CA Foundation Accounting

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(The Ideal Destination for Professional Course Aspirants)

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Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities. The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position, and cash flows.

Business: Any Economic Activity carried on for the purpose of earning profit.

Basic Terms

1. **Proprietor:** Owner of the business, brings capital into the business & enjoys all incomes and profits and bears all expenses and losses. From accounting point of view business concern is a separate entity apart from its owner.
2. **Capital:** It is the amount of money or property with which a trader starts his business. Whatever the benefit in any form received by a business concern from its proprietor is known as Capital. ***The excess of Assets over Liabilities is also known as "Capital ".***
3. **Drawings:** It is the value of cash or goods or any other item withdrawn from the business by the proprietor for his personal or private or domestic use. It reduces the capital of the proprietor.
4. **Assets:** Assets or properties are possessions, which belong to a trader. They help the trader in carrying on his business. **E.g.:** Plant & Machinery, Land & Buildings, Furniture, Cash, Inventory, Bank Balance, Investments, Goodwill, Patents, Trademarks, Trade receivables, Bills Receivable etc.
5. **Tangible Assets:** Such assets, which have physical existence, i.e. they can be seen. **E.g.:** vehicles, buildings, cash and furniture etc.
6. **Intangible Assets:** Those assets which have no physical existence, which cannot be seen and touched are termed as intangible assets, Viz., Trademarks, Goodwill, Copy Rights and Patents etc.
7. **Fixed Assets or Non-Current Assets:** These assets are acquired for long term use in the business. They are not meant for resale. They include both tangible and intangible assets. **E.g.:** Land and Buildings, Plant and Machinery, Furniture, Vesicles, Goodwill, Patents etc.
8. **Floating or Current Assets:** These are the assets which are intended to be sold or converted into cash on a later date or and which frequently undergo change. **E.g.:** Cash in hand, Cash at Bank, Sundry Trade receivables, Bills receivable, Inventory of goods etc.
9. **Liquid Assets:** These are the current assets which can be converted into cash easily and quickly without appreciable loss. **E.g.:** Cash in hand, cash at bank, short term investments etc.
10. **Non-liquid Assets:** These are the current assets which can **not** be converted into cash easily and quickly. For **E.g.:** Inventory in trade, Pre-paid Expenses etc.
11. **Wasting assets:** These are the assets which are depleted gradually or exhausted in the process of working such as mines, quarries, oil wells, etc

12. **Fictitious Assets:** These are the assets having no sale value. They are not real assets. They are the expenses and losses which are yet to be written off and temporarily shown on the assets side of balance sheet for the legal or technical reasons. **E.g.** Discount on issue of Debentures, Underwriting Commission, etc.

13. **Livestock:** Horses, bullocks and other animals which are used in business, are called Live stock of that business. It will be treated as an asset.

14. **Liabilities:** These are debts owing by a trader to outsiders. **E.g.:** Trade payables, Bills Payable, Bank Overdraft, Loans, etc.

15. **Current Liabilities:** Current Liabilities are those liabilities which are required to be repaid in a relatively short period, which does not exceed one year. **E.g.:** Sundry trade payables, bills Payable, Bank overdraft and outstanding expenses, etc.

16. **Long Term / Non-Current Liabilities:** These are the amounts payable to outsiders, who have provided long-term funds to the business, which are normally repayable after one year period. These are the long term sources of funds. **E.g.:** Long term loans and debentures.

17. **Contingent Liabilities:** They are uncertain liabilities. They may arise or may not arise in future. They will not be recognized in the financial statements. However, they will be disclosed as a foot note to the Balance Sheet.

18. **Working Capital:** It is the excess of current assets over current liabilities

Working Capital = Current Assets — Current Liabilities

19. **Trade Receivable (Debtor):** He is a person who owes money to the business. He has to pay some amount to the business for receiving a benefit from the business. He is an asset to the business.

20. **Trade Payable (Creditor):** He is a person to whom some amount is owed by the business. The business has to pay some amount to him for receiving a benefit from him. He is a liability to the business.

21. **Goods:** These are the commodities (articles) in which the business deals. Commodities purchased for the purpose of sale are termed as goods, To a furniture dealer furniture is goods and to a car dealer, cars are goods and furniture is asset.

22. **Expense:** Money spent on conducting business activities is an expense. It is the amount paid or payable for obtaining goods or services from others. **E.g.:** Salaries, Rent, Wages, Insurance, Taxes, Advertisement, Stationery, Salaries, Wages, Insurance, Stationery, Advertisement, Taxes, Rent, Discount Allowed etc.

23. **Loss:** It means an amount lost without getting anything in return. **E.g.:** Loss by Fire, Loss by theft, Bad Debts, loss on sale of machinery, etc.

24. **Income:** It is the amount earned by the business in exchange of goods or services. **E.g.:** Rent received, Commission received, Interest received, Discount Received etc.

25. **Gain:** It means an amount received without giving anything in exchange. **E.g.:** Subsidy from government, Bad debts recovered, Profit on sale of building etc.

26. **Business Transactions:** It is an economic activity that involves transfer of money or money's worth. It occurs between an outsider and a business entity. **E.g.:** Purchase of goods, Sale of goods, payment of salaries etc.

27. **Cash Transaction:** A transaction in which there is an immediate payment or receipt of money is called **Cash Transaction.** These are of two types a) Cash receipts b) Cash payments. **E.g.:** Goods sold for cash, Furniture purchased for cash, Cash received from Gopal, Cash deposited in bank etc.

28. **Credit Transaction:** In a Credit Transaction there is no immediate payment or receipt of money. The payment or receipt is postponed to a future date. **E.g.:** Goods purchased from Kumar on credit, Old furniture sold to Pavan on credit.

29. **Event:** An event is a happening as a consequence of a transaction. The result of a transaction is an event. Events do not involve outsiders. **E.g.** Closing inventory, Depreciation, Profit on sale of land etc.

30. **Account:** An account is a summary of business transactions affecting a person or property or an income or an expense. It has two sides — debit and credit. The left side is known as Debit Side and the right side is known as Credit Side. The accounts can be divided into three types:

(a) Personal Accounts (b) Real Accounts (c) Nominal Accounts.

31. **Double Entry System:** This is a system under which both the debit and credit aspects of a transaction are recorded. The receiving aspect and giving aspect of a transaction are recorded in two different accounts on two different sides. The receiving aspect is recorded on the debit side of an account and the giving aspect is recorded on the credit side of another account.

32. **Debit and Credit:** There are two aspects in any business Transactions:

33. **Books of Accounts:** These are different sets of books which are used to record business transactions of varied nature. **E.g.:** Journal, Ledger, Purchases Book, Cash Book...

34. **Journal:** It is a day book (daily record). All business transactions are recorded first in the Journal in the order of time. It is a book of first I original entry.

35. **Journalizing:** The process of recording business transactions in the book "Journal" is called as Journalizing.

36. **Entry:** It is a record of business transactions or events in the books of account. An entry is passed on the basis of vouchers.

37. **Ledger:** It is a book of accounts. It contains all types of accounts. It is the book of final entry.

38. **Posting:** The process of transferring the business transactions from Journal to the relevant accounts in the ledger is called as posting.

39. **Casting:** Totaling of amounts.

40. **Voucher:** Documentary evidence of a transaction is called a Voucher. When goods are purchased for cash, a cash memo is given by the seller to the buyer, this cash memo is a voucher. Every voucher should have an entry and every entry should have a voucher,

41. **Narration:** Brief explanation of a transaction is called as Narration. It is given in the Journal entry.

42. **Opening Inventory:** Stock of goods at the beginning/ of an accounting year is called Opening Inventory. It is nothing but the stock of goods at the end of the previous year (Closing inventory).

43. **Closing Inventory:** Stock of unsold goods at end of an accounting year is called Closing Inventory.

44. **Discount:** It is an allowance or concession given by one person to another. The concession given by the receiver of money to the giver of money for prompt payment is called "Cash discount" The allowance given by manufacturer to wholesaler on the invoice price is called "Trade discount".

45. **Entity:** An entity means an economic unit that performs economic activities. **E.g.** Bajaj Auto ltd., Vijaya & Co., BSNL, SBI etc.

46. **Bad debt:** The amount of debt which is **not** recoverable or realizable is called "Bad debt". It is a loss to the business.

47. **Good debt:** The amount of debt which is **definitely** recoverable is called "Good debt".

48. **Doubtful debt:** The amount of debt, the recovery of which is uncertain is called "Doubtful debt". It may be recovered or may not be recovered.

49. **Solvent:** A solvent is a person who is able to pay his debts in full. His assets exceed or equal to his liabilities.

50. **Insolvent:** An insolvent is a person who is unable to pay his debts in full. His liabilities exceed his assets.

51. **Trial Balance:** It is a list or statement of debit and credit balances shown by different accounts in the ledger at any given date.

52. **Final Accounts:** These are the accounts or statements prepared at the end of an accounting year to know the profit or loss during the accounting year and the financial position at the end of the accounting year. Final accounts consist of: a) Trading account b) Profit and loss accountc) Balance Sheet.

54. **Trading account:** It is the account prepared to find out the gross profit or gross loss on the goods sold during the year.

55. **Gross profit:** The difference between the selling price and the cost price of the goods sold is called as gross profit.

Gross Profit = Sales — Cost of goods sold

56. **Gross loss:** The difference between the cost price of the goods sold and selling price is called as gross loss.

Gross Loss = Cost of goods sold — Sales

57. **Profit and Loss Account:** It is an income statement. It is the account prepared to find out the net profit or net loss of accounting year.

58. Net profit: The difference between gross profit plus income and total expenses and losses is the net profit. Net profit = (Gross profit + Incomes) — (Expenses + Losses)

59. Net loss: The difference between total expenses and losses and gross profit plus income is the net loss.

Net loss = (Expenses + Losses) — (Gross profit + Incomes)

60. Balance Sheet: It is a statement of assets and liabilities of a business entity. It shows the financial position of the business on a particular date.

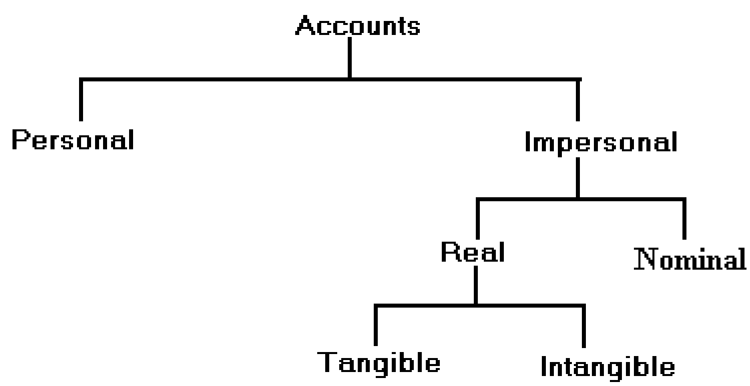
61. Contra: Contra means the opposite or the other side.

62. Net worth or Net Assets or Owners Equity: It is the excess of assets over outside liabilities.

Net worth = Assets — Out side Liabilities

63. Petty Cash: The amount of cash kept by businessman to make small or petty payments is called "Petty Cash".

Classification of Accounts



Personal Accounts

These are the accounts which relate to persons, such as Customers Account, Suppliers Account etc. Personal accounts include both real accounts (Human beings) and artificial persons (Bank, Company etc)

Impersonal Accounts

Accounts which are not personal are called impersonal accounts. These can be further sub-divided into two categories : Real Accounts and Nominal Accounts.

Real Accounts

These can be tangible (i.e. can be touched and seen) or intangible (i.e. cannot be touched and seen). As a result they are further divided into:

1. Tangible Real Accounts. These accounts relate to things that can be touched, felt, measured etc. such as Cash Account.

2. Intangible Real Accounts. These accounts relate to things that cannot be touched but can be measured in terms of money, such as a Patents Account

Nominal Accounts

These accounts deal with expenses and losses, incomes and gains. They explain the nature of the transactions i.e. whether the particular transaction will result in an expense/loss or in an income/gain.

Rules of Debit (Dr.) and Credit (Cr.)

1. **Personal Account**
   Debit the receiver
   Credit the giver
2. **Impersonal Account (Real Account/Assets Account)**
   Debit what comes in
   Credit what goes out
3. **Nominal Account**
   Debit all expenses and losses
   Credit all incomes and gains

Accounting Principles

Accounting principles are the general rules which are used as guidelines in accounting and as the basis of practice. These principles can be classified into two categories :

1. Accounting Concepts 2. Accounting Conventions

Accounting Concepts

1. **Separate Entity Concept**
   Every business is a separate entity from the proprietor. Business and owners are distinct.

2. **Dual aspect Concept:** Every business
   Every business transation has two aspects – Debit. For example ,"Cash Received from Mr. Samtha Rs. 5000" has two aspects "Cash" – Real account and "Mr.Samtha" – Personal Account.

3. **Going Concern Concept**
   It is assumed that the business will exist for an indefinite period of time and transactions are recorded from this point of view.

4. **Money Measurement Concept**
   Those transactions and events are recorded in accounting only when they can be expressed in terms of money. Accounting records only financial character of the business

5. **Cost Concept** All transactions are to be **recorded** in the books of accounts at their *Cost Price* when purchased, not on *Market Price*.

6. **Matching Concept**

   At the end of the financial year all costs (expenses) of the organisation are to be matched against the revenues of the organization of the Same Period. Increments made by the business during a period can be measured only when the revenue earned during a period is compared with the expenses incurred for earning that revenue.

7. **Accounting Period Concept**

   Uniformity in accounting period should be maintained in order to provide for intra firm comparison. Performance of one year can be compared with other only when uniformity in accounting period is maintained.

8. **Accrual concept & Realisation Concept.**

   Transaction should be recorded on due basis. Expenses / Incomes are recognised and recorded on accrual basis. Actual receipt/payment is irrelevant for recognizing income/expense in P&L A/c

Accounting Conventions

1. **Materiality**
   An accountant should disclose all the material facts and should ignore insignificant details. Accounting records should consist only of such events as are significant from the point of view of income determination.

2. **Consistency**
   Accounting procedures or practices should remain the same(consistent) from one year to another.

3. **Conservatism**
   An accountant should be conservative and prudent. Anticipated Profits are not to be recorded and provision should be made for losses.

