial Statements Are:
Proprietor, Creditors, Government, Employees, Customers, Lenders, Public at Large.

Sub Fields of Accounting:
Management Accounting, Cost Accounting, Financial Accounting, Human Resource Accounting & Social Responsibility Accounting.

Fundamental Accounting Assumptions:
Going Concern, Accrual & Consistency

TYPES OF SUBSIDIARY BOOKS:

Purchase Book	It records the *credit* purchase of *goods* traded in. Example: stationery dealer purchased stationery in credit from Ram.
Sales Day Book	It records the *credit* sale of *goods* dealt in (traded in) Example: Furniture dealer sold furniture on credit.
Purchase Return Book (DEBIT NOTE)	It records the goods or material returned to the suppliers that have been purchased on credit. When goods are returned to supplier a debit note is issued to him indicating that his account has been debited with the amount mentioned in the debit note.
Sales Return Book (CREDIT NOTE)	It records the goods or material returned by the purchaser that had been sold on credit. When goods are returned by a customer a credit note is sent to him mentioning that his account has been credited with the value of goods returned.
Bills Receivable Book	It records the bills of exchange or promissory note received by a business entity.
Bills Payable Book	It records the acceptances given to the creditor in the form of bills or promissory notes.
Cash Book (Both Journal as well as Ledger)	It is used to record all cash transactions of the business whether related to goods, fixed assets, expenses or income. Examples: Payment of expenses in cash, receipt of cash from debtors, payment to creditors in cash, purchase of fixed assets in cash, sale of fixed assets in cash, etc. Cash Book is of 3 types: a. Simple Cash Book (No need to open a separate Cash Account) b. Double Column Cash Book (Cash & Bank) or (Cash & Discount) (No Need to open separate cash and bank account)(However, Separate Discount Allowed and Discount Received Account needs to be opened) c. Three Column Cash Book • Cash, Bank & Discount columns are there. • No Need to open separate cash and bank account. • However, Separate Discount Allowed and Discount Received Account need to be opened. • Discount columns are merely totalled and never balanced. Debit side total is transferred to Discount Allowed Account and Credit side total is transferred to Discount Received Account. **Petty Cash Book** is one of the subsidiary books which is used for the purpose of recording payment of *petty cash expenses*. Balance of petty cash book is an *Asset*. **Under Impress system**, The chief cashier makes the reimbursement of the amount spent by the petty cashier and the petty cashier again has the same amount of petty cash at the end as in the beginning. "Imprest or Float" means the amount which the main cashier hands over to the petty cashier in order to meet the petty cash expenses of a given period.

Journal Proper	All entries which cannot be recorded in the above subsidiary books are recorded in this book. Example: opening entries, Closing entries, rectification entries, etc

CAPITAL VS REVENUE:

Amount spent for **replacement** of worn out part of machine	Revenue Expense
Expenses incurred on the repairs and white washing for the **first time** on purchase of an old building.	Capital Expense
Amount spent for the construction of temporary huts, which were necessary for construction of cinema house and were demolished when the cinema house was ready	Capital Expense
Heavy advertisement to introduce a new product or to explore a new market.	Deferred Revenue Expenditure
Expenses of trail run of a newly installed machine	Capital Expense
A bad debt recovered during the year	Revenue Expense
Compensation of `2.5 crores paid to workers, who opted for voluntary retirement.	Revenue Expense
Legal fees to **acquire** property	Capital Expense
Amount spent as lawyer's fee to **defend** a suit claiming that the firm's factory site belonged to the plaintiff's land	Revenue Expense
Insurance claim received on account of machinery damaged completely by fire	Capital Expense
Subsidy of `40000 received from the government for working capital by a manufacturing concern	Revenue Expense
Office rent paid in advance for three years	Prepaid Expense
Cost of formation of new company	Capital Expense
Cost of annual taxes paid and the annual insurance premium paid on the truck	Revenue Expense
`5150 spent on repairs **before** using a second-hand car purchased recently, to put it in usable condition.	Capital Expense
Interest on investments received from UTI.	Revenue Receipt

LIST OF ACCOUNTING STANDARDS:

Number of the Accounting Standard (AS)	TITLE OF THE ACCOUNTING STANDARD	Applicable
AS 1	Disclosure of Accounting Policies	All
AS 2 (Revised)	Valuation of Inventories	All
AS 3 (Revised)	Cash Flow Statements	Level 1
AS 4 (Revised)	Contingencies and Events Occurring after the Date Balance Sheet	All
AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and	All
	Changes in Accounting Policies	All
AS 6 (Revised)	Depreciation Accounting	All
AS 7 (Revised)	Accounting for Construction Contracts	All
AS 9	Revenue Recognition	All
AS 10	Accounting for Fixed Assets	All
AS 11 (Revised)	The Effects of Changes in Foreign Exchange Rates	All
AS 12	Accounting for Government Grants	All
AS 13	Accounting for Investments	All
AS 14	Accounting for Amalgamations	All
AS 16	Borrowing Costs	All
AS 19	Leases	All
AS 20	Earnings Per Share	Level 1 and All Companies
AS 26	Intangible Assets	All
AS 29	Provisions, Contingent Liabilities & Contingent Assets	All

- Accounting Standards are formulated by ASB and issued by the Council of ICAI.
- Accounting standards cannot override the statue.
- Accounting Standards are mandatory for companies as per companies act, 1956.
- So far 32 Accounting standards have been issued by ICAI.

ABBREVIATIONS

ASB	Accounting Standard Board
GAAP	Generally Accepted Accounting Principles
AS	Accounting Standard
IASB	International Accounting standard board
ICAI	Institute of Chartered Accountants of India

Accounting Policy:

Accounting Policies refer to specific accounting principles and methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements.

The areas wherein different accounting policies are frequently encountered can be given as follows:

(1) Methods of depreciation, depletion and amortization;
(2) Valuation of inventories;
(3) Treatment of goodwill;
(4) Valuation of investments;
(5) Valuation of fixed assets.

This list should not be taken as exhaustive but is only illustrative. As the course will progress, students will see the intricacies of the various accounting policies.

Book Keeping	Accounting
It is a process concerned with the recording of transactions.	It is a process concerned with the summarizing of the recorded transactions.
It constitutes the base of accounting	It is considered as the language of the business.
Financial statements do not form part of this process	Financial statements are prepared in this process on the basis of the book keeping records.
Managerial decisions cannot be taken on the basis of these records.	Management takes decisions on the basis of these records.
There is no sub field of book keeping	It has several sub fields of accounting like cost accounting, financial accounting, management accounting, etc
Financial position of the business cannot be ascertained through book keeping records.	Financial position of the business is ascertained on the basis of accounting reports.

VALUATION PRINCIPLES:

There are four generally accepted measurement bases or valuation principles.

a. **Historical Cost:** It means acquisition price. According to this base, assets are recorded at an amount of cash or cash equivalent paid.

b. **Current Cost:** Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently.

c. **Realisable value:** As per realisable value, assets are carried at the amount of cash or cash equivalent that currently could be obtained by selling the assets in an orderly disposal.

d. **Present Value:** As per present value, an asset is carried at the present discounted value of the future net cash inflow that the asset is expected to generate in the normal course of business.

INVENTORY (Matching Concept)

VALUATION OF INVENTORY (AS-2)

Whichever is lower?

COST

Includes:
- Purchase Price
- Freight, Octroi/LBT, Non refundable purchase taxes
- Loading, unloading charges, transit insurance

Excludes:
- Storage Cost, Borrowing Cost
- Abnormal Wastage
- Administration & Selling Cost
- Idle time cost

NET REALISABLE VALUE
- Estimated Selling Price – Selling cost
- Selling cost includes brokerage or commission or advertisement necessary to effect sales
- Normally, Damaged Goods are valued at NRV.

INVENTORY VALUATION TECHNIQUES

Inventory, Not ordinarily interchangeable (UNIQUE)

Specific Identification Method

Inventory, ordinarily Interchangeable (Homogenous)

Historical Cost Methods

Non historical Methods

FIFO
- **Recognized by IT department & AS2**
- Best for perishable goods
- Most widely used method

LIFO
- Not Recognized by IT Dept and AS 2.
- Irrational Logic
- Overvaluation of stock and undervaluation of profit

WEIGHTED AVERAGE METHOD
- Allowed by AS 2

Adjusted Selling Price or Retail method
- Widely used in retail industry, where inventory is large with standard margin

Standard Cost Method
- Allowed by AS 2 for manufacturers for convenience

Inventory Record Systems:

Periodic Inventory System	Perpetual Inventory System
Physical Verification of Inventory at periodic intervals	It is based on Book Records and is determined automatically after each receipt and issue
Inventory control is not possible	Inventory control can be exercised
Requires closure of business for physical count of stock	Inventory can be determined without affecting operations of business
Cost of goods sold includes loss of goods as goods not in stock are assumed to be sold	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory

Important Points:

- Cost of goods sold = Opening stock + Purchases + Direct expenses - Closing stock.
- Inventories are written down to NRV on an *Item-on-Item Basis*.
- AS 2 allows FIFO and Weighted Average Method but does not allow LIFO Method.
- Valuation of Inventory is based on Conservatism on the other hand; recording of Inventory is based on matching principle.

Closing Stock ↑	Profit ↑	Opening Stock ↑	Profit ↓
Closing Stock ↓	Profit ↓	Opening Stock ↓	Profit ↑

BASE CONVERSION

There are 3 elements: Profit, Sale and Cost
Step 1: Assume the base of % as 100.
Step 2: Apply the percentage on the base and calculate the profit.
Step 3: Calculate the third element as you know the two elements using the equation: Sales = Cost + Profit
Step 4: Now, you know all the three elements, calculate the desired percentage on desired base.

25% on Cost then how much % of Sale?
Step 1: As the base of % is Cost, Assume the cost as 100.
Step 2: By applying 25% on cost 100, profit will be ` 25.
Step 3: Sale = Cost + Profit
Sale = 100+ 25 = 125.
Step 4: Profit/Sales = Profit as % of sales
25/125*100=20%

DEPRECIATION

Important Features:

- Depreciation is charged on Fixed Asset (Tangible as well as Intangible).
- Depreciation is non cash expenditure and does not affect the cash flow statement.
- Value of such fixed assets decreases over a period of time due to usage, normal wear and tear, passage of time, obsolescence of technology and market changes.
- Depreciation of a fixed asset starts from the date when it is put to use.
- Schedule II of the Companies Act, 2013 prescribes the rate of depreciation for companies.
- Depreciation is not chargeable on Land as the useful life of land is unlimited.
- Amortization means writing off intangible Assets.
- Obsolescence means decline in the value of Fixed Asset due to Innovations and Inventions which is an external factor.

Straight Line Method: $\frac{\text{Cost of Asset – Scrap Value}}{\text{Useful Life}}$
Reducing Balance Method: A fixed percentage is charged to the written down value of asset each year so as to reduce the value of asset to its break-up value at the end of its life. Annual charge of depreciation decreases from year to year and Annual charge of repairs increases from year to year and hence a proper amount is charged to Profit each year for the use of fixed asset. (Widely Used in Income Tax)
Sum of year of Digit Method: Depreciation =(Original Cost – Scrap Value) * $\frac{\text{Number of years of remaining life of asset}}{\text{Total of all digits of the life of the Asset}}$ Total of all digits of the life of asset = $\frac{n(n+1)}{2}$
Production Units Method: Depreciation = Depreciable Amount * Production during the period/ Estimated total production
Annuity Method: This method of depreciation takes into account the element of interest on capital outlay on fixed asset and seeks to write off the value of asset as well as the interest lost over the life of the asset. It assumes that amount paid out in acquiring asset, if invested elsewhere, would have earned interest which is considered as a cost of asset.
Machine Hour Method: Where it is practicable to keep a record of the actual running hours of each machine, depreciation may be calculated on the basis of hours that the concerned machine worked. The machine hour rate of the depreciation is calculated after estimating the total number of hours that machine would work during its whole life.
Sinking Fund Method: The amount of depreciation set out annually may be available in cash or may be not able to realize in cash at the time of replacement of asset, so to avoid this situation, the amount of depreciation set out annually can be invested annually in government securities and interest earned on such government securities will be reinvested and the amount thereof shall be credited to sinking fund account.

At the time of depreciation: Depreciation A/c ....Dr To Sinking Fund Account
At the time of Transfer of depreciation to P & L Profit & Loss A/c .....Dr To Depreciation A/c
At the time of investment: Sinking Fund Investment Account ....Dr To Bank A/c
Credit of Interest earned on Government Securities: 1. Bank A/c ....Dr To Interest on Sinking Fund Investment A/c 2. Interest on Sinking Fund Investment A/c ....Dr To Sinking Fund Account 3. Sinking Fund Investment A/c ....Dr To Bank A/c
At the time of sale of Sinking Fund investment at the end of useful life Bank A/c ....Dr To Sinking Fund investment Account *If sale is a profit* Sinking Fund investment Account To Sinking Fund A/c *If sale is a Loss* Sinking Fund Account....Dr To Sinking Fund Investment A/c
Transfer of Book Value of asset to sinking fund account Sinking fund account A/c To Asset Account
Closure of Sinking Fund Account on replacement of Asset Sinking Fund A/c To General Reserve Profit & Loss Account ....Dr To Sinking Fund Account

Change in Method of Depreciation: (Retrospective Effect)

Whenever any change in depreciation method is made, depreciation should be recalculated in accordance with the new method from the date of asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation should be debited or credited to P&L A/c in the year in which the method of depreciation is changed. Such change is treated as change in accounting policy.

Revision of the Estimated Useful Life Of The Depreciable Asset: (Prospective Effect) There should be a periodical review of the useful life of depreciable assets. Whenever there is a revision in the estimated useful life of the asset, the unamortized depreciable amount should be charged to the asset over the revised remaining estimated useful life of the asset.
Revaluation Of Depreciable Assets: (Prospective Effect) Whenever the depreciable asset is revalued, the depreciation should be charged on the revalued amount on the basis of the remaining estimated useful life of the asset. <u>Upward Revaluation:</u> Fixed Asset A/c.........Dr To Revaluation Reserve A/c <u>Downward Revaluation:</u> Profit & Loss A/c.....Dr To Fixed Asset A/c
Profit Or Loss On The Sale Disposal Of Depreciable Assets: Profit or Loss = Sale proceeds – WDV at the time of Sale The resulting profit or loss on sale of the asset is ultimately transferred to profit and loss account.