   Valuing stock at *Cost Price* or *Market Price* whichever is lower, and creating provision for doubtful debts are the examples of applications of the principle of conservatism

Journal

Usually in a business, transactions are to be debited and credited are recorded carefully in a systematic manner. The book in which the accounts are recorded in a systematic manner is called a *Journal*. The *Journal* is the primary book of accounts which contains transactions recorded in a chronological (day-to-day) order. Recording transactions in a Journal is known as *journalising the transactions*.

Format of a Journal

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)

As is clear from the format of a Journal, it contains 5 columns . These are explained below :

1. The first column is for **Date,** wherein the date of the transaction is written.

2. The second column is for the **Particulars** of the transaction, wherein the names of the accounts involved in the transactions are written in a logical manner.

   First the account to be debited is written with the words *Dr. Rs.* following it.
   In the next line, after leaving a little space, the name of the account to be credited is written preceded by the word *To Rs.*
   In the next line, the explanation of the entry together with details is written in brackets. This is called *Narration*.

3. In the third column, **L.F** means *Ledger Folio*. It is the number of the page in the Ledger where the respective account will be entered.

4. The fourth column is named **Debit (Rs.)**. In this column the amounts to be debited to various accounts is entered.

5. The fifth column i.e. **Credit (Rs.)** is meant for entering the amounts to be credited to various accounts.

The following example will clarify the various columns of a Journal.

Example-1
Jay starts a business with a capital of Rs 50,000 on 1st Jan, 2023. This means that his company has Rs 50,000 cash, which is cash brought into the business. Cash is an asset. So Cash Account is a Rs. Real Account. The rule of *Dr.* and *Cr.* for a Real Account is :

Debit what comes in
Credit what goes out

Since cash is coming in, it will be debited i.e. Cash Account will be debited. Now, the second account involved in the example is the Capital Account (i.e. Jay's Capital Account). Capital account is a Personal account. The rules of *Dr.* and *Cr.* for Personal Accounts are

Debit the receiver
Credit the giver

As the business is a separate entity (separate entity concept) and Jay is investing money in the business, Jay is the giver and the company is the receiver. So, in order to keep an account of his capital, Jay has to prepare his own account. Also that account is called Jay's Capital Account or simply Capital Account. Capital Account is a personal Account. So the Capital account is being credited in accordance to the rule : credit the giver. So, the journal entry for this example will be:

Date	Particulars	L.F	Dr.	Cr.
1st Jan 2023	Cash A/c Dr. To Capital Account (Being the amount invested by Jay in the business as Capital)		50,000	50,000

Let us take another example.

Example-2
The following transactions took place in the business on a particular date :

1. A salary of Rs 5000 is paid.
2. Goods of Rs 500 purchased in cash.
3. Goods worth Rs 1000 purchased on credit from Rahul.
4. Sold goods to Ankur for Rs 4000.

Journalise the above transactions.

1. The accounts involved in this transaction are:
   a. **Salary Account** : Salary is an expense for the business. So, Salary Account is a nomimal account. Rule of *Dr.* and *Cr.* for Nominal Account is :
      Debit all expenses and losses.
      Credit all incomes and gains.
      So, Salary Account should be debited
      Salary Account Dr.
   b. **Cash Account** : Cash is an asset. So, Cash Account is a Real Account. The rule for Real Account is :
      Debit what comes in
      Credit what goes out
      Since cash is going out of the business in the form of salary, Cash Account should be credited.
      Cash Account Cr.
      The journal entry for this transaction is:
      Salary Account Dr.
      To Cash Account

2. The accounts involved in this transaction are:
   a. **Purchases Account** : Goods are Purchased.

Purchase of goods is an expense, so Purchases Account is a Nominal Account. The rule for Nominal Account is :

Debit all expenses and losses
Credit all incomes and gains

Thus, we have to Debit Purchases Account.

Purchases Account Dr.

Note that it is only in the case of goods relating to business that we Debit the Purchases Account. Purchase of anything other than goods in which the business deals is not debited to Purchase Account but to the respective accounts. For example, in case of purchase of furniture, we do not debit the Purchases Account but will debit the Furniture Account.

b. **Cash Account** : The second account being involved is the Cash Account. Since goods are purchased for cash, cash is going out of the business. Cash Account being a Real Account, the rules for Real Account apply :

Debit what comes in
Credit what goes out

So, Cash Account should be credited. The journal entry for this transaction will be:

Purchase Account	Dr.
To Cash Account	

3. The Accounts involved in this transaction are :

a. **Purchases Account** : Purchase is an expense. So Purchase Account should be debited (following the rules of Nominal Account)

b. **Rahul Account** : Goods are purchased on credit from Rahul. Since Rahul is a person, Rahul account is a personal account. Also Rahul has given the goods. Therefore, following the rules of Personal Account,

Debit the receiver
Credit the giver

Rahul Account should be credited. The journal entry for this transaction will be :

Purchase Account	Dr.
To Rahul Account	

4. The Accounts involved in this transaction are :

a. **Sales Account** : Goods are sold to Ankur.

Sale of goods is income to the business. Being a source of income, Sales Account is a Nominal Account. The Rule for nominal Account is :

Debit all expenses/losses
Credit all incomes/gains

Therefore, Sales Account should be credited.

As in the case of Purchases Account, all the sales regarding goods, whether for cash or for credit are credited to Sales Account.

b. **Ankur's Account** : Ankur received the goods. Ankur's account is a personal account and Ankur is the receiver of goods. So, Ankur Account should be debited following the rule,

Debit the receiver
Credit the giver

The journal entry will be:

Ankur's Account	Dr.
To Sales Account	

Let us write the Journal Entries in the proper format :

Journal Entries

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1	Salary Account Dr. To Cash Account (being salary paid worth Rs 5000)		5,000	5,000
2	Purchases Account Dr. To Cash Account (being goods purchased for cash)		500	500
3	Purchases Account Dr. To Rahul's Account (being goods purchased on credit from Rahul)		1,000	1,000
4	Ankur's Account Dr. To Sales Account (being goods sold to Ankur)		4,000	4,000

Some important Journal Entries for Practice

1. Gopal started business with cash Rs.10,000 (or) Gopal commenced business with Rs.10,000.

No.	Particulars	Debit Rs.	Credit Rs.
1.	Cash A/c Dr To capital A/c (Being the business started with> cash)	10,000	10,000

2. Cash taken by Gopal (Proprietor) for personal use Rs.500 (or) Drew for personal use Rs.500

2.	Drawings A/c Dr To Cash A/c (Being cash taken for personal use)	500	500

3.Goods purchased for cash from Ravi Rs.5,000 (or) Purchases Rs.5,000 (or) Goods purchased for cash Rs.5,000.

	Purchases A/c Dr To Cash A/c (Being cash taken for personal use)	5000	5000

4. Goods sold for cash to Mohan Rs.4,000 (or) Sales Rs.4,000 (or) Goods sold for cash Rs.4,000

4.	Cash A/c Dr To Sales A/c (Being the goods sold for cash)	4,000	4,000

5. Goods purchased from Venkatesh Rs.3,000 (or) Venkatesh supplied goods to us Rs.3,000

5.	Purchases A/c To Venkatesh A/c (Being goods purchased on credit)	3,000	3,000

6. Goods sold to Pavan Rs.6,000 (or) Pavan purchased goods from us Rs.6,000.

6.	Pavan A/c Dr To Sales A/c (Being the goods sold on credit)	6,000	6,000

7. Goods returned to Mahesh Rs.1,000.

7.	Mahesh A/c Dr To Purchases Returns A/c (Being the goods returned to Mahesh)	1,000	1,000

8. Goods returned by Ramesh Rs.1,000.

8.	Sales Returns A/c Dr To Ramesh A/c (Being the goods returned by Ramesh)	1,000	1,000

9. Furniture purchased for cash from Ramesh Rs.5,000.

9.	Furniture A/c Dr To Cash A/c (Being furniture purchased for cash)	5,000	5,000

10. Machinery purchased from Tata Ltd., Rs.10,000

10.	Machinery A/c Dr To Tata Ltd A/c (Being machinery purchased from Tata Ltd.,)	10,000	10,000

11. Motor car sold to Anil Rs.25,000.

11.	Anil A/c To Motor Car A/c (Being motor car sold on credit)	Dr	25,000	25,000

12. Old cycle sold to Kalyan for cash Rs.500.

12.	Cash A/c To Cycle A/c (Being old cycle sold for cash)	Dr	500	500

13. Received from Vishnu Rs.1,000 (or) Cash received from Vishnu Rs.1,000

13.	Cash A/c To Vishnu A/c (Being cash received from Vishnu)	Dr	1,000	1,000

14. Paid to Uday Rs.500 (or) Cash paid to Uday Rs.500

14.	Uday A/c To Cash A/c (Being the cash paid to Uday)	Dr	500	500

15. Paid Rent to Gopal Rs.1,000 (or) Cash paid to Gopal towards Rent Rs.1,000 (or) Rent Rs.1,000 (or) Rent paid by cash Rs.1,000.

15.	Rent A/c To Cash A/c (Being the rent paid to Gopal)	Dr	1,000	1,000

16 Commission received from Suman Rs.600 (or) Cash received from Suman towards commission Rs.600 (or) Commission received Rs.600

16.	Cash A/c To Commission received A/c (Being the commission received from Suman)	Dr	600	600

17. Cash deposited in bank Rs.2,000 (or) Paid into bank Rs.2,000

17.	Bank A/c To Cash A/c (Being the cash deposited in the bank)	Dr	2,000	2,000

18. Cash withdrawn from bank for office use Rs.1,000 (or) Drew from bank for office expenses Rs.1,000

18.	Cash A/c To Bank A/c (Being cash withdrawn from bank for office use)	Dr	1,000	1,000

19. Cash withdrawn from bank for private use Rs.100 (or) Drew from bank for personal use Rs.100

19.	Drawings A/c To Bank A/c (Being cash withdrawn from bank for private use)	Dr	100	100

20 Own furniture brought by the proprietor into the business Rs.5,000

20.	Furniture A/c Dr To Capital A/c (Being own furniture brought into the business)	5,000	5,000

21. Old cycle taken by the proprietor for his personal use Rs.500.

21.	Drawings A/c Dr To Cycle A/c (Being old cycle taken by the proprietor for his personal use)	500	500

22. Goods taken by the proprietor for his personal use Rs.5,000.

22.	Drawings A/c Dr To Purchases A/c (Being goods taken for personal use),-	5,000	5,000

23. Received from Kiran on account Rs.1,500

23.	Cash A/c Dr To Kiran A/c (Being the cash received from Kiran)	1,500	1,500

24. Received from Kiran Rs.1,850 & Discount allowed to him Rs.150. (or) Cash received from Kiran Rs.1,850, in full settlement of his account of Rs.2,000.

24.	Cash A/c Dr Discount Allowed A/c Dr To Kiran A/c (Being cash received from Kiran and discount allowed to him).	1,850 150	2,000

25. Paid to Naveen on account of Rs.900

25.	Naveen A/c Dr To Cash A/c (Being cash paid to Naveen)	900	900

26. Paid to Naveen Rs.900 & Discount received from him Rs.100 (or) Cash paid to Naveen Rs.900, in full settlement of his account of Rs.1,000

26.	Naveen A/c Dr To Cash A/c To Discount Received A/c (Being cash paid to Naveen and discount received from him)	1,000	900 100

27. Loan taken from Sunil Rs.10,000.

27.	Cash A/c Dr To Loan from Sunil A/c (Being the loan taken from Sunil)	10,000	10,000

28. Interest on loan paid to Sunil Rs.100.

28.	Interest Paid A/c Dr To Cash A/c (Being Interest paid to Sunil)	100	100

29. Loan repaid to Sunil Rs.10,000.

29.	Loan from Sunil A/c Dr To Cash A/c (Being the loan repaid to Sunil)	10,000	10,000

30. Loan given to Anil Rs.5,000.

30.	Loan to Anil A/c Dr To Cash A/c (Being loan given to Anil)	5,000	5,000

31. Interest on loan received from Anil Rs.500.

31.	Cash A/c Dr To Interest Received A/c (Being interest received from Ago,	500	500

32. Loan repaid by Anil Rs.5000

32.	Cash A/c Dr To Loan to Anil A/c (Being loan repaid by Anil)	5,000	5,000

33. Cheque received from Bala Krishna Rs.1,000 and immediately deposited into Bank

33.	Bank A/c Dr To Bala Krishna A/c (Being cheque received from Bala Krishna)	1,000	1,000

34. Cheque issued to Venkatesh Rs.5,000 (or) Paid to Venkatesh by cheque Rs.5,000.

34.	Venkatesh A/c Dr To Bank A/c (Being cheque issued to Venkatesh)	5,000	5,000

35. Cheque received from Balaji towards commission Rs.1,000 and immediately deposited into Bank

35.	Bank A/c To Commission received A/c (Being commission received)	1,000	1,000

36. Rent paid to Brahmanandam by cheque Rs.500 (or) Cheque issued to Brahmanandam towards rent Rs.500

36.	Rent A/c Dr To Bank A/c (Being rent paid by cheque)	500	500

37. Gopal started business with cash Rs.20,000, furniture Rs.5,000, Goods Rs.6,000 & Machinery Rs.10,000. (opening entry)

37.	Cash A/c Dr Furniture A/c Dr Purchases A/c (Goods) Dr Machinery A/c Dr To Capital A/c (Being business started with cash, furniture etc)	20,000 5,000 6,000 10,000	 41,000

38. Amount due from Prasad Rs.500 was written off as bad debt, as he became insolvent.

38.	Bad debts A/c Dr To Prasad A/c (Being amount due from Prasad written off as bad debt)	500	 500

39. Bad debts recovered from X Rs.600.

39.	Cash A/c Dr To Bad debts recovered A/c (Being bad debts recovered from X)	600	 600

40. Purchased an old building from Ramaiah for cash Rs. 1,40,000; spent Rs.25,000 for its repairs and Rs.15,000 for registration.

40.	Building A/c (1,00,000 + 25,000 + 15,000) Dr To Cash A/c (Being building purchased for cash)	1,40,000	 1,40,000

41. A new building was constructed. The following expenses were incurred for its construction. (a) Building material Rs.1,00,000 (b) Labour Rs.16,000 (c) Architect fee Rs.5,000.