FINAL ACCOUNT OF SOLE PROPREITORS

Manufacturing Cost:

Raw Material Consumed*	*****
Direct Manufacturing Wages	*****
Direct Manufacturing Expenses	*****
Prime Cost	*****
Indirect Manufacturing Cost	*****
Manufacturing Overhead	*****
Total Manufacturing Cost	*****

*Raw Material Consumed: Opening RM + Purchase of RM – Closing Stock of RM

Raw Material Consumed = Opening Stock + Purchases – Closing Stock

Cost of Finished Goods Produced = Total Manufacturing cost (as above) + Opening WIP – Closing WIP

Cost of Finished Goods Sold = Cost of Finished Goods Produced + opening stock of Finished Goods – Closing Stock of Finished Goods.

MANUFACTURING ACCOUNT

Particulars	Amount	Particulars	Amount
To Raw Material Consumed:		By Closing WIP	
Opening RM		By Trading Account – Cost of Production	
+ Purchase of RM		***Sale of Scrap***	
- Closing Stock of RM			
To Direct Wages			
To Direct Expenses			
To Factory Overheads			
Royalty			
Hire charges			
Depreciation on Machinery			
Repairs and Maintenance			
To Opening WIP			

MANAGERIAL REMUNERATION:

Profit before MR = Sale
Profit after MR = Cost

Base of Profit	Base of MR %	Effect
Before	Before	Base is same, apply the % of MR directly on the profit
After	After	Base is same, apply the % of MR directly on the profit
Before	After	Here, Base of % of MR is After i.e Cost, so we have to convert it on Sale using Base Conversion.
After	Before	Here, Base of % of MR is Before i.e Sale, so we have to convert it on Cost using Base Conversion.

IMPORTANT ADJUSTMENTS:

Recording of Closing Stock:

Closing Stock A/c.......Dr
To Trading/Purchase A/c

Opening Entry: (recorded in Journal Proper)

Machinery A/c................................Dr
Building A/c...................................Dr
Furniture A/c.................................Dr
Cash A/c.......................................Dr
Bank A/c..Dr
Debtors A/c...................................Dr
Investment A/c..............................Dr
To Sundry Creditors
To Tax Payable
To Capital A/c
To Reserves and Surplus
To Bank Loans

Expenses & Incomes Accrued but not due at end of financial year:

Expenses A/c.................Dr
To Accrued Expenses A/c

Accrued Income A/c........Dr
To Income A/c

Expenses & Income Accrued and Due at the end of the financial Year:

Expenses A/c..............Dr
To Outstanding Expenses

Outstanding Income A/c.....Dr
To Income A/c

Provision for bad and Doubtful Debts (balance is shown by way of deduction from debtors in the balance sheet)

Creation of Provision:
Profit & Loss A/c...........Dr
To Reserve for Bad and Doubtful Debts

At the time of Actual Bad debts:
Reserve for Bad and Doubtful debts A/c..........Dr
To Debtors A/c

Provision for depreciation:

Depreciation A/c...........Dr
To Fixed Assets

Abnormal Loss by Fire/Theft:

At the time of loss:
Abnormal Loss A/c.........Dr
To Purchase/Trading A/c

At the time of receipt of money from insurance company:
Bank A/c............Dr
To Abnormal Loss A/c

Balance in Abnormal Loss is transferred at the end of the financial Year:
Profit & Loss A/c ....Dr

To Abnormal Loss A/c

If amount is receivable from insurance company at the end of financial year as the claim has been accepted by the insurance company, the amount receivable from insurance company is shown as an Asset in the balance sheet.

Goods sent on Approval basis:

When transactions are few, Goods sent on approval are treated as actual sales.

At the time of sending goods:
Debtors A/c .....Dr
To Sales

At the time of receipt of approval:
No Entry as sales has already been recorded

At the time of rejection of goods:
Sales A/c.....Dr
To Debtors

At the year end, for Goods sent but no approval received:
Sales A/c......Dr
To Debtors
Stock lying with the customers on approval basis is added to our stock at cost.

When the transaction are large:

At the time of sending goods:
No entry in the books, but the same is recorded on subsidiary books.

At the time of receipt of approval:
Debtors A/c.........Dr
To Sales

At the time of rejection:
No Entry in the books, but the same is recorded on subsidiary books.

At the year end, for goods sent on approval but no approval received:
No entry but stock lying with the customers on approval basis is added to our stock at cost.

Goods used or taken away be proprietor for personal use:

Drawings A/c...........Dr
To Purchase

Goods given away as charity or advertising:

Charity / Advertisement A/c.........Dr
To Purchase

Income tax of proprietor paid by business:

Drawings A/c.........Dr
To Bank/Cash

Distinction	Trade Discount	Cash Discount
Meaning	It is a reduction granted by a supplier from the list price (MRP) of goods or services on business considerations (such as quantity bought, etc) other than for prompt payment.	A reduction granted by a supplier from the invoice price in consideration of immediate payment or payment within a stipulated period of time.
Purpose	It is allowed to promote the sale or as a trade practice.	It is allowed to encourage the prompt payment.
Time when allowed	It is allowed on purchase of goods	It is allowed on immediate payment or payment within specified period.
Disclosure in the invoice	It is shown by way of deduction in the invoice itself.	It is not shown in the invoice.
Ledger Account	Trade discount account is not opened in the ledger	Cash discount account is opened in the ledger
Variation	It may vary with the quantity purchased	It may vary with the period within which the payment is made.

Working Capital = Current Assets – Current Liabilities
Sales = COGS + Gross Profit

CONSIGNMENT ACCOUNTS

Account Sales= Sales (Cash) + Debtors Collection – All Consignee Exp – Commission= Net Remittance

Goods along with Proforma invoice

Consignor (OWNER) → Consignee (Agent) → Ultimate customer

Consignor Expenses: Freight, LBT, Loading charges, etc

Consignee Expenses: Unloading charges, LBT, Labour charges,

Storage Cost:

Rent

Electricity

Insurance

Types of Commission

ORDINARY

(For sale of goods at a different location)(Paid on Total Sales)

DEL CREDERE

(For bearing the loss arising due to bad debts)(Paid on total sales if not give)

(Logically it should be paid on credit sales

OVER RIDING

(For selling the goods above invoice price or for introduction of new product)

TYPES OF LOSSES

NORMAL LOSS

(Inherent in the nature of product and hence, unavoidable and uninsurable)

- Absorbed by the good unit's i.e Cost of goods units is increased to cover the loss of normal loss units.
- Cost/Unit = Total Cost / (Total

ABNORMAL LOSS (at cost)

(Due to abnormal conditions & Natural Calamities)(Avoidable & Insurable)

- To be excluded from consignment account as abnormal in nature.
- Entry= General Profit & Loss ……DR

  To Consignment A/c

Proportionate Consignor's Exp + Consignee's

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VALUATION OF CONSIGNMENT STOCK

INCLUDES

- Purchase Price
- Expenses incurred by Consignor (Freight, packaging, LBT, Loading Charges, Transit Insurance)
- Expenses incurred by Consignee (Non recurring and Non Selling like Unloading charges, etc)

DOES NOT INCLUDE

- Consignee's Recurring Expenses and Selling Expenses like Godown Rent, Godown Insurance, Watchman's Salary, Consignee's Commission,

Consignment	Sale
Ownership remains with the consignor, no matter the goods are transferred to consignee.	Ownership of goods transfers with the transfer of goods from seller to buyer.
Consignor bears the loss of goods held by consignee	It is the buyer of goods who has to bear the loss after the delivery of goods
Expenses done by consignee to receive the goods and to keep it safely is borne by consignor	Expenses incurred by buyer after delivery of goods are to be borne by buyer himself
The relationship between the consignor and consignee is that of principal and agent	The relationship between the buyer and seller is that of creditor and debtor.

Important Points:

√ Consignment Account = Nominal Account

√ Consignee Account = Personal Account

√ Consignment Stock Account = Real Account

√ Consignor is the owner of goods, even if goods are destroyed while in transit or in godown of consignee, the loss will be borne by the Consignor only.

√ Consignment Account is done on *Accrual Basis only*.

√ Stock reserve Account is created, when goods are invoiced above cost.

√ Consignment Stock in shown in the books of Consignor on the Assets side of B/S.

√ Consignment stock is valued at Cost or NRV, whichever is less.

ACCOUNTING ENTRIES IN THE BOOKS OF CONSIGNOR

On dispatch of Goods to consignee:

Consignment A/c
To Goods sent on Consignment A/c

If goods are consigned on a price above cost, adjustment entry is required for the difference between the cost and invoice price:

Goods Sent on Consignment A/c
To Consignment A/c

For expenses incurred by Consignor

Consignment A/c
To Cash/Bank A/c

On receipt of advance from Consignee:

Cash/Bank A/c
To Consignee A/c

If consignee has accepted a bill of exchange:

Bill Receivable A/c
To Consignee A/c

With the sale price of goods sold by consignee:

Consignee A/c
To Consignment A/c

For expenses incurred by consignee:

Consignment A/c
To consignee A/c

For closing stock held by consignee:

Consignment Stock A/c
To Consignment A/c

For adjustment of Profit in Closing Stock:

Consignment A/c
To Consignment Stock Reserve A/c

Abnormal Loss of Goods:

(i) For total value of goods damaged:
Loss of Stock A/c
To Consignment A/c

(ii) For amount of insurance claim:
Bank A/c
To Loss of Stock A/c

(iii) For net loss of stock:
Profit and Loss Account

To Loss of Stock A/c
For profit on consignment: Consignment A/c To Profit and Loss Account

ACCOUNTING IN THE BOOKS OF CONSIGNEE

On payment of expenses for consignor: Consignor A/c To Cash
On sale of goods for Cash: Cash A/c To Consignor A/c
On sale of goods on credit: Sundry Debtors A/c To Consignor A/c
For commission of consignee: Consignor A/c To Commission A/c
Bad debt on sales, when no del credere commission is payable: Consignor A/c To Sundry Debtors A/c
Bad Debt on sale, when del credere commission is received by consignee: Commission A/c To Sundry Debtors A/c
Realisation from sundry debtors Cash A/c To Sundry Debtors A/c
Payment of final sum due to consignor: Consignor A/c To Cash A/c

JOINT VENTURE ACCOUNTING

(I) SEPARATE SET OF BOOKS ARE MAINTAINED

Initial contribution by the co-venturer's in Joint bank account: Joint Bank A/c To Co-Venturer's A/c
For expenses paid out of joint bank account Joint Venture A/c To Joint Bank A/c
For material supplied by co-venturer or direct payment by co-venturer Joint Venture A/c To Co-venturer A/c
For Sale or payment received Joint Bank A/c To Joint Venture A/c
For sale or payment received directly by co-venturers Co-venturer A/c To Joint Venture A/c
For profit on Joint Venture Joint Venture A/c To Co-venturer A/c
For closing the Joint Bank A/c Co-venturer A/c To Joint Bank A/c

(II) NO SEPARATE SET OF BOOKS ARE MAINTAINED

1st APPROACH: When no separate books of accounts are maintained for joint venture, each venture maintains accounts independently for the venture transactions. The standard practice is to keep full records of own transactions as well as the transactions of the co-venturer relating to the venture.

When each co-venturer keeps record of all transactions, following accounts are prepared:

i. Joint Venture Account
ii. Co-venturer's Account

2ND APPROACH: But sometimes the parties to a venture keep record of their own transactions only. In such a case, **memorandum joint venture account is prepared by the parties.**

When each co-venturer keeps records of own transactions only, following accounts are prepared:

i. Memorandum Joint Venture Account
ii. Joint Venture with co-venturer Account

Sometimes the venturer's find it useless to keep full record of venture transactions. Rather it is considered convenient to keep record of own transactions only. For this purpose, it is necessary to open 'Joint Venture with Co-venturer A/c'. All expenses incurred, materials sent, etc. are debited to this account. Profit earned is also debited to this account while the loss sustained is credited. Any receipt from joint venture or from co-venturer is credited to this account, while any payment to the co-venturer is debited to this account, profit/loss on joint venture cannot be determined from this account. For determination of profit/loss a Memorandum Joint Venture Account is prepared.

Memorandum Joint Venture account is a rough statement prepared by ventures for determination of venture profit when they do not maintain full records of venture transactions in the books of account. Unless this account is prepared, venturer cannot compute the profits of venture.

Treatment of accounting:

Going concern assumption of accounting is *not appropriate* for joint venture accounting. There does not arise problem of distinction between capital and revenue expenditure. Plant, Machinery and other fixed assets when used in venture are first charged to venture account at cost. On completion of venture, such assets are revalued and shown as revenue of the venture. Thus accounting approach for measurement of venture profit is totally different.

Basis of Distinction	Joint Venture	Partnership
Scope	It is limited to a specific venture	It is not limited to a specific venture
Persons involved	The persons carrying on business are called as Co-ventures	The persons carrying on the business are called as partners
Ascertainment of P & L	The P & L is ascertained at the end of specific venture	The P & L are ascertained on an annual basis
Act Governing	No specific Act is there	Partnership firm are governed by Indian Partnership Act, 1932
Name	There is no need for firm name	A partnership firm always has a name
Separate set of books	There is no need for separate set of books. The accounts can be maintained even in one of the co-venturer's books only	Separate set of books have to be maintained
Admission of minor	A minor cannot be a co-venturer as he is incompetent to contract	A minor can be admitted to the benefits of the firm
Accounting	Accounting for JV is done on liquidation basis	Accounting for partnership firms is done on going concern basis

BILL OF EXCHANGE

Transaction	Books of DRAWER	Books of DRAWEE
Acceptance of bill is received	Bill Receivable ….Dr To Drawee/Debtor A/c	Creditor/Drawer….Dr To Bills Payable A/c
Discounting of Bill by Drawer from Bank	Cash A/c……….Dr Discount A/c…..Dr To Bill Receivable A/c	No Entry
Bill is endorsed by Drawer to his creditor as a payment	Creditor A/c…….Dr To Bill Receivable A/c	No Entry
Bill is kept till maturity as it is	No Entry	No Entry
When bill is sent for collection to a bank	Bill for Collection A/c….Dr To Bill Receivable A/c	No Entry
HONOR OF BILL UNDER DIFFERENT SENARIO		
Bill is with Drawer himself	Cash A/c To Bill Receivable A/c	Bill Payable A/c……Dr To Cash A/c
Bill was discounted with bank	No Entry	Bill Payable A/c……Dr To Cash A/c
Bill was endorsed by the drawer	No Entry	Bill Payable A/c……Dr To Cash A/c
Bill was sent for collection to bank	Bank A/c To Bill for Collection A/c	Bill Payable A/c……Dr To Cash A/c
DISHONOR OF BILL UNDER DIFFERENT SENARIO		
Bill is with Drawer Himself	Drawee/Debtor A/c……Dr To Bill Receivable A/c Drawee A/c To Cash A/c (Noting Charges)	Bill Payable A/c….Dr To Creditor/Drawer A/c Noting Charges ….Dr To Creditor
Bill was discounted with bank	Bill Receivable A/c …..Dr To Cash Account Drawee/Debtor A/c…..Dr To Bill Receivable A/c Drawee A/c To Cash A/c (Noting Charges) <u>Net Entry:</u> Drawee ….Dr To Cash	Bill Payable A/c….Dr To Creditor/Drawer A/c Noting Charges …..Dr To Creditor
Bill was endorsed by the drawer	Bill Receivable A/c…….Dr To Creditor A/c Debtor/Drawee….Dr To Bill Receivable A/c Drawee A/c To Cash A/c (Noting Charges) <u>Net Entry:</u> Debtor ……..Dr To Creditor	Bill Payable A/c….Dr To Creditor/Drawer A/c Noting Charges …..Dr To Creditor
Bill was given for collection	Drawee A/c…..Dr To Bill for Collection	Bill Payable A/c….Dr To Creditor/Drawer A/c

Bill of exchange:

- A bill of exchange must be in writing & Stamped.
- It must be dated.
- There are Three parties to a bill of exchange: Drawer, Drawee(Acceptor) and Payee.
- Drawee and Payee can be same person.
- It must contain an *written unconditional* order to pay a certain sum of money.
- The money must be payable to a definite person or to his order to the bearer.
- The draft must be accepted for payment by the party whom the order is made.
- When a bill is drawn “after date”, the term of bill starts from the *date of drawing* the bill.
- When a bill is drawn “after sight”, the term of the bill starts from the *date of acceptance* of bill by drawee.
- A bill received from a debtor is known as “Bill Receivable”.
- A bill given to a creditor is known as “Bill Payable”.

Promissory Note: (Example Indian Currency)

- It must be in writing & Properly Stamped.
- It must contain a clear promise to pay. *Mere acknowledgment of debt is not a promise*.
- The promise to pay must be *unconditional*. “ I promise to pay ` 5000 as soon as i can”
- The promisor or maker must sign the promissory note.
- The sum payable must be certain.

MISCELLANEOUS POINTS:

- In case of time bills, *3 days of grace* are added to the due date of the bill.
- When the day when bill or promissory note is falling due (including days of grace) is a public holiday or Sunday, the due date will be *preceding business day*.
- However, if the holiday is a sudden or unforeseen holiday, then the due date shall be *Succeeding working date*.
- Liability on account of bills discounted with bank will treated as *Contingent Liability*.
- Noting charges is the expense of the drawee who has dishonored the bill of exchange.
- In such a case, a new bill will be drawn and the old bill be cancelled. If this happens, entries should be passed for cancellation of old bill.
- In the books of drawee of the bill, the amount not ultimately paid by him due to insolvency, should be credited to *deficiency account*.
- When bills are drawn for mutual benefit/need, it is known as *accommodation bills*.
- The discount is borne in the ratio in which proceeds of bills are shared, in case of accommodation bills.

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Profit and Loss Appropriation:

During the course of business, a partnership firm will prepare Trading Account and a Profit and Loss Account at the end of every year. This is done exactly on the lines already given in the chapter 6. This is to say that final accounts of a sole proprietorship concern will not differ from the accounts of a partnership firm. The Profit and Loss Account will show the profit earned by the firm or loss suffered by it. This profit or loss has to be transferred to the Capital Accounts of partners according to the terms of the Partnership Deed or according to the provisions of the Indian Partnership Act (if there is no Partnership Deed or if the Deed is silent on a particular point).

For allowing interest on Capital: Interest on Capital A/c To Partner's Capital/Current A/c
For Interest on Drawings: Partner's Capital/Current A/c To Interest on drawings
For Partner's Salary/Remuneration/Commission: Salary/Remuneration to Partner A/c To Partner's Capital/Current A/c
For transfer of Profits to Reserve: Profit and Loss Appropriation A/c To Reserve A/c

Fixed Capital method & Fluctuating Capital method:

In Fixed Capital method, generally initial capital contributions by partners are credited to partner's capital account and all subsequent transactions and events are recorded through partner's current account. On the contrary, under fluctuating capital method, no current account is maintained. All such transactions and events are recorded in capital account itself. So the balance of partner's capital keeps on fluctuating hence the name of the method.

Interest on Capital:

Interest is generally allowed on capitals of the partne` Interest on capital of partners is calculated for the relevant period for which the amount of capital has been used in the business. Normally, it is charged for full year on the balance of capital at the beginning of the year unless some fresh capital is introduced during the year. On the additional capital introduced, interest for the relevant period of utilisation is calculated.

In case of fixed capital accounts, interest is calculated on the balance of capital accounts only and no interest is payable / chargeable on the balance of current accounts.

Subject to contract between the partners, interest on capitals is to be provided out of profits only. Thus in case of loss, no interest is provided. But in case of insufficient profits(i.e., net profit less than the amount of interest on capital), the amount of profit is distributed in the ratio of capital as partners get profit by way of interest on capital only.

Interest on Drawings:

Sometimes interest is not only allowed on the capitals, but is also charged on drawings. In such a case, interest will be charged according to the time that elapses between the taking out of the money and the end of the year.

If the dates on which amounts are drawn are not given, the student will do well to charge interest for **six months** on the whole of the amount on the assumption that the money was drawn evenly throughout the year.

If withdrawals are made evenly in the **beginning of each month**, interest can be calculated easily for the whole of the amount of **6.5 months**;

if withdrawals are made at the **end of each month**, interest should be calculated for **5.5 months**.

Important Points:

- In the absence of any agreement to the contrary;
  1. No partner has the right to a salary,
  2. No interest is to be allowed on capital,
  3. No interest is to be charged on the drawings,
  4. Interest at the rate of 6% is to be allowed on a partner's loan to the firm, and
  5. Profits and losses are to be shared equally.
- Interest and salary to partner is an *appropriation of profits*.
- Registration of the firm is not compulsory, but non-registration restricts the partners or the Firm from taking any legal action.
-

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METHODS OF GOODWILL:

Average profit method

An average is taken of Profits of past few years and is adjusted for any expected change in future. For averaging the profits of past profits, either simple average or weighted average may be taken depending upon the circumstances of each case.

Weighted average is preferred where there is any trend in profits of past years either increasing or decreasing etc.

Super profit method

Super profit means excess profits that can be earned by a firm over and above the normal profits earned by similar firms under similar circumstances. Under this method, the partner who gains in terms of profit sharing ratio has to contribute only for excess profit because normal profit he can earn by joining any partnership. Under super profit method, what excess profit a partnership firm can earn is to be determined first. The steps to be followed are given below:

a. Identify the capital employed by the partnership firm;
b. Identify the average profit earned by partnership firm based on past few year's profits;
c. Determine the normal rate of return prevailing in the locality of similar firms;
d. Apply normal rate of return on the capital employed by the partnership firm to arrive at normal profit;
e. Deduct normal profit from average profit of the firm. If the average profit of the firm is more that the normal profit, there exists super profit and goodwill.

Annuity method

In super profit method, time value of money is not considered. As the Super profit is expected to receive over future years, hence time value of future cash flows becomes critical as the actual value of that will be different depending upon rate of interest.

Capitalization method

In this method, using the normal rate of return, value of whole business is determined. If such value of whole business is higher than the capital employed in the business, then the difference is goodwill.

Following steps are to be followed:

1. Determine the normal rate of return
2. Find out the average profit of firm for which goodwill is to be determined
3. Determine the capital employed by the firm
4. Find out the value of business by dividing average profits by normal rate of return.
5. Deduct the average capital employed from the normal value of business as computed to arrive at the amount of goodwill.

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ADMISSION OF A PARTNER

Change in Profit Sharing Ratio:

On admission of a new partner profit sharing ratio of partners will change. New ratio will depend upon the share given to new partner and also on the ratio in which old partners are sacrificing or contributing towards the share of new partner. The ratio in which old partners are sacrificing towards the share of new partner is called as Sacrificing Ratio.

New Ratio = Old Ratio – Sacrifice Ratio

Sacrifice Ratio = Old Ratio – New Ratio

Transfer of General Reserves:

Whenever a new partner is admitted, any reserve etc. which may be lying in the Balance Sheet should be transferred to the Capital Accounts of the old partners in the **old profit sharing ratio**.

Revaluation Account or P & L Adjustment Account:

When a new partner is admitted into the partnership, assets are revalued and liabilities are reassessed. A Revaluation Account (or Profit and Loss Adjustment Account) is opened for the purpose. This account is debited with all reduction in the value of assets and increase in liabilities and credited with increase in the value of assets and decrease in the value of liabilities. The difference in two sides of the account will show profit or loss. This is transferred to the Capital Accounts of old partners in the old profit sharing ratio.

Adjustment of Goodwill:

When a new partner is admitted to a firm, the old partners generally sacrifice in favour of the new partner in terms of lower profit sharing ratio in the future. *Therefore, the premium for goodwill brought in by the new partner shall be given to the existing partners on the basis of **profit sacrificing ratio**.* The profit sacrificing ratio is computed by deducting the new profit sharing ratio from the old profit sharing ratio. If the difference is positive, there is a profit sacrifice and in case the difference is negative, there is a gain in terms of higher future profit sharing ratio.

<u>Situation 1:</u> Goodwill brought in cash: in this cash, Cash Account is debited and goodwill account is credited. Then, immediately, the goodwill account is transferred to Capital Accounts of the old partners in the ratio of Sacrifice. It has been made clear above that goodwill is compensation to old partne` Therefore, the amount brought in as goodwill by the incoming partner should be credited to the old partners *in the ratio of their sacrifice and not in the old profit sharing ratio.*

<u>Situation 2:</u> Goodwill raised and written off immediately: it may not be considered proper by a firm to continue to show goodwill in the balance sheet. This is because goodwill is an asset which can be realised or converted into cash only if the firm is sold. Therefore, if goodwill is raised on admission of a partner, it is often written off immediately. This is done by debiting all partners, including the new partner, in the new profit sharing ratio and by crediting goodwill.

Proportionate Capital And Inference Of Goodwill

'Proportionate Capital' means Capital Account balances of partners in accordance with the profit sharing ratio. In other words, ratio of Capital Account balances is equal to profit sharing ratio. Proportionate capital is maintained generally following 'fixed capital method' (Unit 1).

For example, A and B are in partnership, sharing profit or loss in the ratio of 3:2.

If total capital is ` 1,00,000. A should contribute ` 1,00,000 × 3/5 i.e. ` 60,000 and B should contribute ` 1,00,000 × 2/5 i.e. ` 40,000.

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The question of inferring goodwill arises only in case of proportionate capital. If the newly admitted partner brings capital more than what is required as per profit sharing ratio, then it is to be presumed that he has contributed the excess for goodwill. For example, A and B are in partnership who contributed proportionate capital of ` 60,000 and ` 40,000. Now they want to admit C giving him 1/5th share for which C agrees to bring ` 30,000. Since total capital is ` 1,00,000, C should contribute ` 20,000 (` 1,00,000 x 1/5) for1/5th share. Instead he agrees to pay ` 30,000. So for 1/5th share he is paying ` 10,000, for goodwill. Thus total value of goodwill is ` 10,000 × 5 i.e. ` 50,000

RETIREMENT OF A PARTNER

Change in Profit Sharing Ratio:

On retirement of a partner, the continuing partners will gain in terms of profit sharing ratio. For example, if A, B and C were sharing profits and losses in the ratio of 5 : 3 : 2 and B retires, then A and C have to decide at which ratio they will share profits and losses in future. If it is decided that the continuing partners will share profits and losses in future at the ratio of 3:2, then A gains 1/10th [(3/5)-(5/10)] and C gains 2/10 [(2/5)-(2/10)]. So the gaining ratio between A and C is 1:2. If A and C decide to continue at the ratio 5:2, this indicates that they are dividing the gained share in the previous profit sharing ratio.

Gaining Ratio = New Ratio – Old Ratio
New Ratio = Old Ratio + Gaining Ratio

Transfer of General Reserves:

On the retirement of a partner any undistributed profit or reserve standing at the Balance Sheet is to be credited to the Partners' Capital Accounts in the old profit sharing ratio.

Revaluation Account or P & L Adjustment Account:

On retirement of a partner, it is required to revalue assets and liabilities just as in the case of admission of a partner. If there is revaluation profit, then such profit should be distributed amongst the ***existing partners*** including the retiring partner at the ***existing profit sharing ratio***. On the other hand, if there is loss on revaluation that is also to be distributed to all the partners including the retiring partner at the existing profit sharing ratio. To arrive at, profit or loss on revaluation of assets and liabilities, a Revaluation Account or Profit and Loss Adjustment Account is opened. Revaluation Account or Profit and Loss Adjustment Account is closed automatically by transfer of profit or loss balance to the Partners' Capital Accounts.

Adjustment of Goodwill:

In case of retirement of a partner, the continuing partners will gain in terms of profit sharing ratio. Therefore they have to pay to retiring partner for his share of goodwill in the firm in the **gaining ratio**. Similarly, in case of death of the partner, the continuing partners should bear the share of goodwill due to the heirs of the deceased partner. For this purpose, the goodwill is valued on the date of the retirement of death and adjusted through the capital accounts of the partne`

Capital Account to be transferred to Loan Account:

After ascertaining the amount due to the retiring partner and making all entries, the amount standing to the credit of the retiring partner's capital account will be transferred to his loan account and will be paid according to the agreement with the remaining partne` This means that loan account will carry an interest rate at agreed terms. If there is no agreement, the retiring partner is entitled to receive interest at the rate of ***6% per annum*** on the amount due to him but remaining in the business, that is to say on his loan.

Final Payment to retiring partner:
The following adjustments are necessary in the Capital A/cs:
(i) Transfer of reserve,
(ii) Transfer of goodwill,
(iii) Transfer of profit/loss on revaluation.
After adjustment of the above mentioned items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him.

Paying the partners Loan in Instalments:
Strictly speaking, paying a partner's loan is only a matter of arranging finance. However, sometimes it is stated that the loan is to be paid off in so many equal instalments and that the balance is to carry interest. In such a case, what should be done is that the loan should be divided into equal parts. The interest for the period should be calculated and the payment should consist of the instalment on account of loan plus interest for the period.

DEATH OF A PARTNER

The procedure is same as in the case of retirement of a partner.

- Assets and liabilities are revaluated and profit or loss on revaluation is transferred to all partne`
- Goodwill of the firm is valued and share of goodwill of deceased partner is given to his legal representative.
- The only additional point is that as death may occur on any day, the representatives of the deceased partner will be entitled to partner's share of profit from the beginning of the year to the date of death.
- The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of agreement, the representative of deceased partner can receive, at their option, interest at the rate of 6% p.a. or share of profits earned with the use of the amount due to the deceased partner. (Section 37)(in capital ratio and not profit sharing ratio).