41.	Building A/c (1,00,000 + 16,000 + 5,000) Dr To Cash A/c (Being expenses paid for the construction of building)	1,21,000	 1,21,000

42. Machinery purchased from X Ltd., Germany, for Rs.5,00,000; Expenses paid on it -Freight Rs.10,000, Customs duty Rs.50,000, Installation expenses Rs.40,000

42.	Machinery A/c Dr. (5,00,000 + 10,000 +50,000+40,000) To X Ltd A/c (Amount payable to X Ltd.,) To Cash A/c (10,000+50,000+40,000) (Being machinery purchased from X Ltd)	6,00,000	 5,00,000 1,00,000

43. Repairs made to Motor car Rs.5000.

43.	Repairs A/c Dr To Cash A/c (Being repairs made to motor car)	5,000	 5,000

44. Interest on drawings Rs.1,000.

44.	Capital A/c Dr To Interest on drawings A/c (Being interest charged on drawings)	1,000	1,000

45. Interest on Capital Rs.500

45.	Interest on Capital A/c Dr To Capital A/c (Being interest charged on capital)	500	500

46. Bank charges Rs.50

46.	Bank charges A/c Dr To Bank A/c (Being amount charged by Bank for its services)	50	50

47. Interest on Bank deposits Rs.1,000.

47.	Bank A/c Dr To Interest on Bank deposits A/c (Being interest allowed by bank on deposits)	1,000	1,000

48. Interest on Bank Overdraft Rs.200.

48.	Interest on Overdraft A/c Dr To Bank A/c (Being interest charged by bank on overdraft)	200	200

49. Interest on Investments collected by Bank Rs.1,000.

49.	Bank A/c Dr To Interest on Investments A/c (Being interest on investments collected by bank)	1,000	1,000

50. Insurance Premium paid by Bank Rs.2,000

50.	Insurance premium A/c Dr To Bank A/c (Being insurance premium paid by the bank)	2,000	2,000

51. Cash stolen from business Rs.10,000.

51.	Loss by Theft A/c Dr To Cash A/c (Being cash stolen from business)	10,000	10,000

52. Goods purchased from Kumar for Rs.10,000 and paid Rs.2,000 to him.

52.	Purchases A/c Qr To Kumar A/c (10,000 — 2,000)	10,000	8,000

	To Cash A/c (Being goods purchased from KuMar and cash paid to him)		2,000

53. Goods sold to Ravi for Rs.12,000 and received Rs.5,000 from him.

53.	Ravi A/c (12,000 — 5,000) Dr Cash A/c Dr To Sales A/c (Being goods sold to Ravi and cash received from him)	7,000 5,000	 12,000

54. Paid - Life Insurance Premium Rs.500, Income Tax Rs.1,000 & Rent of Residence Rs.2,000

54.	Drawings A/c (500 + 1,000 + 2,000) Dr To Cash A/c (Being personal expenses of the proprietor paid)	3,500	 3,500

55. Paid Rent Rs.1,000, Salaries Rs.2,000 and Postage Rs.100 (Pass Combined Entry)

55.	Rent A/c Dr Salaries A/c Dr Postage A/c Dr To Cash A/c (Being business expenses paid)	1,000 2,000 100	 3,100

56. Goods destroyed by fire Rs.5,000

56.	Loss by Fire A/c . To Purchases or Trading A/c (Being the goods destroyed by fire)	5,000	 5,000

57. Depreciation on Machinery Rs.5,000

57.	Depreciation A/c Dr. To Machinery A/c (Being the decrease in the value of Machinery)	5,000	 5,000

Problems for Practice in Class

1. Journalise the following transactions. Also state the nature of each account involved in the Journal entry.

Date	Transaction	Rs.
2023 Jan 1	Ajit started business with Cash	40,000
„ 3	Paid into the Bank	2,000
„ 5	Purchased goods for cash	15,000
„ 8	Sold goods for cash	6,000
„ 10	Purchased furniture and paid by cheque	5,000
„ 12	Sold goods to Arvind	4,000
„ 14	Purchased goods from Amrit	10,000
„ 15	Returned goods to Amrit	5,000
„ 16	Received from Arvind in full settlement	3,960
„ 18	Withdrew goods for personal use	1,000
„ 20	Withdrew cash from business for personal use	2,000
„ 24	Paid telephone charges	1,000
„ 26	Cash paid to Amrit in full settlement	4,900
„ 31	Paid for stationery Rs.200, rent Rs.500 and salaries to staff 2000	

„ 31	Goods distributed by way of free samples	1,000

4. Journalise the following transactions:

Date	Transaction
2023 Jan. 1	Prasad commenced business with cash Rs.50,000.
" 2	Goods purchased from Ramesh Rs.15,000.
" 3	Furniture purchased from X & co. for Credit Rs. 5,000.
" 4	Goods sold to Venkat Rs.10,000.
" 5	Computer purchased Rs.12,000
" 6	Goods returned to Ramesh Rs.5,000.
" 7	Goods returned by Venkat Rs. 500:
" 8	Opened an account with -ICICI Bank, by depositing Rs,20,000.
" 9	Cheque issued to Ramesh Rs.13,500. Discount received Rs.500.
" 10	Received cash from Venkat Rs.9,000. Discount allowed Rs.500.
" 11	Commission received from Sachin Rs.1,000.
" 12	Goods purchased from Kiran for cash Rs.5,000.
" 13	Goods sold to Suresh and received a cheque from him Rs.8,000.
" 14	Stationery purchased Rs.1,000.
" 15	Salary paid to the clerk Ramaiah Rs.1,500.
" 16	Goods taken for personal use Rs.500.
" 17	Further capital brought into the business Rs.25,000.
" 18	Cash deposited in Bank Rs.20,000.
" 19	Advertisement expenses paid to "E T.V" by cheque Rs.5,000.
" 20	Goods purchased from Kumar: For cash; Rs.5,000; On credit: Rs.15,000.
" 21	Sales to Pavan: For cash: Rs.8,000, On credit: Rs.12,000.
" 22	Cash withdrawn from Bank for Office use: Rs.5,000.
" 23	Purchases Rs.10,000.
" 24	Sales Rs.8,000.
" 25	Paid to Kumar in full settlement of his account Rs.14,800.
" 26	Wages paid Rs.1,000
" 27	Cheque received from Pavan in full settlement of his account Rs.11,500. The Cheque was deposited in Bank on 31st January.
" 28	Cash withdrawn from Bank for personal use Rs.2,000
" 29	Purchased furniture for personal use and paid from business Rs.4,000.
" 30	Sales to Gupta Rs.6,000.
" 31	Purchases from Ramana Rs.3,000.
" 31	Rent paid to Krishna Rs.1,000.

Problems for Practice at Home

1) Pass journal entries in the books of MIB.

1.1.2023	Anu commenced business with a capital of Rs. 50,000
2.1.2023	Bought goods for cash Rs. 7,000
3.1.2023	Deposited in HDFC bank to open a current account Rs. 10,000

4.1.2023	Sold goods for cash Rs. 2,000 and on credit to Ram Rs. 4,000
4.1.2023	Paid Rs. 800 as delivery charges on the above.
5.1.2023	Bought goods for cash Rs. 4,000 from KK and Rs. 6,000 on credit from Big B
5.1.2023	Paid PC Parcel Service for the above Rs. 300
6.1.2023	Bought furniture for Rs. 20,000 from Miss. Namrath on credit
7.1.2023	Returned goods purchased for cash Rs. 200 and from Big B Rs. 500
9.1.2023	Discounted the above bill @ 12 % for ½ month with HDFC bank
10.1.2023	Sold goods costing Rs. 4000 at Rs. 5000 to Bhargav on sale on approval basis
13.1.2023	Introduced further capital Rs. 10,000
14.1.2023	Withdrew from HDFC Rs. 3,000
14.1.2023	Goods returned by Ram Rs. 300 and others Rs. 100
15.1.2023	Purchased an old car for official use Rs. 3,000 and spent Rs. 2,000 on reconditioning
16.1.2023	Paid salary to employees Sri, Radhi, Empty and Jana - Rs. 750 each by cheque
17.1.2023	Settled Big B's account at a cash discount of 5%
18.1.2023	Electric charges paid out of bank a/c Rs. 345
19.1.2023	Ram settled his account and allowed him a cash discount of 6 %
20.1.2023	Paid fire insurance premium Rs. 750 to Sarath insurance co.
22.1.2023	HDFC bank charges Rs. 40 for services
23.1.2023	HDFC bank allowed interest on balance Rs. 25
25.1.2023	Paid Rs. 19,500 in full settlement to Namrath
27.1.2023	Repairs to car Rs. 300 and petrol expenses Rs. 750
28.1.2023	Bhargav approved 80 % of sales and rest were rejected
29.1.2023	Bhargav settled his account by paying 98 % net.

2. Show journal entries in respect of the following transactions in the books of Murali.
    a. Started business with cash Rs. 15,000, goods worth Rs. 8,000, office equipment worth Rs. 7,000 and his private car worth Rs. 12,000 which will henceforth be used solely for business purposes
    b. Bought furniture worth Rs. 4,000 of which those worth Rs. 1,000 are for office purpose and balance for stock
    c. Purchased 3 motor cars worth Rs. 15,000 each from SV associates for stock
    d. Purchased 2 motor cars worth Rs. 8,000 each from Sherif for stock.
    e. Purchased for cash 1 motor car worth Rs. 7,000 for private use
    f. Returned motor cars worth Rs. 15,000 and that worth Rs. 8,000 to SV and Sherif
    g. Sold old office equipments for Rs. 4,000 (Cost Rs. 7,000; Book value Rs. 5,000)
    h. Sold household furniture for Rs. 2,000 and paid in to Business Bank A/C
    i. Paid Landlord Rs. 1,200 for rent. (½ of the premises used for Murali's residence)
    j. Sold some office equipments for Rs. 1,300 (Proceeds being received as Rs. 700 by cheque and balance in cash) and the cheque was paid into private bank A/C

3 Journalise the following transactions in the books of Remo & Co.

- Started business with cash Rs. 25,000, goods worth Rs. 20,000, Machinery worth Rs. 30,000 and Private investments in 10% Govt. Securities Rs. 10,000 (Face Value Rs. 12,000)
- Bought furniture worth Rs. 20,000 of which those worth Rs. 10,000 are for interior decoration and balance for resale
- Purchased 4 Sewing machines worth Rs. 10,000 each from Aswin for resale
- Purchased one Welding machine worth Rs. 20,000 for business use from Sona.
- Purchased for cash 1 motor car worth Rs. 7,000 for private use
- Sold 2 sewing machines for Rs. 12,000 each at a trade discount of 10 % of MRP
- Sold welding machine for Rs. 13,000 (depreciation up to the date of sale Rs. 2,000)
- Sold household furniture for Rs. 2,000 and paid in to Business Bank A/C
- Purchased goods Rs. 45,000 on credit from Neha.
- Of the goods purchased Rs. 5,000 was used for advertisement, Rs. 3,000 was taken for private use; Rs. 1,000 was given to employees on Diwali as bonus and Gift to Mrs. Heena Rs. 600
- Collected six months interest on investments.
- Depreciation on Machinery Rs. 5,000

Accounting Equations

1. Present the following transactions in the Accounting Equation and ascertain the end balances of assets and liabilities:

	Rs.
Jithesh started business with cash	50,000
Purchased furniture for cash	12,000
Purchased goods on credit	25,000
Received interest	2,500
Sold goods on credit for a trade discount of 2% (amt is before discount)	40,000
Cost of Goods sold was Rs. 20,000	
Debtors repaid	20,000
Insolvent debtors	2,000
Settled creditors with a discount of 5%	
Depreciation on furniture at 10% for the year.	

2. Calculate the missing figures:

Assets	**Liabilities**	**Capital**
15,00,000	2,50,000	?
?	1,50,000	75,000
14,50,000	?	13,75,000
57,00,000	(2,80,000)	?

3. Following balances are given at the beginning and end of the accounting period.

Particulars	**1-4-2017**	**31-3-2018**
Capital	51,000	?
Loan	11,500	11,500
Trade payables	5,700	5,800
Fixed Assets	12,800	11,500
Inventory	22,600	22,900
Trade Receivables	17,500	17,500
Cash & Bank	15,300	15,600

Find out the closing capital and the profit for the period.

4. Find out the profit/loss for the period from the following figures:

Particulars	**Rs.**
Opening capital	10,00,000
Drawings made during the year	15,000
Additional capital introduced during the year	20,000
Closing capital	10,55,000

5. Following information is provided by Mr. Gopi pertaining to year ended 31-3-2018. Find the missing figures:

Particulars	Rs.	Particulars	Rs.
Machinery	12,00,000	Trade receivables	B
Accounts payable	1,00,000	Loans	C
Inventory	60,000	Closing Capital	D
Total liabilities including capital	14,15,000	Opening Capital	10,00,000
Cash	A	Loss incurred during the year	35,000
Bank	80,000	Capital introduced during the year	1,00,000

Additional information: During the year sales of Rs. 15,55,000 was made of which Rs. 15,00,000 have been received.

Capital Vs Revenue

E.L. Kohler: Capital Expenditure is an expenditure intended to benefit future period in contrast to a revenue expenditure which benefits a current period

How do we treat an expenditure as Capital?

1. Expenditure resulting in the acquisition of fixed or long-lived assets.
2. When an expenditure is incurred to improve the present condition of a machine or putting an old asset into working condition.
3. Cost of overhauling second-hand machine.
4. Expenditure incurred for acquiring the right to carry on business.
5. Expenditures incurred for remodeling and reconditioning an old plant or property.
6. Major repairs and replacement of plant which results in increased efficiency.

E.L. Kohler: Revenue Expenditure is an expenditure charged against operation ; a term used to contrast with capital expenditure

How do we treat an expenditure as Revenue?

1. Cost of goods purchased for re-sale.
2. Expenditures incurred in the normal course of the business.
3. Expenditures incurred for maintaining the business
4. Obsolescence of fixed assets.
5. Depreciation of fixed assets, loss on sale of asset, interest on loans taken for business finance, etc.
6. Upkeep of fixed assets etc
7. Expenditure incurred for maintaining an asset in working condition.

	Capital Expenditure	Revenue Expenditure
1.	The economic benefits of Capital Expenditures areenjoyed for more than one accounting period.	The economic benefits of Revenue Expenditures are enjoyed within a particularaccounting period.
2.	Capital Expenditures are of non-recurring in nature.	Revenue Expenditures are of recurring in nature.
3.	All Capital Expenditures eventually becomeRevenue Expenditures like depreciation	Revenue Expenditures are not generally capital expenditures.
4.	Capital Expenditures are Recorded as Assets in Balance Sheet	All Revenue Expenditures are matched with Revenue Receipts in P&L A/c
5.	Capital Expenditure Results in Improvement or Increase in Efficiency	Revenue Expenditures are Maintenance in nature (It does not increase Life/Value/Efficacy)
6.	Capital Expenditures are Real A/c	Revenue Expenditures are Nominal Ac

7.	Capital Expenditures are incurred before the Asset is **Put into use**	**Post usage Maintenance Expenses** are called Revenue Expenditure

Deferred Revenue Expenditure is the expenditure for which payment has been made or a liability has been incurred but which is carried forward on the presumption that will be of benefit over a subsequent period or periods

After the issuance of AS-26, the expenditures which were recognised as deferred revenue expenditure has to be treated as simple revenue expense.