JOINT LIFE POLICY: (taken for all partners jointly and severally)

The following are the different methods for the treatment of joint life policy insurance policy, and out of them, any one may be followed by the partnership firm:

a. Premium paid is treated as an expense

According to this method, insurance premium paid is treated as a business expenditure and is charged to Profit & Loss Account regularly. When cash is realized from insurance company at the time of death of any of the partner or at the time of surrender of policy, the said amount is distributed among partners in their profit sharing ratio.

When premium is paid Premium on Joint life policy A/c.............Dr To Bank A/c
Charging of expense to Profit and loss account at year end Profit & Loss Account ....Dr To Premium on Joint Life Policy A/c
When cash is realized at the time of death or surrender of policy Bank A/c...........Dr To Joint Life Policy A/c
Distribution of policy amount among partners Joint Life Policy A/c ....Dr To Partner's Capital A/c

b. Premium paid is treated as an asset

According to this method, Joint life policy is treated as an asset for its surrender value (amount realizable from insurance company if the policy is surrendered). The premium when paid is debited to Joint Life Policy Account and at the end of the year, the amount which is in excess (joint life policy balance – its surrender value) is transferred to Profit & Loss as a Loss. When cash is realized, the net income of the policy amount is distributed among the partners in their partner sharing ratio.

When premium is paid Joint Life Policy A/c ....Dr To Bank
The excess of policy amount being written off at the year end Profit & loss A/c...........Dr To Joint Life Policy A/c
When cash is realized at the time of death or surrender Bank A/c Dr To Joint Life Policy A/c
Transfer of net income in Joint Life policy account to partner's capital account Joint Life Policy A/c ....Dr To Partners Capital A/c

c. When joint life policy reserve is maintained

Under this method, joint life policy account is debited for the payment of premium like an asset. At the end of the year, an amount equal to premium paid is charged to profit & loss account and is credited to joint life policy reserve account and an adjustment is made for the excess of premium paid over the surrender value by debiting joint life policy reserve account and by crediting the joint life policy account. When cash is realized against the policy, first the balance in joint life policy reserve account is transferred to joint life policy account and then the balance in the joint life policy account is distributed among partners in their profit sharing ratio.

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When premium is paid Joint life policy A/c ....Dr To Bank A/c
At the end of the year Profit & Loss A/c......Dr To Joint Life policy reserve A/c Joint life policy reserve A/c........Dr To Joint life policy A/c (reduction of value to surrender value at year end)
When cash is realized Bank A/c....................Dr To Joint life policy A/c
Transfer of joint life policy reserve to joint life policy A/c Joint Life Policy Reserve A/c...........Dr To Joint Life policy A/c
Closing the joint life policy account by transfer to partner's capital account Joint Life Policy A/c...........Dr To Partner's Capital A/c

COMPANY ACCOUNTS

Important Points:

- As per Section 78 of Companies Act, Maximum commission payable on underwriting of **SHARES is 5%** of the issue price of the shares or rate authorised by the Articles, whichever is less.

- As per Section 78 of Companies Act, Maximum commission payable on underwriting of **DEBENTURES is 2.5%** of the issue price of the shares or rate authorised by the Articles, whichever is less.

- As per Section 69(3), the amount payable on application shall not be less than 5% of the nominal amount of the share. As per SEBI Guidelines, the minimum application moneys to be paid by an applicant alongwith the application money shall not be less than 25% of the issue price.

- Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Capital.

- As per guidelines of the Securities Exchange Board of India (SEBI), a company must receive a minimum of 90% subscription against the entire issue. If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within 15 days after the date of closure of issue w.e.f. 28.8.2008. In case of delayed refund, interest for the delayed period as per section 73 of the Companies Act shall be payable. (***No such limit in the companies act 2013***)

- According to Section 55A, matters related to issue and transfer of securities will be administered by SEBI and not by the Company Law Board.

- As per SEBI Guidelines, the company has to complete the issue of shares within 12 months if the issue is upto 500 crores.

JOURNAL ENTRIES FOR ISSUE OF SHARES:

On receipt of Application money Bank A/c ....Dr To Share Application Money A/c
On allotment of shares Share application money A/c ..,...Dr Share Allotment A/c ....Dr To Share Capital Account A/c
On Receipt of allotment money Bank A/c ....Dr To Share Allotment A/c
On a call being Due Share Call Account A/c.....Dr To Share Capital A/c
On Receipt of call money Bank A/c ....Dr To Share Call a/c

CALLS IN ARREARS:

Shareholders may fail to pay the amount due on allotment or calls. The total amount on one or more instalment is known as “Calls in Arrears” or “Unpaid Calls”

As such amount represents uncollected amount from shareholders, it is shown by way of ***DEDUCTION FROM THE "CALLED UP CAPITAL"*** to arrive at the "Paid up Capital" to be shown in the balance sheet.

Journal Entry:

Calls in Arrears ....Dr
To Share Allotment A/c
To Share Calls A/c

The articles of association of a company usually empower the directors to charge interest at a stipulated rate on calls in arrears. ***According to table A, interest maximum at the rate of 5% pa is to be charged on unpaid calls for the period intervening between the due date and the date of actual payment.*** However, the directors have a power either to waive the interest to be charged or charge a higher rate of interest.

Shareholder's A/c.........Dr
To Interest on Calls in Arrears

Bank A/c......................Dr
To Shareholder's A/c

CALLS IN ADVANCE:
Shareholders may the pay the amount, which is yet to be called up, such amount is called as "Calls in Advance". ***According to Table A, Interest maximum at the rate of 6%pa is to be paid on such advance call money***.

The balance in Calls in Advance is shown as a ***separate item on the liabilities side*** of company's balance sheet under the Share Capital but is not added to the amount of "paid up capital".

Journal Entry:

Receipt of Calls in advance Bank A/c....Dr To Calls in Advance
Adjustment of Calls in Advance Calls in Advance A/c........Dr To Particular Call (allotment/First/Final)
Interest due for payment on calls in advance Interest on Calls in Advance A/c.....Dr To Shareholder's A/c
Actual payment of interest due Shareholder's A/c........Dr To Bank A/c

ISSUE OF SHARE OTHER THAN CASH:

When Assets are purchased in exchange of shares

Asset A/c..........Dr
To Share Capital A/c

When shares are issued to promoters:

Goodwill A/c......Dr

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To Share Capital A/c

UTILISATION OF SECURITIES PREMIUM ACCOUNT:

According to Section 78 of the Companies Act, 1956, Securities Premium Account may be used by the company:
(a) In paying up un-issued securities of the company to be issued to members of the company as *fully paid bonus securities.*
(b) To write off preliminary expenses of the company.
(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.
(d) To pay premium on the redemption of preference securities or debentures of the company.
(e) Loss/Premium on buy back of shares

FORFEITURE OF SHARES:

Forfeiture of share means taking away the shares for non-payment of call money. It is the action taken by the company for cancellation of shares. The articles of company usually authorize the board of directors to exercise the right of forfeiture of shares of defaulting shareholders on account of non-payment of call money or interest thereon after serving proper notice as may be prescribed by the Articles of Company.

When shares are forfeited, the title of shareholder is extinguished by the company and the amount already received by the company is also not refunded to the shareholder. The shareholder has no further claim on the shares.

Forfeited shares account will be ADDED TO THE PAID UP SHARE CAPITAL in the balance sheet.

IF SHARES ARE ISSUED AT PAR:

Share Capital A/c (called up value of shares)
To Share Forfeiture A/c
To Allotment Money A/c
To Share Call A/c
To Share Final Call A/c

If the due amount has been transferred to Call in Arrears A/c

Share Capital A/c (Called up Value)
To Share Forfeiture A/c
To Calls in Arrears A/c

IF SHARES WERE ISSUED AT DISCOUNT:

Same as above. But when shares are issued at a discount, Discount A/c is debited. Therefore at the time of forfeiture of such shares, Discount A/c will be credited to cancel the same.

Share Capital A/c (Called up value)
To Share Forfeiture A/c
To Calls in Arrears A/c
To Discount A/c

IF SHARES WERE ISSUED AT A PREMIUM:

Share Capital account is debited with the called up value of shares forfeited. If premium on such shares has not been paid by the shareholder, the securities premium account will be

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debited to cancel the same. ***If the premium is already received by the company, it cannot be cancelled by the company if the shares are forfeited by the company in future.***

Share Capital A/c.............Dr (Called up value)
Securities Premium A/c ....Dr
To Share Forfeiture A/c
To Calls in Arrears A/c

REISSUE OF FORFEITED SHARES:

A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. *Reissue of forfeited shares is not allotment of shares but only a sale.*

The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it off. In practice, forfeited shares are disposed off by auction. *These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares.*

Issue at Par, Reissue at Loss

Issue price: ` 10
Forfeited Amount: ` 5
Reissue Price: ` 7

Loss of Reissue = 10-7=3
Capital Reserve = Forfeited Amount – Loss
= 5-3=2
Securities Premium = 0 as issued below nominal value

Issue at Par, Reissue at Premium

Issue price: ` 10
Forfeited Amount: ` 5
Reissue Price: ` 12

Loss of Reissue = 0 as issued above nominal value
Capital Reserve = Forfeited Amount – Loss
= 5-0=5
Securities Premium= 12-10=2 as reissued above nominal value

Issue at Discount, Reissue at Loss

Issue price: ` 9
Forfeited Amount: ` 5
Reissue Price: ` 7

Loss of Reissue = 2 **as originally 1 Re. was discount**
Capital Reserve = Forfeited Amount – Loss
= 5-2=3
Securities Premium= 0 as issued below nominal value

Issue at Discount, Reissue at Premium

Issue price: ` 9
Forfeited Amount: ` 5
Reissue Price: ` 12

Loss of Reissue = 0 as issued above nominal value
Capital Reserve = Forfeited Amount – Loss
= 5-0=5
Securities Premium= 12-10=2 as reissued above nominal value
No Effect of discount.

Issue at Premium, Reissue at Loss

Issue price: ` 12
Forfeited Amount: ` 5
Reissue Price: ` 7

Loss of Reissue = 3
Capital Reserve = Forfeited Amount – Loss
= 5-3
Securities Premium= 0 as issued below nominal value

If premium on issue of shares is received then it cannot be cancelled, it is transferred to securities premium but if it is not collected in cash, it can be cancelled on forfeiture of shares.

Issue at Premium, Reissue at Premium

Issue price: ` 12
Forfeited Amount: ` 5
Reissue Price: ` 12

Loss of Reissue = 0 as issued above nominal value
Capital Reserve = Forfeited Amount – Loss
= 5-0
Securities Premium= 12-10=2 as reissued above nominal value

If premium on issue of shares is received then it cannot be cancelled, it is transferred to securities premium but if it is not collected in cash, it can be cancelled on

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	forfeiture of shares.

In connection with re-issue, the following points are important:

i. Loss on re-issue should not exceed the forfeited amount.
ii. If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.
iii. The forfeited amount on shares not yet reissued should be shown in the Balance Sheet as an addition to the share capital.
iv. When only a portion of the forfeited shares are re-issued, then the profit made on reissue of such shares must be transferred to Capital Reserve.
v. When the shares are re-issued at a loss, such loss is to be debited to "Forfeited Shares Account".
vi. If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to Securities Premium Account.
vii. If the re-issued amount and forfeited amount (taken together) exceeds the face value of the shares re-issued, it is not necessary to transfer such amount to Securities Premium Account.
viii. When shares, originally issued at a discount, are reissued at a loss, the loss to the extent of original discount is debited to Discount on Issue of Shares Account and the balance loss is debited to Forfeited Shares Account.

REDEMPTION OF PREFERENCE SHARES

Compliance of Section 55

Preference shares can be redeemed only when Nominal value of capital is increased either out of free reserves or out of fresh issue of shares.

Free Reserves are to be transferred to Capital Redemption Reserve A/c. CRR is treated like an permanent reserve as it can be only used for issue of fully paid up bonus shares.

Wholly out of Fresh Issue

Number of shares to be issued =
Nominal value of shares to be redeemed ÷ Proceeds of one share.

Proceeds of one share is Par value if issue is at par or premium, but it means discounted value if issue is at discount.

Wholly out of free reserves

Free reserves includes General Reserves and Profit & Loss A/c however it does not include Capital reserve, securities premium, revaluation reserve, etc.

Partly out of Free reserves and partly out of fresh issue of shares

Firstly all free reserves available are deducted from the nominal value of preference shares redeemed.
Then for the balance, fresh issue of shares shall be made.

Number of shares to be issued =
Nominal value of shares to be redeemed ÷ Nominal value of one share

ACCOUNTING ENTRIES:

Issue of new shares at par Bank A/c Dr To Share Capital A/c
Issue of new shares at Premium Bank A/c Dr To Share Capital A/c To Securities Premium A/c
Issue of new shares at a discount Bank A/c Dr Discount A/c Dr To Share Capital A/c
Preference shares are redeemed at par Redeemable preference share capital A/c Dr To Preference Shareholders A/c
Preference shares are redeemed at Premium Redeemable preference share capital A/c Dr Premium on redemption of P S C A/c Dr To Preference shareholders A/c
Payment is made to preference shareholders

Preference Shareholders A/c To Bank A/c
Adjustment of premium paid Securities Premium Account Dr To Premium on redemption of PSC A/c

Minimum number of Shares = Nominal value of shares to be redeemed – Maximum Free Reserves available to be transferred to CRR

Minimum number of shares = Minimum proceeds required to comply with Section 80 divided by Proceeds of one share

Proceeds of one shares = Par value in case issue is at Par or Premium but if issue is at discount then it means the discounted value only.

ISSUE OF DEBENTURES

Issue of debenture for cash is same as issue of shares for cash.

ISSUE OF DEBENTURES AS COLLATERAL SECURITY

Collateral security means secondary or supporting security for a loan, which can be realized by the lender in the event of the original loan not being repaid on the due date.

Sometimes companies issue their own debentures as collateral security for a loan or a fluctuating overdraft. When the loan is repaid on the due date, these debentures are at once released with the main security. In case, the company cannot repay its loan and the interest thereon on the due date, the lender becomes the debenture holder who can exercise all the rights of a debenture holder. The holder of such debentures is entitled to interest only on the amount of loan, but not on the debentures.

Method 1: No entry is passed at the time of issue. In the balance sheet, the fact of debentures being issued and outstanding is shown by way of a note.

Method 2:
At the time of issue of debentures
Debenture Suspense A/c....Dr
To Debentures A/c

The Debentures Suspense Account will appear on the assets side of the Balance Sheet and Debentures on the liabilities side of the Balance Sheet. When the loan is repaid, the entry is reversed in order to cancel it.

DEBENTURES ISSUED FOR CONSIDERATION OTHER THAN CASH

Only Assets taken over
Assets A/c..........Dr
To Debentures A/c

Both Assets and liabilities taken over
Assets A/c....Dr
To Liabilities A/c
To Vendor A/c

Vendor A/c.....Dr
To Debentures A/c

Important Points:

- After the commencement of the Companies (Amendment) Act, 1996, a company cannot issue any preference share, which is irredeemable or is redeemable after the expiry of a period of ***twenty years*** from the date of its issue.
- Interest payable on debentures is a *charge* against profits of the company.
- Debenture is a document which evidences a loan made to a company.
- It is a *fixed interest* bearing security. (Interest at Fixed Rate is payable)
- Interest is always paid on the *face value* of debentures.

Treatment of Discount or Loss on issue of debentures:

The discount on issue of debentures is amortised over a period between the issuance date and redemption date. It should be written off in the following manner depending upon the terms of the redemption:

a. If the debentures are redeemable **after a certain period of time**, say at the end of 5 or 10 years, the total amount of discount should be written off equally throughout the life of the debentures (apply SLM Method).

b. If the debentures are redeemable **at different dates**, the total amount of discount should be written off in the ratio of benefit derived from the debentures in any particular year (applying Sum of years of digit method).

c. if the debentures **are irredeemable**, the discount should be written off gradually over a long period.

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CLASSIFICATION OF ACCOUNTS:

Name of Account	Type of Account
Bill Receivable	Personal Account
Goodwill/Patent/Copyright/Trademark	Real Account
Bill Payable	Personal Account
Suspense	Not classifiable
Share Capital, Securities Premium Account	Personal Account
Call in arrears	Personal Account
Call in advance	Personal Account
Outstanding Expenses like rent payable, etc	Personal Account
Share Application, Allotment Account & Call	Personal Account
Trading Account	Nominal Account
Drawings	Personal Account
Consignment Account	Nominal Account
Consignee Account	Personal Account
Goods sent on consignment account	Real Account
Joint Venture Account	Nominal Account
Co-venturer Account	Personal Account
Debenture Redemption Premium Account	Personal Account
Bank Overdraft	Personal Account
Premium on Redemption of Debentures	Nominal Account
Discount on Issue of Debentures	Nominal Account
Loss on Issue of Debentures	Nominal Account
Unclaimed Dividend	Personal Account

PRESENTATION OF ELEMENT IN FINANCIAL STATEMENTS:

Name of Account	Presented at
Discount of issue of shares	Other Non Current Assets/Other Current Assets
Contingent Liability	Notes to Account
Outstanding Expense	Current Liability
Unearned income	Current Liability
Preliminary Expenses	Other Non Current Assets/Other Current Assets
Suspense Account	Balance Sheet
Call in arrears	Deducted from called up share capital
Call in advances	Liability side of balance sheet below share capital
Share Forfeiture Amount	Added to Paid up capital
Securities Premium	Reserve and Surplus
Unclaimed Dividend	Current Liabilities
Closing Stock & WIP	Current Assets
Debentures	Secured Loans
Proposed Dividend	Short Term Provisions under Current Liability

BANK RECONCILIATION STATEMENT

Causes of differences	Favourable balance(Dr.) as per cash- book	Unfavourable balance (Cr.) as per cash-book	Favourable balance (Cr.) as per pass-book	Unfavourable balance (Dr.) as per pass-book
Cheque deposited but not cleared	Subtract	Add	Add	Subtract
Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
Cheque directly deposited in bank by a customer	Add	Subtract	Subtract	Add
Income (e.g., interest from UTI) directly received by bank	Add	Subtract	Subtract	Add
Expenses (e.g., telephone bills) directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
Bank charges levied by bank	Subtract	Add	Add	Subtract
Locker rent levied by bank	Subtract	Add	Add	Subtract
Wrong debit in the cash book	Subtract	Add	Add	Subtract
Wrong credit in the cash book	Add	Subtract	Subtract	Add
Wrong debit in the pass book	Subtract	Add	Add	Subtract
Undercasting of Dr. side of bank account in the cash book	Add	Subtract	Subtract	Add
Overcasting of Dr. side of bank account in cash book	Subtract	Add	Add	Subtract
Undercasting of Cr. side of bank account in cash book	Subtract	Add	Add	Subtract
Overcasting of Cr. side of bank account in cash book	Add	Subtract	Subtract	Add
Bill receivable collected directly by bank	Add	Subtract	Subtract	Add

RECTIFICATION OF ERRORS

Types of Errors

Errors of Principle

In contravention of accounting principles (No effect on trial balance)

Example:

1. Repairs of machine wrongly capitalized.
2. Furniture purchased by cloth merchant and treated it as an expense.

Clerical Errors

Error of Omission

(Complete or partial omission of a transaction)

Example:

1. A sale transaction not recorded in the books completely.
2. A purchase not posted to the creditor's account.

Error of Commission

(Manual errors)
(Trial Balance does not tally)

Example:

1. Posting done on the wrong side of an account.
2. Posting done on the correct side of a wrong account.

Compensating Errors

Effects of two or more errors committed cancels each other.
(trial balance is tallied)

Example:

1. Interest is entered less by an amount of ` 500 and salary is entered more by ` 500.

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LIST OF PRACTICAL QUESTIONS ASKED

AMOUNT OF CLOSING CAPITAL/NET PROFIT DURING THE YEAR

1. A had started business with ` 20,000 in the beginning of the year. During the year he borrowed ` 10,000 from B. He further introduced ` 20,000 in the business. He also gave ` 5,000 as loan to his son. Goods given away as charity by him was ` 2,000. Profits earned by him were ` 25,000. He also withdrew ` 3,000 from the business. His capital at the end of the year would be:
   a. ` 50,000
   b. ` 40,000
   c. ` 62,000
   d. ` 48,000

2. Capital introduced in beginning by Ram ` 40,000. Further capital introduced during the year ` 1000. Drawings ` 200 per month and closing capital is ` 53,600. The amount of profit or loss for the year is:
   (a) `15,000 Profit
   (b) `5000 Loss
   (c) `20,000 Profit
   (d) Can't say

AMOUNT OF RDD TO BE MADE IN THE CURRENT YEAR.

3. D's trial balance contains the following information:
Bad debts ` 500
Provision for bad debts ` 4,000
It is desired to maintain a provision of ` 3,000 at the end of the year, accounting treatment of this adjustment is:
   a. ` 1500 to be debited to Profit and Loss
   b. ` 500 to be debited to Profit and Loss
   c. ` 500 to be credited to Profit and Loss
   d. ` 3,500 to be debited to Profit and Loss

4. Trial Balance contains the following information: Bad debts `2,000, Provision for Doubtful debts `1,500. It is desired to make a Provision for Doubtful Debts of `2,000 at the end of the year. The amount to be debited to the P & L A/c is:
   (a) `5,500
   (b) `6,000
   (c) `2,500
   (d) `4,500

5. Sundry Debtors on 31st March, 2006 are `55,200. Further Bad debts are `200:
Provision for doubtful debts are to be made on debtors @ 5% and also provision of discount is to be made on debtors @ 2%. The amount of provision of discount on debtors will be:
(a) `1,045
(b) `2,750
(c) `1,100
(d) `2,760

6. Bad debts `3,000
Provision for bad debts `3,500
It is desired to make a provision of `4,000 at the end of the year.
The amount debited to P & L A/c is:
(a) `4,000

(b) `5,000
(c) `6,500
(d) `3,500

7. Y's trial balance contains the following information:

Bad debts	`5,000
Provision bad debts	`6,000
Sundry debtors	`50,000

It is desired to create a provision for Bad debts at 10 per cent on Sundry debtors at the end of the year. Sundry Debtors will appear in the balance sheet at a figure of
(a) 45,000
(b) 42,500
(c) 46,000
(d) 34,000

8. A Trial Balance contains the following information:
Discount allowed `1500. Provision for discount on debtors `1,100. It is desired to make a provision for discount on debtors of `1,800 at the end of the year. The amount to be debited to the Profit and Loss Account is:
(a) `2,200
(b) `4,200
(c) `1,700
(d) `3,200

AMOUNT OF GROSS PROFIT

9. A new firm commenced the business on 1st January 2006 and purchased goods costing ` 90000 during the year. A sum of ` 6000 was spent on freight inwards. At the end of the year the cost of goods still unsold was ` 12,000. Sales during the year was ` 1, 20,000. What is the gross profit earned by the firm?
   a. ` 36,000
   b. ` 30,000
   c. ` 42,000
   d. `38,000

10. Trial balance of a trader shows the following balances

Particulars	`
Opening Stock	9600
Purchases less returns	11850
Salaries and wages	3200
Commission on Purchases	200
Carriage out	300
Sales	24900
Closing Stock	3500

Gross profit will be
(a) `6750
(b) `6500
(c) `3250
(d) `3200

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VALUE OF CLOSING STOCK (FIFO, LIFO & WEIGHTED AVERAGE METHOD)

11. If cost of physical stock on 31.3.2009 is ` 2,80,000 and out of which stock of ` 1,20,000 is held as consignee. Goods costing ` 25,000 were damaged beyond repair and were expected to realize ` 5,000 only. The value of own stock on 31.3.2009 will be:
    a. ` 2,60,000
    b. ` 1,60,000
    c. ` 1,35,000
    d. ` 1,40,000

VALUE OF PURCHASE MADE DURING THE YEAR

12. If cost of goods sold is ` 80,700/-. Opening stock ` 5,800/- and closing stock ` 6,000/-, then the amount of purchase will be –
    a. ` 80,500/-
    b. ` 74,500/-
    c. ` 74,700/-
    d. ` 80,900/-

VALUE OF COGS

13. Consider the following information pertaining to a firm as on March 31, 2005:

Particulars	`
Opening inventory	15,00,000
Purchases during the year	45,00,000
Sales during the year	50,00,000

Gross profit on sales has been 25%. The cost of goods sold during the year will be:
a. ` 60,00,000
b. ` 39,10,000
c. ` 50,00,000
d. ` 37,50,000

14. Given the following data extracted from the book of A Trades –

Particulars	**(`)**
Opening stock	30,000
Closing stock	40,000
Purchases	1,25,000
Carriage inwards	2,000
Carriage outwards	3,000
Return outwards	5,000
Sales	1,50,000

The cost of goods sold will be
(a) `1,30,000
(b) `1,12,000
(c) `1,20,000
(d) `1,15,000

AMOUNT OF DEPRECIATION TO BE CHARGED (SLM, WDV, SUM OF YEARS OF DIGIT METHOD, PRODUCTION HOURS METHOD, ANNUITY METHOD)

15. Original cost of an asset ` 2,52,000, salvage value ` 12,000 depreciation for 2nd Year @ 10% pa under WDV method will be
    a. ` 21,600
    b. ` 22,680
    c. ` 30,000
    d. ` 28,000

16. Original cost is ` 1,30,000, salvage value is ` 4,000. Useful life is 6 years. Depreciation for the first year under sum of years digits method will be:
    a. ` 6,000
    b. ` 12,000
    c. ` 18,000
    d. ` 36,000

17. A new machine costing ` 1,10,000 was purchased by a company to manufacture a special product. Its useful life is estimated to be 5 years and scrap value of `20000. The production plan for the next 5 years using the above machine is as follows: Year 1: 10000 units Year 2: 20000 units year 3: 24000 units year 4: 40000 units Year 5 : 50000. The depreciation for the 1st year under units of production method will be
a.6250 b.12500 c.15000 d.25000

RELATED TO INDIRECT EXPENSES (P & L)

17. Rent paid on 1 Oct'04 for the year to 30 Sep'05 was `1,200 and rent paid on1 Oct'05 for the year to 30th Sep'06 was `1,600. Rent payable, as shown in the P & L for the year ended 31st Dec'05, would be –
    (a) `1,200
    (b) `1,600
    (c) `1,300
    (d) `1,500

18. Rekha purchased a machinery for `50,000 on 1.4.2006. She paid electricity and and salary amounting `1,000 and `2,000 respectively. Telephone bill amounting `200 was outstanding on 31.3.2006. The amount of expenses for the year ended 31st March, 2006 will be
    (a) `53,200
    (b) `3,000
    (c) `53,000
    (d) `3,200

19. A Trial Balance contains he following information:
I. 15% Bank Loan `40,000
II. Interest Paid `4,500
Interest debited to P & L A/c will be
(a) `6,000
(b) `3,000
(c) `4,500
(d) `1,500

PROFIT OR LOSS ON SALE OF FIXED ASSET

20. A machine of ` 3,000 was sold for ` 4,200. Depreciation provision to date was ` 400 and commission paid to selling agent was ` 420 and wages paid to workers for removing the machine was ` 30. Profit on sale of machine will be:
    a. ` 1200
    b. ` 1000
    c. ` 1150
    d. None of above

21. A transport company purchases a truck for `2,00,000 on 1st January, 2005. It charges 20% depreciation p. a. according to w. d. v. method. The truck was sold on 1st July, 2006 for a sum of `1,60,000. The profit or loss on sale of truck is
(a) Loss of `16,000
(b) Profit of `16,000
(c) Profit of `12,000
(d) Loss of `12,000

WDV OF AN ASSET

22. A second hand car is purchased for `2,00,000, the amount of `25,000 is spent on its repairs, `5,000 is incurred to get the car registered in owner's name and `2,000 is paid as dealer's commission. The amount debited to car account will be –
(a) `2,32,000
(b) `2,25,000
(c) `2,30,000
(d) `2,05,000

23. If the equipment account has a balance of `22,500 and the accumulated depreciation account has a balance of `14,000, the book value of the equipment is –
(a) `36,500
(b) `22,500
(c) `14,000
(d) `8,500

24. If a machine is purchased at a cost of `50,000, freight expenses are `500 and Installation expenses are `1,500 the cost of machinery is –
(a) `50,000
(b) `50,500
(c) `51,500
(d) `52,000

25. An asset was purchased for `12,500 and under the reducing balance method 20 per cent of the reducing value of the asset is written off each year. What is the value of the asset at the end of three years?
(a) `8,000
(b) `7,500
(c) `6,400
(d) `5,000

26. The Written Down Value of an asset after three years of depreciation on the reducing balance method @ 10% p. a. is `36,450. Its original value must have been –
(a) `1,00,000
(b) `50,000
(c) `72,900
(d) `47,385

RATE OF DEPRECIATION ALREADY CHARGED

27. A company purchased a plant for `5,000. The useful life of the plant is 10 years and the residual value is `500. SLM rate of depreciation will be
(a) 9%
(b) 8%
(c) 10%
(d) None of the three

28. Satish purchased a Car for `2,00,000. He spent `50,000 for alteration of Car the Estimated life of Car is 5 years and after 5 years car can realize only `25,000. Find the rate of depreciation (on SLM basis)
(a) 16%