Capital Receipts: Receipts which do not have any effect on the result of the income of the business

Revenue Receipts All the incomes earned during normal course of business

Sl. No.	Revenue Receipt	Sl. No.	Capital Receipt
1.	It has short-term effect. The benefit is enjoyed within one accounting period.	1.	It has long-term effect. The benefit is enjoyed for many years in future.
2.	It occurs repeatedly. It is recurring and regular.	2.	It does not occur again and again. It isnon recurring and irregular.
3.	It is shown in profit and loss account on the credit side, as an income for the year	3.	It is shown in the Balance Sheet on the liability side or Adjusted with Asset Value
4.	It does not produce capital receipt.	4.	Capital receipt, when invested, produces revenuereceipt e.g. when capital is invested by the owner,business gets revenue receipt (i.e. sale proceeds of goods etc.).
5.	This does not increase or decrease the value ofasset or liability.	5.	The capital receipt decreases the value of asset orincreases the value of liability e.g. sale of a fixedasset, loan from bank etc.
6.	Sometimes, expenses of capital nature are to be incurred for revenue receipt, e.g. purchase of shares of a company is capital expenditure but dividend received on shares is a revenue receipt.	6.	Sometimes expenses of revenue nature are to be incurred for such receipt e.g. on obtaining loan (a capital receipt) interest is paid until its repayment.

Classify the following into capital and Revenue

- Spent Rs. 20,000 for remodeling the factory and the value of factory enhanced by Rs. 15,000.
- Wages paid for the installation of Machine amounted to Rs. 2,000 and cost of carriage for the same also amounted to Rs. 500.
- An old machine costing Rs. 3,000(or W.D.V Rs. 1,800) was sold for Rs.1,000.
- The cost of removal of stock from old factory to the new on amounted to Rs. 1,000.
- The expenses incurred for white-washing the factory building amounted Rs. 4,000.
- Purchase of patent rights, Rs.4,000 and renewal fee for the next year Rs.400
- Cost of repainting the factory building Rs.800.
- Compensation paid to a retrenched employee for loss of employment amounted to Rs. 2,000.
- Purchase of new tyre for Rs. 2,000 for an old car.
- Imported goods worth Rs.20,000 confiscated by customs authorities for non-disclosure of material facts.
- Fees paid to a lawyer for drawing an agreement of lease for an immovable property amounted to Rs.1,000.
- Expenses incurred on research work for a particular product which ultimately did not produce any fruitful result amounted to Rs.10,000.
- Cost of conversion of gas plant to oil fuel plant for the generation of electricity amounted to Rs. 20,000.
- Plant stock were destroyed by fire, amount recovered from the Insurance Company Rs. 10,000 and Rs. 5,000, respectively
- Incurred Rs. 4,000 in redecorating a cinema hall and Rs.12,000 in enhancing the sitting accommodation.
- Fire insurance premium of Rs. 1,200 is paid on 30th November for one year. The accounting date is 31st December.
- A firm of builders spends Rs. 1,60,000 in purchasing a plot of land and erects officers for its own use a quarter of the site. The remaining land is used for building houses which are sold to the Public .
- A sum of Rs. 2,000 spent on a machine comprises Rs. 400 for replacement of worn out parts and Rs. 1,600 for additions to new devices which enable the output to be doubled.
- Visit of sales manager to U.K. total cost of which was 20,000 for promoting export sales visit is quite successful.

Problems for Practice in Class

1. State which of the following expenditures are capital expenditure and which are revenue expenditure. Give reasons in each case.
(a) Payment of carriage on goods purchased paid by cheque.
(b) Purchase of packing materials for distribution of goods from AP Paper Mills Ltd.
(c) Purchase of xerox machine for use in own office from Business Equipment Suppliers Ltd.

2. Explain whether the following items of expenditure and income are of a capital or revenue nature.
(a) Amount realised from sale of a discarded Machine.
(b) Repairs done to second hand furniture purchased.
(c) Cost of concrete water drains constructed on the land.
(d) Amount received as rent during the year for a part of the building sublet.
(e) Canal irrigation charges paid to the government.
(t) Directors' fees.

3. Classify the following between Capital and Revenue giving reasons for the same:
(a) Rs 10,000 spent towards additions to the machinery.
(b) Repairs for Rs 2,000 necessitated by negligence.
(c) Rs 1,500 spent to remove a worn-out part and replace it with a new one.
(d) Rs 400 wages paid in connection with the erection of a new machinery.
(e) Old machinery of book value of Rs 10,000 wornout, dismantled at a cost of Rs 2,000 and scraps realised for Rs 500.
(f) Second hand motor-car purchased for Rs 20,000 and spent Rs 2,000 for repairs immediately.
(g) Employees' State Insurance premium Rs 800 paid.
(h) Insurance claim of Rs 5,000 received from the Insurance Company for loss of goods by fire of Rs 6,000.

4. State which of the following items would be charged to capital and which to revenue:
(i) A second-hand truck was purchased for Rs 50,000 and Rs 12,000 was spent on overhauling and painting it.
(ii) Rs 10,000 was spent for whitewashing the factory building.
(iii) An old machine which stood in the books at Rs 50,000 was sold for Rs 30,000.
(iv) Wages paid to workmen for installation of a new machinery Rs 10,000.
(v) Legal expenses Rs 5,000 incurred for purchasing a land.

Problems for Practice at home

1. State whether the following are capital, revenue or deferred revenue expenditure.
(i) Carriage of Rs 7,500 spent on machinery purchased and installed.
(ii) Heavy advertising costs of Rs 20,000 spent on the launching of a company's new product.
(iii) Rs 200 paid for servicing the company vehicle, including Rs 50 paid for changing the oil.
(iv) Construction of basement costing Rs 1, 95,000 at the factory premises.

Solution
(i) Carriage of Rs 7,500 paid for machinery purchased and installed should be treated as a Capital Expenditure.
(ii) Advertising expenses for launching a new product of the company should be treated as a Deferred Revenue Expenditure.
(iii) Rs 250 paid for servicing and oil change should be treated as a Revenue Expenditure.
(iv) Construction cost of basement should be treated as a Capital Expenditure.

2 State whether the following are capital or revenue expenditure.
(i) Paid a bill of Rs 10,000 of Mr. Kumar, who was engaged as the erection engineer to set up a new automatic machine costing Rs 20,000 at the new factory site.
(ii) Incurred Rs 26,000 expenditure on varied advertisement campaigns under taken yearly, on a regular basis, during the peak festival season.
(iii) In accordance with the long-term plan of providing a well- equipped Labour Welfare Centre, spent Rs 90,000 being the budgeted allocation for the year.

Solution
(i) Expenses incurred for erecting a new machine should be treated as a Capital Expenditure.
(ii) Advertisement expenses during peak festival season should be treated as a Revenue Expenditure.
(iii) Expenses incurred for Labour Welfare Centre should be treated as a Capital Expenditure.

3. State the nature (capital or revenue) of the following expenditure which were incurred by Vedanta & Co. during the year ending 30th June, 2023:
(i) Rs 350 was spent on repairing a second hand machine which was purchased on 8th July, 2006 and Rs 200 was paid on carriage and freight in connection with its acquisition.
(ii) A sum of Rs 500 was paid as compensation to two employees who were retrenched.
(iii) Rs 150 was paid in connection with carriage on goods purchased.
(iv) Rs 20,000 customs duty is paid on import of a machinery for modernisation of the factory production during the current year and Rs 6,000 is paid on import duty for purchase of raw materials.
(v) Rs 18,000 interest had accrued during the year on term loan obtained and utilised for the construction of factory building and purchase of machineries; however, the production has not commenced till the last date of the accounting year.

Solution

(i) Repairing and carriage totaling Rs 550 for second hand machine should be treated as a Capital Expenditure.
(ii) Compensation paid to employees shall be treated as a Revenue Expenditure.
(iii) Carriage paid for goods purchased should be treated as a Revenue Expenditure.
(iv) Customs duty paid on import of machinery to be treated as a Capital Expenditure. However, import duty paid for raw materials should be treated as a Revenue Expenditure.
(v) Interest paid during pre-construction period to be treated as a Capital Expenditure.

4. State with reasons whether the following items relating to Parvati Sugar Mill Ltd. are capital or revenue:
1. Rs 50,000 received from issue of shares including Rs 10,000 by way of premium.
2. Purchased agricultural land for the mill for Rs 60,000. Rs 500 also paid for land revenue.
3. Rs 5,000 paid as contribution to PWD for improving roads of sugar producing area. 4. Rs 40,000 paid for excise duty on sugar manufactured.
5. Rs 70,000 spent for constructing railway siding.

Solution
(1) Rs 40,000 (Rs 50,000 - Rs 10,000) received from issue of shares will be treated as a Capital Receipt. The premium of Rs 10,000 should be treated as a Capital Profit.
(2) Cost of land Rs 60,000 to be treated as Capital Expenditure and land revenue of Rs 500 to be treated as Revenue Expenditure.
(3) Contribution paid to PWD should be treated as a Revenue Expenditure.
(4) Excise duty of Rs 40,000 should be treated as a Revenue Expenditure.
(5) Rs 70,000 spent for constructing railway siding to be treated as a Capital Expenditure.

5. State clearly how you would deal with the following in the books of a Theatrical Company:
(i) The redecoration expenses Rs 6,000.
(ii) The installation of a new wine bar for Rs 10,000.
(iii) The building of an extension of the club dressing room for Rs 15,000.
(iv) The purchase of wines and spirits Rs 2,000.
(v) The purchase of V.C.R. and T.V. for the use in the club lounge for Rs 15,000.

Solution
(i) The redecoration expenses of Rs 6,000 shall be treated as a Deferred Revenue Expenditure.
(ii) The installation of a new wine bar is a Capital Expenditure because it is the acquisition of an asset.
(iii) Rs 15,000 spent for the extension of club dressing room is a Capital Expenditure because it creates an asset of an permanent nature.
(iv) The purchase of wines and spirits of Rs 2,000 is a Revenue Expenditure.
(v) The purchase of V.C.R. and T.V. for Rs 15,000 is a Capital Expenditure, because it is the acquisition of assets.

6. Classify the following items as capital or revenue expenditure :

(i) An extension of railway tracks in the factory area;
(ii) Wages paid to machine operators;
(iii) Installation costs of new production machine;
(iv) Materials for extension to foremen's offices in the factory;
(v) Rent paid for the factory;
(vi) Payment for computer time to operate a new stores control system,
(vii) Wages paid to own employees for building the foremen's offices. Give reasons for your classification.

Solution :

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only.

(iii) Installation costs of new production machine should be treated as a Capital Expenditure because it willbenefit the business for more than one accounting period.

(iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure becauseit will benefit the business for more than one accounting period.

(v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit only the current period.

(vi) Payment for computer time to operate a new stores control system should be treated as Revenue Expenditurebecause it has been incurred to carry on the normal business.

(vii) Wages paid for building foremen's offices should be treated as a Capital Expenditure because it will benefitthe business for more than one accounting period.

LEDGER

The book which contains accounts is known as the *Ledger*. Transactions relating to a particular account for a given period are brought together and finally they are recorded at one place in a *Ledger*.

For example, cash transactions like Cash Sales, Cash Purchases, Cash Expenses etc. are put in one place in the *Ledger* under the Cash Account.

Transactions relating to different persons whether customers or suppliers, are recorded separately in their respective accounts in the *Ledger*. A *Ledger* is the most important book of accounts as it provides necessary information regarding various accounts.

Each Ledger account is divided into two equal parts :

a. Debit side
b. Credit side

The left-hand side is known as the Debit side and the right hand side as the Credit side. On each side there are columns for Date, Particulars, Journal Folio and Amount. The format of a Ledger Account is as follows :

Dr. Cr.

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
	Debit Entries					Credit Entries		

Transferring the entries from Journal to respective Ledger Accounts is known as **Posting of entries.**

How entries are posted in Ledger Accounts?

Each debit and credit entry is transferred from the Journal to their respective accounts in the Ledger. For example, consider the following journal entry:

Furniture Account Dr. 1000
To Cash Account 1000

In the Furniture Account on the Dr. side, write Rs.Cash AccountRs. preceded by the word Rs.ToRs. inside the Particulars column. Write the amount under the Amount column.

Dr. ***Furniture Account*** Cr.

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
	To Cash Account		1000					

Similarly, in Cash Account on the Cr. side, write Rs.Furniture AccountRs. preceded by the word Rs.ByRs. inside the Particulars column. Write the amount under the Amount column.

Dr. ***Cash Account*** Cr.

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
						By Furniture Account		1000

In every account, the total of both the sides should be same i.e. the total of Dr. should always be equal to the total of Cr.

Balance c/d and Balance b/d

Balance c/d (Balance carried down)

Balance carried down is usually the balancing figure in any account. Before closing an account both the sides (*Dr.* and *Cr.*) of that account should tally.

The amount that is added to make the shorter side of any account equal to the other side is called balance carried down. It is in fact the closing balance of any account. To understand the concept of balance carried down, let us consider the Furniture Account and the Cash Account of the previous example.

The two accounts have been reproduced as follows :

Dr. ***Furniture Account*** Cr.

Date	Particulars	J.F.	Amount		Date	Particulars	J.F.	Amount
	To Balance c/d		1,000			By Furniture Account		1,000
			1,000					1,000
						By Balance b/d		1,000

.

CASH BOOK

INTRODUCTION:

- Cash receipts and cash payments are called as Cash Transactions.
- In any business concern there will be a large number of cash transactions.
- It is customary to every businessman to have cash transactions i.e. cash receipts and payments, regardless of the size of the business organisation.
- If the size of the firm is small, the cash transactions are in small amounts. In case of large organisations, the transactions will be in big amounts.
- If cash receipts and payments are recorded in a separate book, it is known as "Cash Book".
- The person who maintains this book is called a "Cashier".
- There are chances for fraud and manipulation of cash. In order to avoid the probable fraud, all the cash transactions are recorded in Cash Book, through which the closing balance of cash is known.
- The balance of the Cash Book can be compared with the actual amount of cash in the firm. When there is a difference between these two, it can be understood that the cash is manipulated.