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(b) 20%
(c) 18%
(d) 15%

29. A fixed asset has a life of 4 yea` If it is depreciated by the WDV method, its book value at the end of 4 years is 24% of its original cost. Hence the rate of depreciation applied is –
(a) 24%
(b) 25%
(c) 30%
(d) 35%

AMOUNT OF ESTIMATED SCRAP OR RESIDUAL VALUE

30. Purchase price of Scooter – `17,000, Expenses to be capitalized. `3,000. The rate of depreciation on SLM basis is 9%, estimated useful life is 10 yea` The Estimated Residual Value will be
(a) `2000
(b) `5000
(c) Nil
(d) `20000

AMOUNT OF SALES

31. If gross profit is 20% on sales, the Gross Sale will be:

Opening Stock	40,000
Purchases	5,50,000
Closing Stock	50,000
Return Outward	5,000
Return Inward	20,000
Carriage inward	5,000

a. ` 6,95,000
b. ` 6,75,000
c. ` 5,40,000
d. ` 6,68,750

AMOUNT OF MANAGER'S COMMISSION

32. The General Manager is entitled to a commission of 10% on net profit after charging the commission of Works Manager. The Works Manage is entitled to a commission of 5% on the net profits after charging the commission of General Manager. The profit before charging any commission is `7,500. The commission of the Work Manager to the nearest rupee will be
(a) `321
(b) `333
(c) `337
(d) `339

33. X, the Works Manager, gets 5% commission of net profits after charging his commission and Y's commission. Y, the General Manager, gets 10% commission on net profit after charging his commission and X's commission. If the profit before charging commission of X and Y is `1,000, the commission of X will be
(a) `42.50
(b) `43.50
(c) `47.00
(d) `49.00

34. Net profit before commission has been `1,20,000. Manager's commission is 20% of net profit before charging such commission. The amount of manager's commission is
(a) `22,000

(b) `25,000
(c) `24,000
(d) `20,000

AMOUNT OF LOSS BY FIRE (ABNORMAL)

35. Goods sent on consignment Invoice value 2,00,000 at cost + 33 ½ % 1/5th of the goods were lost in transit. Insurance claim received `10,000. The amount of abnormal loss to be transferred to general P/L is –
(a) `30,000
(b) `20,000
(c) `35,000
(d) `20,000

36. X of Kolkata send out 1000 bag to Y of Delhi costing `200 each. Consignor's expenses `2000. Y's expenses non-selling `1,000, selling `2,000. 100 bags were lost in transit. Value of lost in transit will be:
(a) `20,200
(b) `20,300
(c) `20,000
(d) `23,000

37. X of Kolkata sends out 100 boxes to Y of Delhi costing `2,000 each. Consignor's expenses `1,000. Consignees expenses selling `500. 3/5th of the goods sold by consignee, ½ of the balance goods were lost in consignee's godown due to fire. The value of abnormal loss will be:
(a) `3,000
(b) `2,200
(c) `4,000
(d) None

VALUE OF CONSIGNMENT STOCK

38. X sends out 400 bags to Y costing `200 each. Consignor expenses were `4000. Y expenses non selling `2000, selling 1000. 300 bags were old by Y. Value of consignment stock will be:
(a) `20,400
(b) `20,700
(c) `22,000
(d) `21,500

39. X of Kolkata sends out 100 boxes to Y of Delhi costing `200 each. Consignor's expenses `4,000. Consignee's expenses non-selling 900, selling 500. 1/10th of the boxes were lost in transit. 2/3rd of the boxes received by consignee were sold. The amount of consignment stock will be:
(a) `7,200
(b) `7,500
(c) `7,000
(d) `6,000

40. X of Kolkata sends out 500 bags to Y costing `400 each at an invoice price of `500 each. Consignor's A/c expenses `4,000 consignee's expenses, non-selling `1,000, selling `2,000. 400 bags were sold
The amount of consignment stock at Invoice Price will be:
(a) `50,900
(b)`50,800
(c) `50,000
(d) `51,000

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41. A of Ahmadabad consigned goods of `10,000 to M of Madras and paid `500 for expenses. The consignee paid `100 for freight and `50 godown rent. 80% of goods were sold and commission of `500 was paid. Find the value of closing stock
(a) `2,000
(b) `2,120
(c) `2,100
(d) `2,030

Amount of Commission of Consignee

42. X of Kolkata sends out certain goods at cost + 25%. Invoice value of goods sends out `2,00,000. 4/5th of the goods were sold by consignee at `1,76,000. Commission 2% upto invoice value & 10% of any surplus above invoice value. Amount of commission is
(a) `4,800
(b) `5,200
(c) `3,200
(d) `1,600

43. X sends out goods costing `1,50,000 to Y of Delhi. Commission agreement – 2% on sales + 3% on sales as del-credere commission. The entire goods is sold by consignee for `3 lacs. However, consignee is able to recover `2,95,000 from the debto` The amount of profit to be transferred to P/L as net commission by consignee will be:
(a) `10,000
(b) `17,000
(c) `16,000
(d) `20,000

44. A of Mumbai sold goods to b of Delhi, the goods are to be sold at 125% of cost which is invoice price. Commission 10% on sales at IP and 25% of any surplus realized above IP. 10% of the goods sent out on consignment, invoice value of which is `12,500 were destroyed. 75% of the total consignment is sold by B at `1,00,000. What will be the amount of commission payable to B?
(a) `10,937.50
(b) `10,000
(c) `9,000
(d) `9,700

45. X of Kolkata sends out goods costing `1,00,000 to Y of Delhi. 3.5th of the goods were sold by consignee for `70,000. Commission 2% on sales plus 20% of gross sales less all commission exceeds cost price. The amount of commission will be:
(a) `2833
(b) `2900
(c) `3000
(d) `2800

46. X of Kolkata sends out goods costing 1,00,000 to Y of Mumbai at cost + 25%. Consignor's expenses `2,000.3/5th of the goods were sold by consignee at 85,000. Commission 2% on sales + 20% of gross sales less all commission exceeds invoice value. Amount of commission will be:
(a) `3,083
(b) `3,000
(c) `2,500
(d) `2,000

47. X sends out goods costing `2,00,000 to Y. 3/5th of the goods were sold by consignee for `1,40,000, Commission 2% on sales plus 20% of gross sales less all commission exceeds cost price. The amount of Commission will be:
(a) `5,667
(b) `5,800

(c) `6000
(d) `5,600

PROFIT ON CONSIGNMENT

48. X sends out goods to Y, costing `1,00,000 at cost + 25%, with the instruction to sell it at cost + 50%. If 4/5th of the goods are sold at stipulated selling price and commission allowable 2% on sales. What will be the profit on consignment in the books of consignor?
(a) `43,100
(b) `35,000
(c) `37,600
(d) `38,400

49. X of Kolkata sends out 1000 boxes to Y of Delhi costing `20 each. Consignor's expenses 2,000. 4/5th of the boxes were sold at 25 each. The profit on consignment will be:
(a) `2,400
(b) `2,000
(c) `3,000
(d) `3,500

50. Dravid of Delhi sends out goods to Sourav of Kolkata, goods costing `2,00,000 at cost + 25%, with the instruction to sell it at cost + 50%. If 4/5th of the goods are sold at stipulated selling price and commission allowable 2% on sales. What will be the profit on consignment in the books of consignor?
(a) `86,200
(b) `70,000
(c) `75,200
(d) `76,800

AMOUNT OF STOCK RESERVE

51. Goods of the Invoice value `2,40,000 sent out to consignee at 20% profit on cost. The loading amount will be:
(a) `40,000
(b) `48,000
(c) `50,000
(d) None

52. Ram of Kolkata sends out goods costing 1,00,000 to Y of Mumbai at 20% profit on invoice price. 1/10th of the goods were lost in transit. ½ of the balance goods were sold. The amount of stock reserve on consignment stock will be:
(a) `4,500
(b) `9,000
(c) ` 11,250
(d) None

53. X send out 500 bags to Y costing `400 each at an invoice price of `450 each. Consignor's expenses `4000. consignee's expenses, freight `1000, selling `2000. 400 bags were sold. The amount of Consignment Stock Reserve will be –
(a) `5000
(b) Nil
(c) `10,000
(d) `10,200

NORMAL LOSS ON CONSIGNMENT

54. 1000 kg of apples are consigned to a wholesaler, the cost being `3 per kg plus `400 of freight, it is known that a loss of 15% is unavoidable. The cost per kg will be:
(a) `5

(b) `4
(c) `3.40
(d) `3

PROFIT ON JV

55. A purchased goods costing `2,00,000. B sold the goods for `2,80,000. Unused material costing `10,000 taken over by a at `8,000. A is entitled to get 1% commission on purchase. B is entitled to get 2% commission on sales. Profit sharing ratio equal. A's share of profit on venture will be –
(a) `40,000
(b) `40,400
(c) `40,600
(d) `40,200

56. A and B entered into a joint venture. They opened an joint bank account by contributing `2,00,000 each. The expenses incurred on venture is exactly equal to `2,00,000. Once the work is completed, contract money received by cheque `4,00,000 and in shares `50,000. The shares are sold for `40,000. What will be the profit on venture?
(a) `2,50,000
(b) `2,40,000
(c) `4,40,000
(d) `4,50,000

57. A and B were partners in a joint venture sharing profits and losses in the proportion of 4/5th and 1/5th respectively. A supplies goods to the value of `50,000 and incurs expenses amounting to `5,400.
B supplies goods to the value of `14,000 and his expense amount to `800. B sells goods on behalf of the joint venture and realizes `92,000. B is entitled to a commission of 5 per cent on sales. B settles his account by bank draft. What will be the profit on venture?
(a) `17,200
(b) `17,000
(c) `18,000
(d) `18,200

58. A, for joint venture with B, purchased goods costing 2,00,000. B sold 80% of the goods for `250000. Balance of goods were taken over by B at cost less 25%, find out profit on venture?
(a) `80,000
(b) `90,000
(c) `50,000
(d) None of these

VALUE OF STOCK TAKEN OVER BY CO-VENTURER

59. A purchased goods costing 45,000 B sold goods costing `40,000 at `50,000. Balance goods were taken over by A at same gross profit percentage as in case of sale. The amount of goods taken over will be:
(a) `6250
(b) `5000
(c) `6000
(d) `10,000

60. A purchased 1000 kg of rice costing `200 each. Carriage 2,000, insurance 3,000. 4/5th of the boxes were sold by B at `250 per boxes. Remaining stock were taken over by B at cost. The amount of stock taken over will be –

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(a) `40,000
(b) `41,000
(c) `50,000
(d) `50,200

AMOUNT OF REMITTANCE TO BE MADE

61. A and B enter into a joint venture sharing profits and losses equally. A purchased 5,000 kg. of rice @ `50/kg. B purchased 1,000 kg. of wheat @ `60/kg. A sold 1,000 kg. of wheat @ `70/kg. and B sold 5,000 kg. of rice @ Rs/60./kg. What will be the final remittance?
(a) B will remit `2,10,000 to A
(b) A will remit `2,10,000 to B
(c) A will remit `2,00,000 to B
(d) B will remit `1,80,000 to A

62. A and B enter into a joint venture sharing profits and losses equally. A provides goods from his stock `10000. H pays expenses amounting to R 1000. B incurs further expenses on carriage `2000. He receives cash for sales `15000. He also takes over goods to the value of `3000. What will be the amount to be remitted by B to A?
(a) `13,500
(b) `15,000
(c) `11,000
(d) `10,000

63. P and Q enter into a Joint Venture sharing profits and losses in the ratio 3:2. P purchased goods costing `200,000. Other expenses of P `20000. Q sold the goods for `2,00,000. Remaining goods were taken over by Q at ` 10000. The amount of final remittance to be paid by Q to P will be:
(a) 2,10,000
(b) 2,14,000
(c) 2,20,000
(d) None

64. A and B were partners in a joint venture sharing profits and losses in equal ratio. A supplies goods to the value of `60000 and incurs expenses amounting `6,000. B supplies goods to the value of `14000 and his expenses amount to `1000. B sells goods on behalf of the joint venture and realizes `100000. B is entitled to a commission of 5% on sales and settles his account by bank draft, Find out the amount of Bank draft –
(a) `66,000
(b) `73,000
(c) `14,000
(d) `27,000

INTEREST CHARGED BY CO-VENTURER

65. A and B enter into a joint venture sharing profits and losses in the ratio 3:2. A will purchase goods and B will affect the sale. A purchase goods costing `2,00,000. B sold it for `3,00,000. The venture is terminated after 3 months. A is entitled to get 10% interest on capital invested irrespective of utilization period. The amount of interest received by A will be
(a) 20,000
(b) 10,000
(c) 15,000
(d) 25,000

AMOUNT OF INTEREST ON BILL OF EXCHANGE

66. On 1.6.05 X draw a bill on Y for `50,000. At maturity Y requested X to accept `10,000 in cash and nothing charges incurred `200 and for the balance X draw a bill on Y for 2 months at 12% p. a. Interest amount will be:
(a) 820
(b) 840
(c) 880
(d) 804

67. On 1.1.05 X draws a bill on Y for `30,000 for 3 months. At maturity Y requested X to renew the bill for 2 month at 12% a interest. Amount of interest will be:
(a) 600
(b) 300
(c) 360
(d) 380

68. On 1.1.05 X draws a bill on Y for `30,000 for 3 months. At maturity Y request X to accept `10,000 in cash and for balance to draw a fresh bill for 2 months together with 12% p. a. interest, amount of interest will be:
(a) 400
(b) 600
(c) 480
(d) 760

AMOUNT OF DISCOUNT TO BE DEDUCTED BY BANK ON DISCOUNTING OF BILL

69. Mr. A draws a bill on Mr. Y for `30,000 on 1.1.03 for 3 months. On 4.2.06. X got the bill discounted at 12% rate. The amount of discount will be:
(a) 900
(b) 600
(c) 300
(d) 650

70. On 1.1.05 X draws a bill on Y for `50,000 for 3 months. X got the bill discounted 4.1.05 at 12% rate. The amount of discount on bill will be:
(a) 1500
(b) 1600
(c) 1800
(d) 1450

AMOUNT OF REBATE ON RETIREMENT OF BILL OF EXCHANGE

71. A draws a bill on B for `60,000. A endorsed it to C in full settlement of `60,500. On due date, the bill was dishonoured Noting charges of `500 was paid. A wanted to pay the amount to C at 2% discount. The amount to be paid by A to C will be:
(a) 60,000
(b) 60,500
(c) 59,780
(d) 61,000

72. A draws a bill on B for `50,000. A endorsed it to C in full settlement of `50,500. Nothing charges of `200 as the bill returned dishonoured. A want to pay the amount to C at 2% discount. The amount to be paid by A to C will be:
(a) 49,000
(b) 49,490
(c) 49,686
(d) 50,500