TYPES OF CASH BOOK:

1. Simple / Single Column Cash Book

2. Double Column Cash Book

a) Containing Cash and Discount columns

b) Containing Bank and Discount columns -

b) Containing Cash and Bank columns (In very few cases)

3. Triple Column Cash Book

4. Petty Cash Book.

1. SIMPLE OR SINGLE COLUMN CASH BOOK: This is the simplest form of Cash Book. It has only one column on each side to record the amount. This type of Cash Book is used by those firms who have no Bank and discount transactions. The format of Simple Cash Book is given below.

Cash Receipts	Rs.	Cash Payments	Rs.
To Balance b/d (opening Balance)	X X X	By Purchases A/c (Goods Purchased for cash)	X X X
To Sales A/c (Goods sold for cash)	X X X	By Asset A/c (Asset Purchased for cash)	XXX
To Asset A/c (Asset sold for cash)	X X X	By Expense A/c (Expense paid)	X X X
To Income A/c (Income received)	X X X	By Trade payables's A/c (Cash paid to Trade payables)	X X X
To Trade receivables's A/c (Collection of debt)	X X X	By Bank A/c (Cash deposited in Bank)	X X X
To Bank A/c (Cash withdrawn from Bank for business use)	X X X	By Drawings A/c (Cash taken by proprietor for personal use)	XXX
To Capital A/c (Cash brought in by the proprietor)	X X X	By Bills Payable A/c (Bills Payable honoured)	X X X
To Bills Receivable A/c (Bills Receivable honoured)	X X X	By Loan to Y A/c (Loan given to Y)	X X X
To Loan from X A/c (Loan taken from X)	X X X	By Balance C/d (Closing Balance)	X X X
	XXXX		XXXX
To Balance b/d (Opening Balance of next period)	X X X		

2. TWO OR DOUBLE COLUMN CASH BOOK: .

Dr. **Double Column Cash Book** Cr.

Date	Particulars	L.F	DA Rs	Cash Rs	Date	Particulars	L.F	D.R Rs	Cash Rs.

3.

D.A. —> Discount Allowed D.R. -*Discount Received

3. CASH BOOK WITH BANK AND DISCOUNT COLUMNS:

Dr. Double Column Cash Book Cr.

Date	Particulars	L.F	DA Rs	Bank Rs	Date	Particulars	L.F	D.R Rs	Bank Rs.

2.
D.A. —> Discount Allowed D.R. -*Discount Received

4. THREE OR TRIPLE COLUMN CASH BOOK: (Cash Book with cash, discount and bank columns)

Dr. Triple Column Cash Book Cr.

Date	Particulars	L.F	DA Rs	Cash Rs.	Bank Rs	Date	Particulars	L.F	DR Rs.	Cash Rs	Bank Rs.

3.
D.A. —> Discount Allowed D.R. -*Discount Received

5. PETTY CASH BOOK:

- In addition to the main Cash Book, firms also generally maintain a Petty Cash Book but that is purely a subsidiary book.
- "Petty" means small.
- In very big business concerns all payments are made by cheques and all receipts are deposited immediately into the Bank.
- However, there may be large number of small payments on account of expenses like postage, stationery, cartage, coolie, traveling expenses, repairs, refreshments etc.

Imprest **System:**

- For making petty payments, Petty Cashier is given certain sum of money in advance to start with. This amount is called as "Imprest" or "Float".
- Payments will be made out of this imprest.
- At the end of the specified period, Petty Cashier balances the Petty Cash Book and submits it to the Head Cashier for verification.
- After scrutinising all the petty payments with the help of Vouchers, the Head Cashier issues a Fresh Cheque for the exact amount spent by the Petty Cashier in that period.
- This amount and the balance with the Petty Cashier will become the Opening balance for the next period.

- This is just the amount with which Petty Cashier started. Such system of maintaining Petty Cash Book is called "Imprest System".

Dr **Analytical Petty Cash Book** **Cr**

Amt Recd. Rs.		Date	Particulars	V. No	Amt Paid Rs.	Analysis of payments: Postage Rs.	Printing & Stationer	Carriage & Freight	Travelling exp. Rs.	Misc. exp. Rs.	Led. A/c's Rs.
XXX			To Bal.								
XXX			b/d To		XXX		XXX				
			Bank A/c		XXX	XXX					
			By.........		XXX				XXX		XXX
			By.........		XXX XXX		XXX	XXX			
			By.........		XXX XXX					XXX	
			By.........		XXX				XXX		
			By.........		XXX	X X X	X X X L.F	XXX L. F	XXX LF	XXX LF	XXX
			By.........		XXX						
XXX			By.........		XXX	L . F					
XXX			By.Total								
XXX			By Bal. c/d								

V.No. — Voucher Number, CBF — Cash Book Folio

Petty Cash Account **Cr**

Date	Particulars	Folio	Amount Rs.	Date	Particulars	Folio	.
	To Balance b/d To Cash a/c		XXX XXX		By Stationery A/c By Tray. Exp. A/c By Repairs A/c		XXX XXX XXX

1. Enter the following transaction Cash Book with cash and discount columns

Date	Transaction
2015 July 1	Cash in hand Rs.12,000.
„ 3	Received from Bhaskar Rs.1960 and allowed him discount Rs.40
„ 5	Bought typewriter for Rs.2,000
„ 7	Paid to Govind Rs.950 and was allowed a discount of Rs.50
„ 9	Received for cash sales Rs.3,000
„ 11	Rama Rao who owed Rs.1,500 settled his account by paying Rs.1,360
„ 13	Paid to Ramana Rs.480 in full settlement of his account for Rs.500
„ 15	Settled Sudhakar's account of Rs.200 by remitting Rs.190
„ 17	Received dividend on shares Rs.1,400
„ 19	Goods purchased for cash Rs.4,000 (Trade discount 10%)
„ 21	Goods sold for cash Rs.6,000 (Trade discount 5%)
„ 23	Goods sold to Kiran on credit Rs.5,000
„ 25	Goods purchased from Badri on credit Rs.7,000

„ 27	Received from Ravi on account Rs.3,000
„ 29	Purchased shares of Tata Ltd. Rs.5,000
„ 30	Received from Kiran in full settlement of his account Rs.4,800
„ 31	Paid to Badri in full settlement Rs.6,850

Problem 2:From the following transactions prepare a Cash Book with bank and discount columns

Date	Transactions
2015 April 1	Cash at bank Rs.10,000
„ 4	Purchased goods Rs.3,000
„ 8	Cash sales to Tukaram Rs.2,400
„ 12	Received a cheque from Murali for Rs.750, in full settlement of Rs.800
„ 14	Paid to Han Rs.650 and was allowed discount Rs.30
„ 15	Commission received from Kareem Rs.400
„ 16	Paid rent to Ramaiah Rs.1,000
„ 20	Cash Sales Rs.400
„ 22	Paid to Saleem for office furniture Rs.300
„ 25	Paid electricity charges Rs.200
„ 28	Drew self cheque for personal use Rs.400
„ 29	Sale of old machinery Rs.1,800
„ 29	Paid to Mahesh Rs.900. Discount received Rs.70
„ 30	Salaries paid by cheque Rs.1,250
„ 30	Cash received from Madhav Rs.890; Discount allowed Rs.110.
„ 30	Dividends collected by bank Rs.1,000
„ 30	Interest on bank deposits Rs.150
„ 30	Bank charges Rs.70

Problem 3: Enter the following transactions in three column Cash Book of M/S Ganesh Traders.

Date	Transaction
2015 Jan 1	Cash in hand Rs.15,000; Cash at Bank Rs.5,000
,, 3	Cash sales to Vamsi Rs.7,000
,, 5	Cash deposited in Bank Rs.10,000
„ 7	Cheque received from Bhaskar Rs . 1000; Discount allowed Rs.100
„ 9	Paid to Deepak by cheque of Rs. 1,050 and discount allowed by him Rs.50
,, 11	Cash purchases from Krishna Rs. 4,000
,, 13	Drew from Bank for office use Rs. 2,000
,, 15	Paid into Bank, the cheque received from Bhaskar
,, 17	Cheque received from Mohan Rs. 1,400; Discount allowed Rs. 100. The cheque was sent to Bank for collection.
,, 19	Stationery purchased Rs. 500
,, 21	Commission paid to Rohan by cheque Rs. 800
„ 23	Drew a cheque for personal use Rs. 3,000
„ 25	The cheque received from Mohan was dishonoured
,, 27	Paid salaries by cheque Rs. 1,500 and by cash Rs. 2,000

"	29	Interest received from Prakash Rs. 900
"	31	Items as shown in the pass book
		(a) Bank charges Rs.200 (b) Life Insurance premium paid Rs. 1,000
		(c) Interest on deposits Rs.500

Problem 4 Prepare an Analytical Petty Cash Book on the Imprest System of Ashutosh, Kolkata from the following transactions: 2022

Jan. 1 Received Cash for Petty Expenses 20,000
Jan. 2 Paid Bus fare 100
Jan. 2 Paid cartage 500
Jan. 3 Paid for postage 1000
Jan. 3 Paid wages for casual labourers. 1200
Jan. 4 Paid for stationery. 800
Jan. 4 Paid auto charges 400
Jan. 5 Paid for repairs of chairs 3000
Jan. 5 Paid Bus fare. 200
Jan. 6 Paid Conveyance charges 600
Jan. 6 Paid cartage. 600
Jan. 6 Paid for Stationery 400
Jan. 6 Refreshment to customers 1000

Bank Reconciliation Statement

- If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible.
- When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS).
- The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount.
- As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

Need for bank reconciliation statement

It is important to compare the bank statement and bank column of cash book. If the two balances do not match, it is necessary to reconcile them to explain why the differences haveoccurred. It may be prepared every month, every week or even daily depending on the number of transactions and the needs of the business

Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:

(i) Timing differences – The different times at which the same items are entered
(ii) Errors in recording - Difference arising due to errors in recording the entries

(i) Timing differences

(a) cheques issued but not yet presented for payment
(b) cheques deposited into bank but not yet credited
(c) bank charges and interest on loan and overdraft
(d) interest and dividends collected by the bank
(e) dishonour of cheques and bills
(f) amount paid by parties directly into the bank
(g) payment made directly by the bank to others
(h) bills collected by the bank on behalf of its customer

(ii) Errors in recording

(a) errors committed in recording the transactions by the business in the cash book
(b) errors committed in recording the transactions by the bank

Format

Bank Reconciliation Statement as on --------------------

Particulars	Amount `	Amount `
Balance as per cash book (favourable balance) Add:		xxx
1. Cheques issued but not presented	xxx	
2. Credits in the pass book only		
(a) Interest credited in bank statement	xxx	
(b) Dividend and other income	xxx	
(c) Direct deposit by a party	xxx	
3. Any error in cash book/ bank statement which has theeffect of increasing the balance as per bank statement	xxx	xxx
		xxx
Less:		
1. Cheques deposited but not credited	xxx	
2. Cheques dishonoured but not entered in cash book	xxx	
3. Debits in bank statement only		
(a) Interest debited	xxx	
(b) Insurance premium, loan instalment, etc., paid asper standing instructions	xxx	
(c) Direct payment by banker	xxx	
4. Any error in cash book/ bank statement which has theeffect of decreasing the balance as per bank statement	xxx	xxx
Balance as per bank statement		**xxx**

Sl. No	Causes of differences	Favourable balance (Dr.)as per cash book	Unfavourable balance (Cr.) as per cash book	Favourable balance (Cr.) as per bank statement	Unfavourablebalance (Dr.) as per bank statement
1	Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
2	Cheque directly depositedin bank by a customer	Add	Subtract	Subtract	Add
3	Income directly receivedby bank	Add	Subtract	Subtract	Add
4	Wrong credit in the cashbook	Add	Subtract	Subtract	Add
5	Under casting of debit side of bank column of thecash book	Add	Subtract	Subtract	Add
6	Over casting of credit sideof bank column of the cash book	Add	Subtract	Subtract	Add
7	Bill receivable collecteddirectly by bank	Add	Subtract	Subtract	Add
8	Cheque deposited but notcleared	Subtract	Add	Add	Subtract
9	Expenses directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
10	Bank charges levied by bank	Subtract	Add	Add	Subtract
11	Locker rent levied by bank	Subtract	Add	Add	Subtract
12	Wrong debit in the cash book	Subtract	Add	Add	Subtract
13	Wrong debit in the bank statement	Subtract	Add	Add	Subtract
14	Over casting of debit side of bank column of the cash book	Subtract	Add	Add	Subtract
15	Under casting of credit side of bank column of the cash book	Subtract	Add	Add	Subtract

16	Interest on bank overdraft charged	Subtract	Add	Add	Subtract

Illustration 1 (When balance as per cash book is favourable)

From the following information, prepare bank reconciliation statement to find out balance asper bank statement on 31st March, 2017.

Particulars	Rs.
(i) Cheques deposited but not yet collected by the bank	500
(ii) Cheque issued but not yet presented for payment	1,000
(iii) Bank interest charged	100
(iv) Rent paid by bank as per standing instruction	200
(v) Cash book balance	300

Solution

Particulars	Amount Rs.	Amount Rs.
Balance as per cash book		300
Add: Cheque issued but not yet presented for payment		1,000
		1,300
Less: Cheques deposited but not yet collected by the bank	500	
Bank interest charged	100	
Rent paid by bank as per standing instruction	200	800
Balance as per bank statement		**500**

Illustration 2

On 31st March, 2018, the bank column of the cash book of Senthamarai Traders showed a debit balance of Rs. 40,200. On examining the cash book and the bank statement, it was foundthat:

A cheque for Rs. 2,240 deposited on 29th March, 2018 was credited by the bank only on 4th April, 2018.

A payment made through net banking for Rs. 180 has been entered twice in the cash book.

Cheques amounting to Rs. 500 which were issued to trade payables and entered in thecash book before 31st March, 2018 were not presented for payment until that date.

Cheque amounting to Rs. 2,000 had been recorded in the cash book as having been deposited into the bank on 30th March, 2018, but was entered in the bank statementon 3rd April, 2018.

Transport subsidy amounting to Rs. 3,000 received from the Government of Tamilnadu directly by the bank, but not advised to the Senthamarai Traders.

A sum of Rs. 1,500 was wrongly debited to Senthamarai Traders by the bank, for whichno details are available.

Bank reconciliation statement of Senthamarai traders as on 31st March, 2018

Particulars	Amount `	Amount `
Balance as per cash book		40,200
Add:		
Net payment entered twice in the cash book	180	
Cheques issued to trade payables not yet presented	500	
Transport subsidy collected by bank	3,000	3,680
Less:		43,880
Cheques deposited but not yet credited by bank	2,240	
Cheques deposited but not yet credited by bank	2,000	
Wrong debit by bank	1,500	5,740
Balance as per bank statement		**38,140**

Illustration 3 (When balance as per cash book shows overdraft)

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	Rs.
(i) Overdraft as per cash book	10,000
(ii) Cheques deposited but not yet credited	5,000
(iii) Cheque issued but not yet presented for payment	1,000
(iv) Payment received from the customer directly by the bank	500
(v) Interest on overdraft debited by bank	1,000
(vi) Amount wrongly debited by bank	300

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount Rs.	Amount Rs.
Overdraft as per cash book		10,000
Add: Cheques deposited but not yet credited	5,000	
Interest on overdraft debited by bank	1,000	
Amount wrongly debited by bank	300	6,300
		16,300
Less: Cheque issued but not yet presented for payment	1,000	
Payment received from the customer directly by the bank	500	1,500
Overdraft balance as per bank statement		**14,800**

Exercise 1: Rony is the proprietor of Veena photos. The bank column of cash account of his business wasbalanced on 31st March 2018. It showed an overdraft of Rs. 12,000. The bank statement of Veena photos showed a credit balance of Rs. 5,000. Prepare a bank reconciliation statement taking the following into account.

The bank had directly collected dividend Rs. 11,200 but was not entered in the cashbook.

Cheques amounting to Rs. 9,000 were issued on 27th March, 2018, of which, chequesamounting to Rs. 7,000 were not presented for payment before 31st March 2018.

Cheque book charges of Rs. 200 debited by the bank but not recorded in cash book.
Bank locker rent of Rs. 1,000 debited by the bank but not recorded in cash book

Exercise 2 Prepare bank reconciliation statement as on 31st December, 2017 from the following information:

Balance as per bank statement (pass book) is Rs. 25,000

No record has been made in the cash book for a dishonour of a cheque for Rs. 250

Cheques deposited into bank amounting to Rs. 3,500 were not yet collected

Bank charges of Rs. 300 have not been entered in the cash book.

Cheques issued amounting to Rs. 9,000 have not been presented for payment

Exercise 3: From the following information, prepare bank reconciliation statement as on 31st December,2017 to find out the balance as per bank statement.

	Particulars	Rs.
(i)	Balance as per bank statement	6,000
(ii)	Cheques deposited on 28th December, 2017 but not yet credited	2,000
(iii)	Cheques issued for 10,000 on 20th December, 2017 but not yet presented forpayment	3,000
(iv)	Interest on debentures directly collected by the bank not recorded in cashbook	4,000
(v)	Insurance premium on building directly paid by the bank	1,000
(vi)	Amount wrongly credited by bank	500

Exercise 4 From the following data, ascertain the cash book balance as on 31st December, 2017.

	Particulars	
1)	Overdraft balance as per bank statement	6,500
2)	Cheques deposited into the bank but not yet credited	10,500
3)	Cheques issued, but not yet presented for payment	3,000
4)	Wrong debit by the bank	500
5)	Interest and bank charges debited by bank	180
6)	Insurance premium on goods directly paid by the bank as per standing instructions	100

Exercise 5. The bank statement of Sudha and Company showed an overdraft of Rs. 10,000 on 31st December,2017, prepare a bank reconciliation statement.

(a) A cheque deposited on 30th December 2017 for Rs. 15,000 was not credited by thebank.

(b) Interest on term loan Rs. 500 was debited by bank on 31st December, 2017 but notaccounted in the books of Sudha and Company.

(c) A cheque issued for Rs. 550 on 24th December, 2017 was paid by the bank. It wasrecorded as Rs. 505 in the bank column of the cash book.

(d) One outgoing cheque on 27th December, 2017 of Rs. 200 was recorded twice in the cashbook.

(e) Bank recorded a cash deposit of Rs. 2,598 as Rs. 2,589.

(f) A sum of Rs. 2,000 deposited in cash deposit machine by a customer of the business on31st December, 2017 was not recorded in the books of Sudha and Company.

(g) Interest on overdraft of Rs. 600 was not recorded in the books of Sudha and Company.

(h) Two cheques issued on 29th December, 2017 for Rs. 500 and Rs. 700, but only the firstcheque was presented for payment before 31st December, 2017.

Exercise 6 Given below are the entries in the bank column of the cash book and the bank statement.Prepare a bank reconciliation statement as on 31st October, 2017

Cash book (Bank column)

Date	Receipts	Amount Rs.	Date	Payments	Amount Rs.
2017			2017		
Oct. 1	To Balance b/d	20,525	Oct. 8	By Kamala A/c	12,000
18	To Ram A/c	6,943	26	By Magesh A/c	9,740
19	To Sales A/c (Ravi)	450	28	By Mala A/c	11,780
20	To Commission A/c (Kala)	200	30	By Salaries A/c	720
20	To Nirmala A/c	7,810	31	By Balance c/d	1,688
		35,928			35,928
Nov. 1	To Balance b/d	1,688			

Bank statement

Date	Particulars	Dr. Withdrawals ₹	Cr. Deposits ₹	Balance Dr./Cr. ₹
1.10.17	By Balance b/d			**20525 Cr**
9.10.17	To Kamala	**12,000**		8525 Cr
19.10.17	By Ram		**6,943**	15468 Cr
25.10.17	By Ravi		**450**	15918 Cr
26.10.17	To Magesh	**9,740**		6178 Cr
27.10.17	By Kala		**200**	6378 Cr
28.10.17	To Rajan (salaries)	**720**		5658 Cr
30.10.17	By Bills receivable		20,000	25658 Cr
	By Interest on Investment		1,820	27478 Cr
31.10.17	To Bills payable	4,000		23478 Cr

Practice at Home

1. From the following particulars prepare a bank reconciliation statement of Jayakumar as on 31st December, 2016.

   (a) Balance as per cash book ₹ 7,130

   (b) Cheque deposited but not cleared ₹ 1,000

   (c) A customer has deposited ₹ 800 into the bank directly

   (**Answer:** Balance as per bank statement ₹ 6,930)

2. From the following particulars of Kamakshi traders, prepare a bank reconciliation statement as on 31st March, 2018.

   (a) Debit balance as per cash book ₹ 10,500

   (b) Cheque deposited into bank amounting to ₹5,500 credited by bank, but entered twice in the cash book

   (c) Cheques issued and presented for payment amounting to ₹ 7,000 omitted in the cash book

   (d) Cheque book charges debited by the bank ₹ 200 not recorded in the cash book.

   (e) Cash of ₹ 1,000 deposited by a customer of the business in cash deposit machine not recorded in the cash book.

   (**Answer:** Overdraft as per bank statement ₹ 1,200)

3. From the following information, prepare bank reconciliation statement to find out the bank statement balance as on 31st December, 2017.

	Particulars	₹
1.	Balance as per cash book	15,000
2.	Cheques deposited but not yet credited	1,000
3.	Cheques issued and entered in the cash book before 31st December 2017 but not presented for payment until that date	1,500
4.	Dividend directly received by bank	200
5.	Direct payment made by bank for rent	1,000
6.	Locker rent charged by the bank not recorded in cash book	1,200
7.	Wrong debit given by the bank on 30th December 2017	500
8.	A payment made through net banking has been entered twice in the cash book	300

(**Answer:** Balance as per bank statement ₹ 13,300)

4. From the following particulars of Raheem traders, prepare a bank reconciliation statement as on 31st March, 2018.

   (a) Overdraft as per cash book ₹ 2,500. On the same day the balance as per bank statement is ₹ 1,99,000.

   (b) Interest on debentures of ₹ 700 was received by the bank directly.

   (c) Amount received by bank through RTGS amounting to ₹ 2,00,000, omitted in the cash book.

   (d) Two cheques issued for ₹ 1,800 and ₹ 2,000 on 29th March 2018. Only the second cheque is presented for payment.

   (e) Insurance premium on car for ₹ 1,000 paid by the bank as per standing instruction not recorded in the cash book.

5. From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

	Particulars	₹
(i)	Bank overdraft as per cash book	20,000
(ii)	Cheques deposited but not yet credited	4,000
(iii)	Cheque issued but not yet presented for payment	1,000
(iv)	Rent collected by the bank as per standing instruction	500
(v)	Interest on overdraft debited by bank	2,000
(vi)	Amount wrongly debited by bank	300
(vii)	Cheque issued on 30th December 2017 dishonoured by the bank	5,000
(viii)	A customer's cheque deposited in the bank dishonoured by bank not recorded in the cash book	2,000

(**Answer:** Overdraft as per bank statement ₹ 21,800)

6. Prepare bank reconciliation statement as on 31st March, 2017 from the following extracts of cash book and bank statement.

Dr. Cash book (Bank column only) Cr.

Date	Receipts	Amount ₹	Date	Payments	Amount ₹
2017 March 1	To Balance b/d	9,000	2017 Mar 4	By Drawings	1,700
3	To Ram	2,200	8	By Sumi	3,300
9	To Prem	1,500	12	By Salary	2,800
16	To Pavithra	3,400	16	By Kayal	1,700
23	To Devi	2,600	18	By Pooja	4,200
27	To Mani	1,100	26	By Sam	2,000
30	To Shankar	350	28	By Raheem	1,100
			30	By Rent	1,100
			30	By Balance c/d	2,250
		20,150			20,150

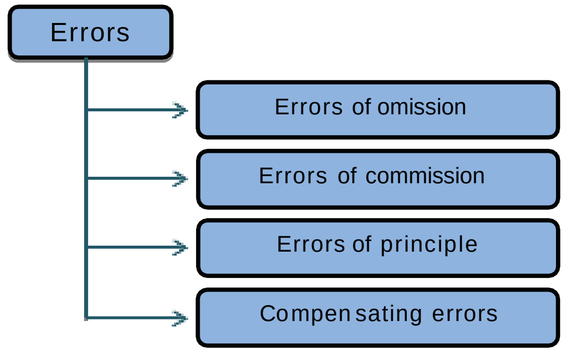
Bank statement

Date	Particulars	Dr. Withdrawals ₹	Cr. Deposits ₹	Balance Dr./Cr.
2017 March 1	By balance b/d			9000 Cr.
4	To cheque- drawings			8,300 Cr.
5	By cheque- Ram	700	2,200	10,500 Cr.
9	To cheque – Sumi			7,200 Cr.
11	By cheque- Prem	3,300	1,500	8,700 Cr.
12	To cheque – Salary			5,900 Cr.
17	To cheque – Kayal	2,800		4,200 Cr.
20	By cheque- Devi	1,700	2,600	6,800 Cr.
30	By interest received		900	7,700 Cr.
30	To bank charges	15		7,685 Cr.

Rectification of Errors

Error are Unintentional Mistakes While recording or classifying or summarising the accounting transactions wrongly oromissions to record them by a clerk or an accountant

Classification of errors



The errors can be classified into four types as follows:

Error of omission

The failure of the accountant to record a transaction or an item in the books of accounts isknown as an error of omission. It can be complete omission or partial omission.

Error of complete omission

It means the failure to record a transaction in the journal or subsidiary book or failure to post both the aspects in ledger. This error affects two or more accounts.

a	Purchase of a machine from Aadhavan & Co. on credit is not recorded in the journal.
b	Sale of goods to Arivuchelvan on credit not recorded in the sales book.

Error of partial omission

When the accountant has failed to record a part of the transaction, it is known as error ofpartial omission. This error usually occurs in posting. This error affects only one account

a	Cash received from Ponnarasan recorded in the cash book but not posted to Ponnarasan'saccount in the ledger.
b	Goods sold to Cheran on credit recorded in the sales book but not posted to Cheran's account in the ledger.

Error of commission

When a transaction is incorrectly recorded, it is known as error of commission. It usuallyoccurs due to lack of concentration or carelessness of the accountant

Error of principle

It means the mistake committed in the application of fundamental accounting principles in recording a transaction in the books of accounts.

Example 1 Rectify the following errors assuming that the errors were detected (a) Before the Preparation of Trial Balance; (b)After the preparation of Trial Balance and (c) After the preparation of Final Accounts.

(i) Purchase Plant for Rs. 10,000 wrongly passed through Purchase Account.

(ii) Sales Day Book was cast short by Rs. 1,000.

(iii) Cash paid to Mr. X for Rs. 1,000 was posted to his account as Rs. 100.

(iv) Purchase goods from Mr. T for Rs. 3,500 was entered in the Purchase Day Book as Rs. 500.

(v) Paid salary for Rs. 3,000 wrongly passed through wages account.

Date	Before preparation of Trial Balance	After preparation of Trial Balance	After preparation of Final Accounts
(i)	Plant A/c Dr. 10,000 To Purchase A/c 10,000	Plant A/c Dr. 10,000 To Purchase A/c. 10,000	Plant A/c Dr. 10,000 To P&L Adjustment A/c 10,000
(ii)	Sales account will be credited with Rs. 1,000	Suspense A/c Dr. 1,000 To Sales A/c 1,000	Suspense A/c Dr. 1,000 To P&L Adjustment A/c 1,000
(iii)	X Account will be debited when Rs. 900	X A/c Dr. 900 To Suspense A/c 900	X A/c Dr. 900 To Suspense A/c 900
(iv)	Purchase A/c Dr. 3,000 To T A/c 3,000	Purchase A/c Dr. 3,000 To T A/c 3,000	P&L Adjustment A/c Dr. 3,000 To T's A/c. 3,000
(v)	Salary A/c Dr. 3,000 To Wages A/c 3,000	Salary A/c Dr. 3,000 To wages A/c 3,000	P&L Adjustment A/c. Dr. 3,000 To P&L Adjustment A/c 3,000

Example 2 Rectify the following errors by way of journal entries and work out their effect on profit or loss of the concern:

a. Return inward book was cast short by Rs. 500.

b. Rs. 300 received from Ram has been debited to Mr. Shyam.

c. Wages paid for the installation of a machine debited to wages account for Rs. 1,000.

d. A purchase made for Rs. 1,000 was posted to purchase account as Rs. 100.

e. Purchase of furniture amounting to Rs. 3,000 debited to purchase account.

f. Goods purchased for proprietor's use for Rs. 1,000 debited to purchase account.

Date	Particulars	L.F	Amount (Rs.)	Amount (Rs.)