73. On 1.1.05 X draws a bill on Y for 3 months for `10,000. On 4.3.05 Y pay the bill to X at 12% discount, the amount of discount will be:
    (a) 100
    (b) 200
    (c) 300
    (d) 50

DUE DATE OF A BILL OF EXCHANGE

74. On 15.8,08 X draws a bill on Y for 3 months for `20,000. 18th Nov was a **sudden holiday** due date of the bill will be:
(a) 17th Nov
(b) 18th Nov
(c) 19th Nov
(d) 15th Nov

75. On 16.6.09 X draws a bill on Y for `25,000 for 30 days. 19th July is a **public holiday**, due date of the bill will be:
(a) 19th July
(b) 18th July
(c) 17th July
(d) 16th July

76. X draws a bill on Y for `30,000 on 1.1.09. X accepts the same on 4.1.09. Period of the bill 3 months **after date**. What will be the due date of the bill –
(a) 4.4.09
(b) 3.4.09
(c) 7.4.09
(d) 8.4.09

77. X draws a bill on Y for `20,000 on 1.1.09 for 3 months **after sight**, date of acceptance is 6.1.09. Due date of the bill will be:
(a) 8.4.09
(b) 9.4.09
(c) 10.4.09
(d) 11.4.09

INSOLVENCY OF DRAWEE IN BILL OF EXCHANGE

78. A draws a bill on B for `50,000 for 3 months. On, maturity, the bill returned dishonoured, noting charges `500, 40 paise in a rupee is recovered from B's estate. The amount of deficiency to be recorded on insolvency in the books of B will be:
(a) `20,200
(b) `30,300
(c) `19,800
(d) `19,800

79. Mr. A sold goods worth `50,000 to Mr. B. B immediately accepted a bill on 1.11.05 payable after 2 months. A discounted this bill @ 18% p. a. on 15.11.05. On the due date B failed to discharge the bill. Later on B became insolvent and 50 paise in a rupee is recovered from his estate. Bad debt recorded in the books of A will be –
(a) 25,000
(b) 60,500
(c) 59,780
(d) 61,000

INTEREST ON CAPITAL TO PARTNERS

80. X & Y started business on 1st April, 2009 with capitals of `5,00,000 and `3,00,000 respectively. There is no withdrawal or addition of Capital during the year. Calculate the Interest on Capital @ 12% p. a. if the books of accounts are closed on 31st March.

(a) X – `60,000 and Y – `36,000
(b) X – `45,000 and Y – `36,000
(c) X – `36,000 and Y – `60,000
(d) X – `60,000 and Y – `60,000

81. X and Y started business on 1st April, 2008 with capitals of `5,00,000 and `3,00,000 respectively. On 1st May 2008, X introduced an additional Capital of `1,00,000 and Y withdraw `50,000 form his Capital. On 1st October 2008, X withdraw `2,00,000 from his Capital and Y introduced `2,50,000 on his Capital. Interest on Capital is allowed @ 6% p. a. Calculate the interest on Capital for the year ending 31st March, 2009.
(a) X – `22,750 and Y – `29,500
(b) X – `29,000 and Y – `22,000
(c) X – `27,000 and Y – `45,000
(d) X – `29,500 and Y – `22,750

INTEREST ON DRAWING BY PARTNER

82. Calculate the Interest on Drawings of Mr. B @ 10% p. a. for the year ended 31st December 2008, if he withdrew `1,200 p. m. in the **beginning of every month**.
(a) `720
(b) `660
(c) `780
(d) None of the above

83. Calculate the Interest on Drawings of Mr. C @ 10% p. a. for the year ended 31st December 2008, if he withdrew `1,200 p. m. **at the end of every month**.
(a) `720
(b) `660
(c) `780
(d) None of the above

84. Calculate the Interest on Drawings of Mr. D @ 10% p. a. for the year ended 31st December 2008, if he withdrew `1,200 p. m. at the middle of every month.
(a) `780
(b) `660
(c) `1,440
(d) `720

85. Calculate the Interest on Drawings of Mr. G @ 10% p. a. for the year ended 31st Dec. 2008, if he withdrew `3,600 at the **end of each quarter**.
(a) `540
(b) `900
(c) `720
(d) `1,440

86. Calculate the interest on Drawings of Mr. F @ 10% p. a. for the year ended 31st Dec. 2008, if he withdrew `3,600 at the **beginning of each quarter**.
(a) `1,440
(b) `900
(c) `540
(d) `720

87. Calculate the Interest on Drawings of Mr. H @ 10% p. a. for the year ended 31st Dec. 2008, if he withdrew `3,600 during the **middle of each quarter**.
(a) `540
(b) `720
(b) Rs,900
(d) `1,440

GUARANTEED PROFITS TO A PARTNER

88. A, B and C are Partners sharing profits in the ratio of 5:4:1. C is given a guarantee that his share in any year will not be less than `5,000. The profits for the year ended 31st December 2008 amounted to `40,000. Amount excess given to C will be borne by B. Calculate the deficiency borne by B.
(a) Deficiency of C `5,000 met by B
(b) Deficiency of C `1,000 met by B
(c) Deficiency of C `4,000 met by B
(d) None of the above

89. A, B and C entered into Partnership on 1st April, 2008 to share profits & losses in the ratio of 4:3:3. A, however, personally guaranteed that C's share of profit after charging Interest on Capital @ 5% p. a. would not be less than `40,000 in any year.
The Capital contribution were – A – `3,00,000, B – `2,00,000 and C – `1,50,000.
The profit for the year ended on 31st March 2009 amounted to `1,60,000.
Show the Profit & Loss Appropriation A/c.
(a) NP transferred to A – `38,250, B – `49,250, C – `40,000
(b) NP transferred to A – `49,250, B – `38,250, C – `40,000
(c) Loss transferred to A – `49,250, B – `38,250, C – `40,000
(d) None of the above

VALUATION OF GOODWILL (AVERAGE PROFIT, SUPER PROFIT, ANNUITY, CAPITALIZATION METHOD)

90. The profits of last 5 years are `85,000, `90,000 `70,000, `1,00,000 and `80,000. Find the value of Goodwill, if it is calculated on average profits of last 5 years on the basis of 3 years purchases.
(a) `85,000
(b) `2,55,000
(c) `2,75,000
(d) `2,85,000

91. Profit for 2006-07 is `2,000, for 2007-08 is `26,100 and for 2008-09 is `31,200. Closing stock for 2007-08 and 2008-09 includes defective items of `2,200 and `6,200 respectively which were considered as having market value NIL. Calculate Goodwill on 2 years purchase of average profit. (Use Simple Average Method)
(a) `47,400
(b) `35,400
(c) `27,400
(d) `34,600

92. A Firm employs `10,00,000 as Capital. Investors expect an income of 15%. The actual profits (likely to be continued) is `2,00,000. What will be the value of Goodwill of the Firm according to Super Profit method if it is to be valued at 3 years purchase?
(a) `50,000
(b) `1,50,000
(c) `2,00,000
(d) `2,15,000

93. The present average Net Profit of Praful & Shobha Partnership Firm, before deducting Partner' remuneration is `27,000 p. a. The Capital employed in the business by the Partners is Praful – `1,00,000, Shobha – `50,000. The profit expected from the Total Capital invested is 10% p. a. The total remuneration of the Partner is estimated to be `6,000 p. a. Find out the value of Goodwill on the basis of 2 years purchases of super profits.
(a) Negative
(b) `12,000
(c) `24,000
(d) `22,000

94. Calculate Goodwill if a Firm earns a net profit of `12,000 with a Capital of `60,000. The normal rate of return in the business is 10%. Use capitalization of super profit method to value Goodwill.
(a) `60,000
(b) `12,000
(c) `6,000
(d) None of these

Amount of Average profit (Reverse Question)

95. On 1st April 2009, an existing Firm had Assets of `1,50,000, including cash of `10,000. Its Creditors amounted to `10,000 on that date. The Firm had a Reserve Fund of `20,000 while Partner' Capital A/c's showed a balance of `1,20,000. If the normal rate of return is 20% and the Goodwill of the Firm is valued at `48,000 at 4 years' purchase of super profits, Find the average profits p. a. of the existing Firm.
(a) `60,000
(b) `40,000
(c) `50,000
(d) `48,000

96. What would be the amount of actual average profit if goodwill is valued at ` 98,000 at 5 years of purchase of super profit? Normal rate of return is 10% and average capital employed is ` 5, 00,000.
a. ` 69, 600
b. ` 1,48,000
c. ` 4,40,000
d. ` 48,000

New profit sharing Ratio (Admission, retirement & Death)

97. X and Y are sharing profits and losses in the ration of 3:2. Z is admitted with 1/5th share in profits of the Firm which he gets from X. Find out the New Profit sharing ratio?
(a) 12:8:5
(b) 8:12:5
(c) 2:2:1
(d) 2:2:2

98. X and Y share profits and losses in the ratio of 4:3. They admit Z in the Firm with 3/7th share which he gets 2/7th from X and 1/7th from Y. The new profit sharing ratio will be –
(a) 7:3:3
(b) 2:2:3
(c) 5:2:3
(d) 2:3:3

99. A and B are Partners, sharing profits in the ratio of 5:3. They admit C with 1/5th share in profits which he acquires equally from both A and B.
(a) 21:11:8
(b) 20:10:4
(c) 15:10:5
(d) None of the above

100. R and S are Partners sharing profits in the ratio of 5:3. T joins the Firm. R gives 1/4th of his share and S gives 1/5th of his share to the new Partner. Find out the new profit sharing ratio –
(a) 75:48:37
(b) 45:32:27
(c) 13:7:4
(d) None of the above

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101. X, Y, Z are Partners sharing profits in the ratio 3:4:3 Y retires and X and Z share his profits in equal ratio. Find the new ratio of X and Z.
(a) 1:2
(b) 2:1
(c) 3:1
(d) 1:1

GAINING RATIO & SACRIFICE RATIO

102. A and B are partner sharing profit an losses in the ratio 5:3 on admission , C bring Rs 70,000 cash and Rs 48,000 against goodwill. New profit sharing ratio between A,B,C is 7:5:4. The sacrificing ratio among A and B is:
a) 3:1
b) 4:7
c) 5:4
d) 2:1

CAPITAL TO BE BROUGHT BY NEW INCOMING PARTNER ON ADMISSION

103. A and B are partners sharing profit in the ratio of 3:2
A's capital is Rs 30,000
B's capital is Rs 15,000
They admit C and agreed to give 1/5th share of profit to him. How much C should being in towards his capital?
a) Rs 9,000
b) Rs 12,000
c) Rs 14,500
d) Rs 11,250

104. A and B are partners C is admitted for 1/5th share C brings Rs 1,20,000 as his share towards capital. The total networth of the firm is:
a) Rs 1,00,000
b) Rs 4,00,000
c) Rs 1,20,000
d) Rs 6,00,000

105. A and B are partner C is admitted with a guarantee profit of Rs 10,000 from A with a new profit sharing ratio of 3:2:1. Profit for the year 2009-10 is Rs 1, 20,000. How much profit C will get?
a) Rs 10,000
b) Rs 20,000
c) Rs 30,000
d) None of these

GOODWILL TO BE SHARED BY OLD PARTNERS ON ADMISSION/RETIREMENT:

106. A and B are equal Partners in a Firm. They admitted C as 1/6th Partner who brought in `60,000 as Capital. The new profit sharing ratio is 3:2:1. If Goodwill of `60,000 is to be paid to the old Partners as per profit sacrificing ratio, B will receive –
(a) `30,000
(b) `60,000
(c) `45,000
(d) Nil

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107. X and Y are Partners sharing profits in the ratio of 3;1. They admit Z as a Partner who paid `40,000 as Goodwill. The new profit sharing ratio being 2:1:1 among X, Y and Z respectively. The amount of Goodwill will be credited to –
(a) X and Y as `30,000 and `10,000 respectively
(b) X only
(c) Y only
(d) None of the above

108. A, B and C are Partners with profits sharing ratio 4:3:2. B retires and Goodwill `10,800 was shown in Books of Accounts. If A & C share profits of B in the ratio 5;3, then find the value of Goodwill shared between A and C.
(a) `1,850 and `1,950
(b) `1,650 and `1,750
(c) `2,000 and `1,600
(d) `1,950 and `1,650

HIDDEN GOODWILL

109. A and B are Partners with capitals of `10,000 and `20,000 respectively and sharing profit equally. They admitted C as their third Partner for 1/4th share for all purpose on payment of `15,000. The amount of hidden Goodwill is –
(a) `15,000
(b) `8,000
(c) `10,000
(d) None of the above

AMOUNT TO BE PAID TO RETIRING PARTNER

110. A, B and C were Partners in a Firm sharing profits and losses in the ratio of 2:2:1 respectively with the Capital balance of `50,000 for A, `70,000 for B, `35,000 for C. B declared to retire from the Firm and balance in Reserve on that date was `25,000. If Goodwill of the Firm was valued at `30,000 and Profit on revaluation was `7,500, then what amount will be payable to B?
(a) `70,820
(b) `76,000
(c) `75,000
(d) `95,000

111. A, B, C are Partners sharing profits in the ratio of 2:2:1. A's Capital is `50,000. B's Capital `70,000 and C `35,000. B retires from the Firm and balance in Reserve on the date was `25,000. If Goodwill of the Firm was `30,000 and Profit on Revaluation was `7,500, then amount payable to B is –
(a) `70,820
(b) `76,000
(c) `75,000
(d) `95,000

PROFIT OR LOSS ON REVALUATION ON ADMISSION, RETIREMENT AND DEATH

112. A and B are partner of a firm sharing profit in ratio of 3:2. They admitted C with 1/5th share in profit. Machinery would be appreciated by 10% (book value Rs 80,000) and building would be deprecated by 20 %(Rs 2, 00,000). Unrecorded debtor of Rs 1,250. Would be bought to books and creditors of Rs 2,750 died and needn't to pay anything. What will be the profit and loss on revaluation?

a) Loss-28,000
b) Loss-40,000

c) Profit-28,000
d) Profit-40,000

JOINT LIFE POLICY

113. A, B and C take a Joint Life Policy, their profit sharing ratio is 2:2:1. On death of B, A and C decide to share profits equally. They had taken a joint life policy of ` 2,75,000 with the surrender value ` 75,000. What will be the treatment in the partner's capital account on receiving the JLP amount if the JLP is maintained at the surrender value?
a. ` 50,000 credited to all partner in old ratio
b. ` 2,75,000 credited to all the partners in old ratio
c. ` 2,00,000 credited to all partners in the old ratio
d. no treatment is required.