(a)	Return Inward A/c Dr. To, Suspense A/c (Return Inward Book was cast short, now rectified.)		500	500
(b)	Suspense A/c Dr. To, Ram A/c To Shyam A/c (Received from Mr. Ram has been debited to Mr.Shyam A/c, now rectified.)		600	300 300
(c)	Machinery A/c Dr. To, Wages/c (Wages paid for maintenance of machinery debited toWages A/c, now rectified.)		1,000	1,000
(d)	Purchase A/c Dr. To, Suspense A/c (Purchase account was short by Rs. 900, now rectified.)		900	900
(e)	Furniture A/c Dr. To Purchase A/c (Furniture purchased wrongly debited to purchaseaccount, now rectified)		3,000	3,000
(f)	Drawings A/c Dr. To Purchase A/c (Goods purchased for proprietor's use, debited to purchase account, now rectified.)		1,000	1,000

Items	Particulars	Increase (Rs.)	Decrease (Rs.)
(a)	Decrease in Profit		500
(b)	No Effect in Profit	-	-
(c)	Increase in Profit	1,000	-
(d)	Decrease in Profit		900
(e)	Increase in Profit	3,000	-
(f)	Increase in Profit	1,000	-
	Total	5,000	1,400
	Increase in Profit	-	**3,600**
		5,000	**5,000**

Example 3 The books of accounts of A Co. Ltd. for the year ending 31.3.2023 were closed with a difference of Rs. 21,510 in books carried forward. The following errors were detected subsequently:

(a) Return outward book was under cast by Rs. 100.
(b) Rs. 1,500 being the total of discount column on the credit side of the cash book was not posted.
(c) Rs. 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.
(d) A credit sale of Rs. 760 was wrongly posted as Rs. 670 to the customers A/c. in the sales ledger.
(e) The Sales A/c was under casted by Rs. 10,000 being the carry over mistakes in the sales day book.
(f) Closing stock was over casted by Rs. 10,000 being casting error in the schedule or inventory.

Pass rectification entries in the next year.

Prepare suspense account and state effect of the errors in determination of net profit of last year.

Date	Particulars	L/F	Dr. Amount (Rs.)	Cr. Amount (Rs.)
(a) 2023 April 1	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Returns outward book was under cast now rectified).		100	100
(b)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Discount received was not recorded, now rectified).		1,500	1,500
(c)	Office Furniture A/c Dr. To Profit & Loss Adjustment A/c (Office furniture purchased wrongly debited to Purchase A/c, nowrectified.)		6,000	6,000
(d)	Debtors' A/c Dr. To Suspense A/c (Debtors account was posted Rs. 670 in place of Rs. 760, now rectified.)		90	90
(e)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Sales account was under casted, now rectified)		10,000	10,000
(f)	Profit & Loss Adjustment A/c Dr. To Closing Stock A/c (Closing Stock was overcastted, now rectified.)		10,000	10,000

Dr.
Suspense Account
Cr.

Date	Particulars	Amount(Rs.)	Date	Particulars	Amount(Rs.)
2023	To Profit & Loss Adjustment A/c	100	2023	By Difference in Trial Balance	21,510
April	To Pofit & Loss Adjustment A/c	1,500	April	By Debtors A/c.	90
1	To Pofit & Loss Adjustment A/c	10,000	1		
	To Pofit & Loss Adjustment A/c	10,000			
		21,600			21,600

Effect on Profit

	Increase (+) Rs.	Decrease (-) Rs.
Item (a)……………………………..	-	100
(b)……………………………..	-	1,500
(c)……………………………..	-	6,000
(d) No effect	-	-
e)……………………………..	-	10,000
(f)……………………………..	10,000	-
	10,000	17,600
Profit will be decreased by	**7,600**	-
	17,600	17,600

- ✓ Pass Rectification entries in **"Rectification Entry"** Column. (Assume errors are rectified after TB)
- ✓ Write the nature of Error in the **"Type"** Column
  (a) for omission (b) for Commission (C) for Principle (d) for none of these

Error	Rectification Entry	Type
1. Purchases of Machinery was wrongly passed through Purchases A/C Rs. 25000		
2. Cash Received from Kumar was Debited to his Account Rs. 350 (Cash was correctly posted)		
3. Total of withdrawal column in Cashbook was Cast Short by Rs. 5000		
4. A credit Sales of Rs. 2500 was passed through Purchases day book		
5. A Credit purchase of Rs. 1500 was not posted in Subsidiary book.		
6. Rent paid to Landlord Rs. 2500 was credited to Landlord account as Rs. 5200 (Cash was correctly posted)		
7. Personal Insurance premium was debited to Trade Expenses Account Rs. 5400		
8. Rs. 4500 Received from Charu was entered as Rs. 450 in Journal Proper.		
9. Cash withdrawn for personal use Rs. 5400 was recorded as normal withdrawal in Cash Book		
10. Total of Debit side of Cash book Rs. 4500 was carried forward as Rs. 5600 in the next page.		
11. Wages paid for installation of Machinery was Debited to Machinery Account Rs. 3000		

12.Payment of Bank Loan Rs. 5000 was debited to Interest A/c		

2. Pass Journal entries to rectify the following errors:

(i)	Machinery purchased for Rs. 5,000 was passed through Purchase Day Book.
(ii)	Rs. 2,000 spent for repairs was debited to Buildings A/c and depreciation @ 10% was also charged.
(iii)	Goods purchased from Rohan for Rs. 50,000 wrongly entered in Sales Book.
(iv)	An item of Rs. 6,000 in respect of Purchase Return, wrongly debited to Purchase Account.
(v)	Cost of cement, sand, stone chips, steel rods and wages amounting to Rs. 10,000 for extension of building was debited to Repairs & Maintenance Account.
(vi)	A cheque of Rs.4,000 received from Y has been dishonoured; it has been posted to the debit of allowances account.

3. To tally the Trial Balance as on 31.03.2023 for X & Co. the Accountant took the help of Suspense Account for preparing the final accounts. On investigation, following errors were discovered:

(i)	Goods purchased from Ramesh & Co. amounting to Rs. 1000 has been posted to the debit of their account for Rs. 1100 from the Purchase Day Book.
(ii)	A cheque for Rs. 6000 received from Prakash & Co. has been posted to the Sales Ledger Account as Rs. 8000.
(iii)	The Sales Day Book has been overcast by Rs. 1000.
(iv)	A Cash Sale of Rs. 700 to A, Bose correctly entered in the Cash Book, was posted to the debit of A. Bose's Personal account in the ledger.
(v)	The Purchase Return Book for March 2008 has been under cast by Rs. 500.
(vi)	Rs. 1800 paid for repair to plant was charged to plant as Rs. 2830.

4. Trial Balance of M/s. Welcome Associates as on 31.03.2023 did not agree. The difference of Rs.20,120 was transferred to credit side of Suspense A/c by the Accountant. As an Auditor you find the following errors:

		Rs.
1.	Sales Return book was overcast by	500
2.	Cash deposited in the Bank is wrongly shown in the debit side of the Cash Column	25,000
3.	Sales to Mr. Ali wrongly posted in Purchases Register	5,500
4.	Wages for the month of March debited as Rs.25,000/- instead of Rs. 52,000	
5.	Cash Balance as on 31.03.2023 wrongly written as Rs.5,260/- instead of Rs. 5,620/-	
6.	Purchases from Mr. Ali wrongly posted in Sales Register	4,260

7.	Loan taken from Mrs. Beauty not credited to her A/c	10,000
8.	Bonus A/c Balance as on 31.03.2023 not considered in the Trial Balance	15,500

5. Pass Journal entries in the current year for the rectification of following errors which were located after the final accounts of previous had been prepared. These errors relate to earlier year. Rate of depreciation on fixed assets is 10%.

(i)	Purchase of a second hand scooter was debited to the conveyance account amounting to Rs.5,000/-
(ii)	Cash received from Mr. Z was wrongly entered in the account of Y, amount being Rs.4,000/-.
(iii)	Goods purchased from A was recorded in the sales book amounting to Rs.15,000/-
(iv)	A cheque for Rs.500/- issued to the Supplier (Creditor) wrongly debited to purchases.

6. The following errors were located in the books of Suresh after his books of account had been closed for the accounting year ended 31st March, 2023 and the difference in trial balance had been transferred to a newly opened suspense account:

(i)	Sales book for the month of January, 2023 was overcast by Rs.100.
(ii)	A sum of Rs.4,000 received from Chandan was debited to his account as Rs.400.
(iii)	Credit purchase of goods from Sonu for Rs.12,000 was debited to Monu.
(iv)	Purchase of office furniture for Rs.6,000 was entered in the purchases book.
(v)	Credit purchase of goods for Rs.15,000 from Mahesh was recorded as credit sale of goods to Mahesh.

Pass necessary journal entries to rectify the abovementioned errors. Also prepare suspense account and profit and loss adjustment account to nullify the effect of errors on the profit for the year ended 31st March, 2023.

DEPRECIATION

"Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset."

Its causes are :

A. Internal

(i) Wear and tear : Plant & Machinery. Furniture, Motor Vehicles etc. suffer from loss of utility due to vibration, chemical reaction, negligent handling, rusting etc.

(ii) Depletion (or exhaustion) : The utility or resources of wasting assets (like mines etc.) decreases with regular extractions.

B. External or Economic causes

(i) **Obsolescence** : Innovation of better substitutes, change in market demand, imposition of legal restrictions may result into discarding an asset.

(ii) **Inadequacy** : Changes in the scale of production or volume of activities may lead to discarding an asset.

C. Time element : With the passage of time some intangible fixed assets like lease, patents. copy-rights etc., lose their value or effectiveness, whether used or not. The word "amortization" is a better term to speak for the gradual fall in their values.

D. Abnormal occurrences : An Accident, fire or natural calamity can damage the service potential of an asset partly or fully. As a result the effectiveness of the asset is affected and reduced.

Characteristics of Depreciation:

I. It is a charge against profit.
2. It indicates diminution in service potential.
3. It is an estimated loss of the value of an asset. It is not an actual loss.
4. It depends upon different assumptions, like effective life and residual value of an asset.
5. It is a process of allocation and not of valuation.
6. It arises mainly from an internal cause like wear and tear or depletion of an asset. But it is treated as any expense charged against profit like rent, salary, etc.,
7. Depreciation on any particular asset is restricted to the working life of the asset.

8. It is charged on tangible fixed assets. It is not charged on any current asset. For allocating the costs of intangible fixed assets like goodwill. etc, a certain amount of their total costs may be charged against periodic revenues. This is known as **amortization**. Depreciation includes amortization of intangible assets whose effective lives are pre-estimated. Intangible assets render benefits but they do not have any physical existence. their 'economic values' are perceived to exist. 'Amortization' or 'Writing Off such assets is made to account for the deterioration of their economic values.

Fixed/Equal Instalment OR Straight Line Method

Features:

- A fixed portion of the cost of a fixed asset is allocated and charged as periodic depreciation.
- Such depreciation becomes an equal amount in each period.

The formula for calculation of depreciation is : Depreciation = (V-S)/nWhere,

V = Cost of the asset

S = Residual value or the expected scrap value of the asset n = Estimated life of the asset

Machine No.	Cost of Machine (Rs.)	Expenses incurred at the time of purchase to be capitalized (Rs.)	Estimated Residual Value (Rs.)	Expected Useful Lifein years
1	90,000	10,000	20,000	8
2	24,000	7,000	3,100	6
3	1,05,000	20,000	12,500	3
4	2,50,000	30,000	56,000	5

Machine No	Cost of Machine (Rs.)	Expenses incurred at the time of purchase to be capitalize (Rs.)	Total Cost of Asset = (b+c) (Rs.)	Estimated Residual Value (Rs.)	Expected Useful Life in years	Depreciation = (d-e)/f (Rs.)	Rate of Depreciation under SLM = (g/d)×100
a	b	c	d	e	f	g	h
1	90,000	10,000	1,00,000	20,000	8	10,000	10%
2	24,000	7,000	31,000	3,100	6	4,650	15%
3	1,05,000	20,000	1,25,000	12,500	5	22,500	18%
4	2,50,000	30,000	2,80,000	56,000	10	22,400	8%

Reducing / Diminishing Balance Method or Written Down Value Method

Features:

Depreciation is calculated at a fixed percentage on the original cost in the first year. But in subsequent years it is calculated at the same percentage on the written down values gradually reducing during the expected working life of the asset.

The rate of allocation is constant (usually a fixed percentage) but the amount allocated for every yeargradually decreases

On 1.1.2011 a machine was purchased for Rs. 1,00,000 and Rs. 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, calculate amount of depreciation upto 31.12.2013.

Year	Opening Book Value (Rs.)	Rate	Depreciation (Rs.)	Closing Book Value (Rs.)
2011	1,50,000	10%	15,000	1,35,000
2012	1,35,000	10%	13,500	1,21,500
2013	1,21,500	10%	12,150	1,09,350

Sum of the Units Method:

Depreciation for the period = Production during the year / Estimated Total Production

A machine is purchased for Rs. 60,00,000, estimated life of which is 10 years residual value is Rs. 4,00,000. Expected production of the machine is 2,00,000 during its useful life.

Production pattern is as follows:

Year	Units
1-2	20,000 per year
3-6	15,000 per year
7-10	25,000 per year

Compute the amount of depreciation for each year applying Sum of the Units Method.