114. A, B and C are partner sharing profit and losses in the ratio of 3:2:1. They had a joint life policy of Rs 3, 00,000. Surrender value of JLP in balance sheet is Rs 90,000. C dies what is share of each partner in JLP:
a) Rs1,05,000; Rs70,000; Rs35,000
b) Rs45,000; Rs30,000; Rs15,000
c) Rs1,50,000; Rs1,00,000; Rs50,000
d) Rs1,95,000; Rs1,30,000; Rs65,000

115. A, B and C take a JLP. After 5 years, B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement, A and C decide to share profits equally. They had taken a JLP of ` 2,00,000 with surrender value of ` 30,000. What will be the treatment in the partner's capital account on receiving the JLP amount if JLP a/c is maintained at the surrender value?
a. ` 30,000 credited to all partners in old ratio
b. ` 2,00,000 credited to all partners in old ratio
c. ` 1,70,000 credited to all partners in old ratio
d. No treatment is required.

AMOUNT OF PROFIT TO BE GIVEN TO EXECUTOR

116. A, B and C are Partners sharing profits and losses in the ratio 2:2:1. C died on 31st March 2009. The profits of the financial year ending 31st March 2009 is `64,000. The share of Deceased Partner in the profits will be –
(a) `9,200
(b) `12,800
(c) `3,100
(d) `6,100

AMOUNT OF DIVIDEND

117. The following information pertains to X Ltd.
i. Equity share capital called up ` 5,00,000 ii. Calls in arrear ` 40,000
iii. Calls in advance ` 25,000 iv. Proposed dividend 15%
The amount of dividend payable = ?
(a) ` 75,000 (b) ` 72,750 (c) ` 71,250 (d) ` 69,000

118. The authorized capital of M Ltd. consists of both cumulative preference shares and equity shares. Each 5% cumulative preference share has a par value ` 100. Each equity

share has a par value ` 10. At the end of the year 2009-10 and 2010-11, the cumulative preference share capital balance was ` 2,00,000 and the equity share capital balance was ` 5,00,000.

If dividend declarations totalled ` 8,000 and ` 15,000 in the year 2009-10 and 2010-11 respectively, the dividends allocated to the equity share holders in the year 2010-11 = ?

(a) ` 3,000 (b) ` 5,000 (c) ` 10,000 (d) ` 12,000

FINAL CALL

119. The subscribed Share Capital of S Ltd. is `80,00,000 of `100 each. There were no calls-in-arrear till the final call was made. The final call made was paid on 77,500 Shares. The calls-in-arrear amounted to `75,000. The final call on per Share is

(a) `25
(b) `30
(c) `20
(d) `15

INTEREST ON CALL IN ADVANCE

120. IJK Ltd. issued 20,000 shares of `10 each at a premium of 20% on May 01, 2009, payable as follows:

On application ` 4.50 (inclusive of premium)
On allotment ` 2.50
On first and final call ` 5.00

M` M, to whom 1,000 shares were allotted, has paid ` 5,000 on June 01, 2009. At the time of remitting the allotment money, she indicated that the excess money should be adjusted towards the call money. The directors of the company made the first and final call on October 31, 2009. The company has a policy of paying interest on calls-in-advance. The amount of interest paid to M` M on calls-in-advance = ?

(a) ` 62.50 (b) ` 52.08 (c) ` 125.00 (d) ` 150.00

INTEREST ON CALL IN ARREARS

121. The Directors of a Company made the final call of `30 per Share on June 15, 2008 indicating the last date of payment of call money to be June 30, 2008. Mr. X, holding 5,000 Shares paid the call money on Aug. 15, 2008.

According to Table A, the amount of interest on call-in-arrear to be paid by shareholder

(a) `625.00
(b) `937.50
(c) `750.00
(d) `1,125.00

AMOUNT TO BE TRANSFERRED TO FORFEITURE ACCOUNT

122. B Ltd. issued Shares of `10 each at a discount of 10% Mr. C purchased 30 Shares and paid `2 on application but did not pay the allotment money of `3. If the Company forfeited his entire Shares, the forfeiture A/c will be credited by..............

(a) `90
(b) `81
(c) `60
(d) `54

123. Mr. Sharma holding 1000 equity Shares of `10/- each issued at a discount of 10% could pay `3.50 on application, but could not paid the allotment money of `2.5 per Share and his Shares were forfeited. In the books of the Company, Shares forfeited A/c will be credited by

(a) `2,500
(b) `1,500
(c) `3,500
(d) `2,000

AMOUNT TO BE DEBITED TO SHARE CAPITAL ON FORFEITURE

124. A Company forfeited 1,000 Shares of `10 each (which were issued at par) held by Mr. John for non-payment of allotment money of `4 per Share. The called-up value per Share was `9. On forfeiture the amount debited to Share Capital will be
(a) `5,000
(b) `4,000
(c) `1,000
(d) `9,000

125. Z Ltd. issued 10,000 Shares of `10 each. The called up value per Share was `8. The Company forfeited 200 Shares of Mr. A for non-payment of 1st call money of `2 per Share. He paid `6 for application and allotment money. On forfeiture, the Share Capital A/c will be ....
(a) Debited by `2,000
(b) Debited by `1,600
(c) Credited by `1,600
(d) Debited by `1,200

126. X Ltd. forfeited 100 Shares of `10 each issued at a discount of 10% to Ravi on which he had paid `2.50 per Share on application and `2.50 per Share on allotment but on which he had not paid `2 on First Call. In case of forfeiture, Share Capital A/c will be debited by.......................
(a) `800
(b) `700
(c) `900
(d) `1000

BALANCE IN SHARE FORFEITURE AFTER PART REISSUE

127. The Directors of M Ltd. resolved on 1st May, 2009 that 2,000 Equity Shares of `10 each `7.50 paid be forfeited for non-payment of final call of `2.50. On June 10, 2009, 1,800 of these Shares were re-issued for `6 per Share. Balance in Share Forfeited A/c is
(a) `1,500
(b) `6.300
(c) `13,500
(d) `10,800

128. The Directors of a Company forfeited 100 Shares of `10 each fully called up for non-payment of First call of `2 per Share and Final call of `3 per Share. 60 of these Shares were subsequently re-issued at `6 per Share fully paid up. Balance in Share Forfeiture A/c is
(a) `60
(b) `200
(c) `360
(d) `640

AMOUNT TO BE TRANSFERRED TO CAPITAL RESERVE ON REISSUE OF FORFEITED SHARES

129. A Limited Company forfeited 100 equity Shares of the face value of `10 each, `6 per Share called up, for non-payment of first call of `2 per Share. The forfeited Shares were subsequently reissued as fully paid @ `7 each. Amount transferred to Capital Reserve A/c is
(a) `100
(b) `400
(c) `700

(d) `80

130. A Company forfeited 100 equity Shares of `100 each issued at a premium of 50% (to be paid at the time of allotment) on which first call money of `30 per Share was not received, final call of `20 is yet to be made. These Shares were subsequently re-issued at `70 per Share as `80 paid up. Amount transferred to Capital Reserve A/c is
(a) `5,000
(b) `9,000
(c) `2,000
(d) `4,000

131. Z Ltd. forfeited 300 Shares of `10 each, `8 called up, held by Mr. A for non-payment of second call money of `3 per Share. These Shares were re-issued to Karim for `8 per Share. Amount transferred to Capital Reserve A/c
(a) `3,000
(b) `1,500
(c) `1,750
(d) None of these

NO. OF SHARES/DEBENTURE TO BE ISSUED FOR PURCHASE OF FIXED ASSET

132. G Ltd. acquired assets worth `7.50,000 from H Ltd. by issue of Shares of `100 at a premium of 25%. The number of Shares to be issued by G Ltd. to settle the purchase consideration = ?
(a) 6,000 Shares
(b) 7,500 Shares
(c) 9,375 Shares
(d) 5,625 Shares

133. K Ltd bought a Machinery for `4,00,000 payable as to `1,30,000 in cash and the balance by issue of 12% Debentures of `100 each at 10% discount. Number of Debentures issued is –
(a) 4,000
(b) 3,000
(c) 2,700
(d) 30,000

134. How many Debentures will a Company be required to issue for satisfying the purchase consideration of `28,80,000, if Debentures of `100 are issued at a premium of 20 per Debenture?
(a) 24,000
(b) 28,800
(c) 36,000
(d) 32,000

135. F Ltd purchased Machinery from G Company for a book value of `4,00,000. The consideration was paid by issue of 10% Debentures of `100 each at a discount of 20%. The Debenture account will be credited by –
(a) `4,00,000
(b) `5,00,000
(c) `3,20,000
(d) `4,80,000

PRORATA ALLOTMENT:
136. E Ltd. has allotted 10,000 Shares to the applicants of 14,000 Shares on pro-rate basis. The amount payable on application is `2. F applied for 420 Shares. The number of Shares allotted and the amount carried forward for adjustment against allotment due from F:
(a) 60 Shares, `120
(b) 340 Shares, `160

(c) 320 Shares, `200
(d) 300 Shares, `240

137. A Company invited application for subscription of 5,000 Shares. The applications were received for 6,000 Shares. The Shares were allotted on pro-rata bases. If Shyam applied for 180 Shares, how many Shares would be allotted to him?
(a) 180
(b) 200
(c) 150
(d) 175

138. A Company invited application for subscription of 5,000 Shares. Applications were received for 6,000 Shares. Shares were allotted pro-rata basis.

(i) If Shyam has applied for 180 Shares, how many Shares would be allotted to him?
(a) 180 Shares
(b) 200 Shares
(c) 150 Shares
(d) 175 Shares

(ii) If Shyam had been allotted 350 Shares, how many Shares he would have applied for?
(a) 300 Shares
(b) 400 Shares
(c) 420 Shares
(d) 425 Shares

AMOUNT TO BE CREDITED TO SHARE PREMIUM ACCOUNT

139. O Ltd. has redeemed its 12% Preference Shares of `2,00,000 at a premium of 4%. To meet the redemption, it has issued `1,98,000 Shares of `20 each at a premium of 5%. The balance outstanding to the credit of Share premium A/c after adjusting premium on redemption of Preference Shares will be –
(a) Nil
(b) `1,904
(c) `1,900
(d) `8,000

AMOUNT TO BE TRANSFERRED TO CRR

140. Redeemable Preference Shares of `1,00,000 are redeemed at par for which purpose fresh Equity Shares of `80,000 are issued at a discount of 10%. The amount to be transferred to Capital Redemption Reserve Fund will be –
(a) `20,000
(b) `28,000
(c) `1,00,000
(d) `80,000

141. A Limited Company has to redeem Redeemable Preference Shares of the value of `1,00,000 for which the Company has issued 3,000 Equity Shares of `10 each at a premium of 10%. The amount to be transferred to Capital redemption reserve account will be –
(a) `1,00,000
(b) `97,000
(c) `70,000
(d) `67,000

142. Rich Ltd had 3,000, 12% Redeemable Preference Shares of `100 each, fully paid up. The Company issued 25,000 Equity Shares of `10 each at par and 1,000 14% debentures of `100 each. All amounts were received in full. The payment to Preference Shareholders was made in full. The amount to be transferred to Capital Redemption Reserve A/c is –
(a) Nil
(b) `2,00,000

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(c) `3,00,000
(d) `50,000

143. Light Ltd has 10,000, 5% Preference Shares of `10 each to be redeemed after 5 year. The Company forfeited 500 Preference Shares on which final call of `2 has not been received after due notice and cancelled these Shares on account of redemption. Remaining Shares were redeemed out of reserves of the Company. The amount to be credited to Capital redemption reserve will be –
(a) `1,00,000
(b) `95,000
(c) `99,000
(d) `99,500

144. X Co Ltd has to redeem, 1,000 Preference Shares of `100 each at 10% premium. It issues 5,000 Equity Shares of `10 each at 10% premium. General Reserve amount transferred to Capital redemption reserve will be –
(a) `1,00,000
(b) `50,000
(c) `55,000
(d) `1,10,000

MINIMUM NUMBER OF SHARES TO BE ISSUED ON REDEMPTION OF PS

145. A Company's Balance Sheet contains `1.6 Lakhs fully paid 10% Redeemable Preference Shares and `1,00,000 as Revenue Reserve. It decides to redeem the Shares at 5% premium by maximum utilization of earnings and from fresh issue of Shares.
If the issue is made at 20% premium, the minimum amount of fresh Equity issue will be –
(a) `28,800
(b) `60,000
(c) `36,000
(d) `37,000

146. Company decided to redeem these Preference Shares at par by the issue of sufficient number of Equity Shares of `10 each fully paid up at a discount of 10%. The number of Equity Shares issued should be –
(a) 9,000
(b) 11,000
(c) 10,000
(d) None of the above

AMOUNT OF LOSS ON DEBENTURE TO BE WRITTEN OFF EVERY YEAR.

147. P Ltd issued 5,000, 12% Debentures of `100 each at a premium of 10%, which are redeemable after 10 years at a premium of 20%. The amount of loss on redemption of Debentures to be written off every year is –
(a) `80,000
(b) `40,000
(c) `10,000
(d) `8,000

148. W Ltd issued 20,000, 8% Debentures or `10 each at par, which are redeemable after 5 years at a premium of 20%. The amount of loss on redemption of Debentures to be written off every year –
(a) `40,000
(b) `10,000
(c) `20,000
(d) `8,000

TOTAL LOSS ON ISSUE OF DEBENTURES

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149. A Ltd issued `1,00,000 12% Debentures at 5% discount redeemable at 5% premium after 10 year. Loss on issue of Debentures will be –
(a) `15,000
(b) `10,000
(c) `12,000
(d) `20,000

150. X Ltd issued 1,00,000 Debentures of `100 each at a discount of 4% redeemable after 5 years at a premium of 6%. Loss on issue of Debentures will be –
(a) `10,00,000
(b) `6,00,000
(c) `16,00,000
(d) `4,00,000

151. Green Ltd issued 5,000, 6% Debentures of `100 each at a discount of 5% repayable after 5 years at a premium of 5%. Total loss on issue of Debentures will be –
(a) `40,000
(b) `50,000
(c) `60,000
(d) `70,000

INTEREST ON DEBENTURES

152. T Ltd. has issued 14% Debentures of `20,00,000 at a discount of 10% on April 01, 2009 and
the company pays interest half-yearly on June 30, and December 31 every year. On March 31, 2011, the amount shown as "interest accrued but not due" in the Balance Sheet will be
(a) ` 70,000 (b) ` 2,10,000
(c) ` 1,40,000 (d) ` 2,80,000

153. On May 01, 2010, U Ltd. issued 7% 10,000 convertible debentures of `100 each at a premium of 20%. Interest is payable on September 30 and March 31 every year. Assuming that the interest runs from the date of issue, the total amount of interest expenditure debited to profit and loss account for the year ended March 31, 2011 will be
(a) ` 70,000 (b) ` 58,333 (c) ` 84,000 (d) ` 64,167