Year	Computation	Depreciation (Rs.)
1-2	$\frac{20,000}{2,00,000} \times (60,00,000 - 4,00,000)$	5,60,000
3-6	$\frac{15,000 \times (60,00,000 - 4,00,000)}{2,00,000}$	4,20,000
7-10	$\frac{25,000 \times (60,00,000 - 4,00,000)}{2,00,000}$	7,00,000

On 1.1.11 machinery was purchased for Rs. 80,000. On 1.7.12 additions were made to the amount of Rs. 40,000. On31.3.2013, machinery purchased on 1.7.2012, costing Rs. 12,000 was sold for Rs. 11,000 and on 30.06.2013 machinery purchased on 1.1.2014 costing Rs. 32,000 was sold for Rs. 26,700. On 1.10.2013, additions were made to the amount of Rs. 20,000. Depreciation was provided at 10% p.a. on the Diminishing Balance Method. Show the Machinery Accounts for three years from 2011-2013. (year ended 31st December)

Statement of Depreciation

Date	Particulars	Machines – I Cost = Rs. 80,000		Machines – II Cost = Rs. 40,000		Machines – III Cost = Rs. 20,000	Total Depreciation
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
01.01.2011	Book Value	48,000	32,000				
31.12.2011	Depreciation	4,800	3,200				8,000
01.01.2012	W.D.V.	43,200	28,800				
01.07.2012	Purchase			28,000	12,000		
31.12.2012	Depreciation	4,320	2,880	1,400	600		9,200
01.01.2013	W.D.V.	38,880	25,920	26,600	11,400		
31.03.2013	Depreciation				285		285
	W.D.V.				11,115		
	Sold For				11,000		
	Loss on sale				115		
30.06.2013	Depreciation		1,296				1,296
	W.D.V.		24,624				
	Sold For		26,700				
	Profit on Sale		2,076				
01.10.2013	Purchase					20,000	
31.12.2013	Depreciation	3,888		2,660		500	7,048
01.01.2014	W.D.V.	34,992		23,940		19,500	

Machinery Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
01.01.11	To, Bank A/c	80,000	31.12.11	By, Depreciation A/c ,, Balance c/d	8,000 72,000
		80,000			80,000
01.01.12 01.07.12	To, Balance b/d ,, Bank A/c	72,000 40,000	31.12.12	By, Depreciation A/c ,, Balance c/d	9,200 1,02,800
		1,12,000			1,12,000
01.01.13 30.06.13	To, Balance b/d ,, P & L A/c (Profit on Sale) ,, Bank A/c	1,02,800 2,076 20,000	31.3.13 30.6.13 31.12.13	By, Bank (Sale) A/c ,, Depreciation A/c ,, P & L A/c (Loss on Sale) ,, Bank A/c (Sale) ,, Depreciation A/c ,, Depreciation A/c ,, Balance c/d	11,000 285 115 26,700 1,296 7,048 78,432
		1,24,876			1,24,876

Provision for Depreciation Account

Provision of depreciation is the collected value of all depreciation. Provision of depreciation account is the account of provision of depreciation. With making of this account we are not credited depreciation in asset account, but transfer every year depreciation to provision of depreciation account. Every year we adopt this procedure and when assets are sold we will transfer sold asset's 'total depreciation' to credit side of asset account, for calculating correct profit or loss on fixed asset. This provision uses with any method of calculating depreciation.

There are following features of provision for depreciation account:

- Fixed asset is made on its original cost and every year depreciation is not transfer to fixed asset account.
- Provision of depreciation account is Conglomerated value of all old depreciation.
  - This system can be used both in straight line and diminishing method

of providing depreciation. The journal entries will be :

(i) For purchase of asset
Asset's A/c Dr.
To Cash/Bank A/c

(ii) For providing depreciation at end of yearDepreciation A/c Dr.
To Provision for depreciation A/c

(iii) For sale of assets
Cash/Bank A/c Dr.
To Asset A/c

(iv) Total depreciation on asset sold transferred from provision for depreciation account.
Provision for depreciation A/c Dr.
To Asset A/c

(v) Profit or loss on sale of assets will be transferred from asset sale account to Profit or Loss Account.

S & Co. purchased a machine for Rs. 1,00,000 on 1.1.2011. Another machine costing Rs. 1,50,000 was purchased on 1.7.2012. On 31.12.2013, the machine purchased on 1.1.2011 was sold for Rs. 50,000. The company provides depreciation at 15% on Straight Line Method. The company closes its accounts on 31st December every year. Prepare – (i) Machinery A/c, (ii) Machinery Disposal A/c and (iii) Provision for Depreciation A/c.

Machinery Account .

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
1.1.2011	To, Bank A/c	1,00,000	31.12.2011	By, Balance c/d	1,00,000
		1,00,000			1,00,000
1.1.2012	To, Balance b/d	1,00,000			
1.7.2012	To, Bank A/c	1,50,000	31.12.2012	By, Balance c/d	2,50,000
		2,50,000			2,50,000
1.1.2013	To, Balance b/d	2,50,000	31.12.2013	By, Machinery Disposal A/c	1,00,000
			31.12.2013	By, Balance c/d	1,50,000
		2,50,000			2,50,000
1.1.2014	To, Balance b/d	1,50,000			

Provision for Depreciation Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.12.2011	To, Balance c/d	15,000	31.12.2011	By, Depreciation A/c	15,000
		15,000			15,000
31.12.2012	To, Balance c/d	41,250	1.1.2012	By, Balance b/d	15,000
			31.12.2012	By, Depreciation A/c (Rs. 15,000 + Rs. 11,250)	26,250
		41,250			41,250
31.12.2013	To, Machinery Disposal A/c	30,000	1.1.2013	By, Balance b/d	41,250
31.12.2013	To, Balance c/d	33,750	31.12.2013	By, Depreciation A/c	22,500
		63,750			63,750
			1.1.2014	By, Balance b/d	33,750

Machinery Disposal Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.12.2013	To, Machinery A/c	1,00,000	31.12.2013	By, Provision for Depreciation A/c	30,000
				By, Depreciation A/c	15,000
				By, Bank A/c	50,000
				By, Profit & Loss A/c(Loss on Sale)	5,000
		1,00,000			1,00,000

Working Notes

1. Depreciation for the machine purchased on 1.7.2012
   For the year 2012 (used for 6 months) = Rs. 1,50,000 × 15% × 6/12 = Rs. 11,250For the year 2013 (used for full year) = Rs. 1,50,000 × 15% = Rs. 22,500
2. Depreciation for the machine purchased on 1.1.2011Depreciation = Rs. 1,00,000 × 15% = Rs. 15,000
   So, Depreciation for 2 years = Rs. 15,000 × 2 = Rs. 30,000

Problems for Practice

1. B. Co. Purchased machinery as follows :

Date of Purchase	Cost of Machine (Rs.)
1.4.86	60,000
1.10.86	40,000
1.7.87	20,000

On 1.1.88 one-third of the machinery which was purchased on 1.4.86 became obsolete and was sold for Rs. 6,000. The machinery was to be depreciated by Fixed Instalment Method at 10% p a. Show how the Machinery Account would appear in the ledger of the Company for the years 1986. 1987 and 1988. Assume that the accounting year of the Company ends on 31st December every year.

(Loss on sale Rs. 10,500; Annual Depreciations 1986 Rs. 5,500: 1987 Rs. 11,000; 1968 Rs. 10,000. Balance at Machinery Account on 31. 2.1988 Rs. 77,000) (Hints : Depreciations 1986 = Rs. 5,000, 1987 = Rs. 11,000, 1988 = Rs. 10,000)

2. Q Ltd, purchased on 1st January, 1988 a machine for Rs. 10,000. On 1.7.88 it again purchased another machine for Rs. 5,000. On 1.7.89 the machine purchased on 1.1.1988 was sold for Rs. 4,000. On 1.7.1990 a new machine was purchased for Rs. 12,000. On the same date the machine purchased on 1.7.88 was sold for Rs. 4,200. Depreciation was provided at 10% p.a. on the written down value every year. Show the Machinery Account . *(Ans.: Loss on sale in 1989= Rs.. 4,550 Profit on sale in 1990 = Rs. 139)*

3 ABC Ltd. purchased on 1.1.90 a second hand plant for Rs. 30,000 and spent Rs. 20,000 for overhauling it. On 1.7.90 additional machinery costing Rs. *25,000* was purchased. On 1.7.92 the plant purchased on 1.1.90 became obsolete and was sold for Rs. 10,000. On that date a new machine was purchased at a cost of Rs. 60,000.

Depreciation was provided annually on 31st December @ 10% per annum on the original cost. In1993. however the company changed this method of providing depreciation and adopted the method of providing off **15% on the diminishing value**. Show the Machinery Account for the years 1990 to 1994.

(Ans: Balance of machinery on 31.12.94 = Rs. 54,729}

4. A firm purchased on 1st January. 1996. certain machinery for Rs. 19,40,000 and spent Rs. 60,000 on its erection. On 1st July in the same year additional machinery costing Rs. 10,00,000 was acquired. On 1st July. 1998. the machinery purchased on 1st January 1996 having become obsolete was auctioned for Rs. 8,00,000 and on the same date fresh machine was purchased at a cost of Rs. 15,00,000.Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the asset. In 1999, however, the firm changed this method of providing depreciation and adopted the method of writing off 20% on the written down value. Give the Machinery Account as it would stand at the end of each year from 1996 to 2000.

5. Chartered Planes Ltd which depreciates its machinery at 10% on Diminishing Balance Method had on 1st January 1995, Rs. 9,72,000 to the debit of Machinery Account. During the year 1995 a part of the machinery purchased on 1st January, 1993 for Rs. 80,000 was sold for Rs. 45,000 on 1st July, 1995 and a new machinery at a cost of Rs. 1,50,000 was purchased and installed on the same date. installation charges being Rs. 8,000. The company wanted to change its method of depreciation from Diminishing Balance Method to Straight Line Method with effect from 1st January, 1993 and adjust the difference in the accounts for 1991. The rate of depreciation remained the same as before. Show the Machinery Account and entries in the Profit & Loss Account as regards depreciation and obsolescence loss in 1995. .

[Ans : Balance of *Machinery Account on 31.12.95 Rs, 2,34,100 Additional Depreciation to be provided for changing the method Rs. 12,000; Depreciation in 1995 (a) on machinery sold Rs. 4,000 (b) Rs. 1,19,900 on remaining assets; loss on sale Rs. 15,000]*

6. After Rs. 5,000 was provided for depreciation in the current year. the accumulated provision for depreciation went up to Re. 50,000. The Machine concerned whose original cost had been Rs. 55,000 was then sold as scrap for Rs. 20,000 (cash) and replaced thereafter by a new machine costing Rs. 75,000. Give Journal entries to record the above transactions.

(Ans.: Profit on sale of scrap Rs.15000]

BILLS OF EXCHANGE

The Negotiable Instruments Act 1981 governs the provisions for bills of exchange.As per this act, the bill of exchange is defined as " an instrument in writing containing an unconditional order signedby the maker, directing a certain person to pay a certain some of money only to the order of the certain person or to the bearer of the instrument"

Based on this definition the following features of a bill of exchange are noticed:

(a) It's an instrument in writing.

(b) It contains an unconditional order.

(c) It's signed by the drawer.

(d) It's drawn on a specific person.

(e) There is an order to pay a specific sum of money.

(f) It must be dated.

(g) It specifies to whom the payment is to be made e.g. to the maker or to person mentioned by him or to the bearer.

(h) The amount of money to be paid must be certain.

(i) It must be properly stamped

(j) It may be made payable on demand, or after a definite period of time

Whereas, a bill of exchange is drawn by seller and accepted by buyer; a promissory note, on the other hand, is created by the buyer as an undertaking to pay to the seller.

Transactions	Drawer's Books	Drawee's Books
When the bill is drawnand accepted	Bills Receivable A/c ... Dr. To Drawee's A/c	Drawer's A/c ... Dr. To Bills Payable A/c
When the bill is duly honoured on maturity	Bank A/c ... Dr. To Bills Receivable A/c (This entry will be made if the drawer retains the bill tilldue date and receives payment)	Bills Payable A/c ... Dr. To Bank A/c

When the bill is endorsedto a creditor	Endorsee's A/c ... Dr. To Bills Receivable A/c	
When the bill is discounted with the bank	Bank A/c ... Dr. Discount on Bills A/c ... Dr. To Bills Receivable A/c	
When the bill is sent to bank for collection and the bill is duly collected	**(i) When sent:** Bills for Collection A/c ... Dr. To Bills Receivable A/c	
	(ii) When collected: Bank A/c ... Dr. To Bills for Collection	
When the bill is retired before maturity	Bank A/c ... Dr. Rebate A/c ... Dr. To Bills Receivable A/c	Bills Payable A/c ... Dr. To Bank A/c Rs. Rs. Rebate A/c
When the bill is dishonoured		
(i) If retained by the drawer till maturity:	Drawee's A/c ... Dr. To Bills Receivable A/c To Noting Charges	Bills Payable A/c ... Dr. Noting Charges A/c Dr To Drawer's A/c
(ii) If discounted with Bank	Drawee's A/c ... Dr. To Bank A/c Including Noting Charges	Bills Payable A/c ... Dr. Noting Charges A/c Dr To Drawer's A/c
(iii) If endorsed to a creditor:	Drawee's A/c ... Dr. To Endorsee's A/c Including Noting Charges	Bills Payable A/c ... Dr. Noting Charges A/c Dr To Drawer's A/c
(iv) If sent to Bank for collection:	Drawee's A/c ... Dr. To Bills for Collection A/c Including Noting Charges	Bills Payable A/c ... Dr. Noting Charges A/c Dr To Drawer's A/c
When the bill is renewed for a further period		
(i) For cancellation of the old bill:	Drawee's A/c... Dr. To Bills Receivable A/c	Bills Payable A/c ... Dr. To Drawer's A/c
(ii) For interest on the extended period:	Drawee's A/c ... Dr. To Interest A/c	Interest A/c ... Dr. To Drawer's A/c
(iii) For drawing the new bill :	Bills Receivable A/c ... Dr. To Drawee's A/c	Drawer's A/c ... Dr. To Bills Payable A/c

BILLS OF EXCHANGE

Answer the following:

1. On 1.1.2017, A draws a bill on B for Rs. 1,20,000 for 3 months' maturity date of the bill will be?

2. On 16.6.2016 P draws a bill on Q for Rs. 1,25,000 for 30 days. 19th July is a public holiday, maturity date of the bill will be?

3. On 15.8.2017, X draws a bill on Y for 3 months for Rs. 20,000. 18th Nov. was a sudden holiday, maturity date of the bill will be?

4. PQ draws a bill on XY for Rs. 130,000 on 1.1.2017. X accepts the same on 4.1.2017 for period of 3 months after date. What will be the maturity date of the bill:

5. X draws a bill on Y for Rs. 300,000 on 1.1.2016 for 3 months after sight, date of acceptance is 6.1.2016. Maturity date of the bill will be?

6. A bill of Rs. 120,000 was discounted by Saras with the banker for Rs. 1,18,800. At maturity, the bill returned dishonoured, noting charges Rs. 200. How much amount will the bank deduct from Saras's bank balance at the time of such dishonour?

7. X sold goods to Y for Rs. 5,00,000. Y paid cash Rs. 4,30,000. X will grant 2% discount on balance, and Y request X to draw a bill for balance, the amount of bill will be?

8. On 1.1.2017, X draws a bill on Y for Rs. 5,00,000 for 3 months. X got the bill discounted 4.1.2017 at 12% rate. The amount of discount on bill will be?

9. Mr. Jay draws a bill on Mr. John for Rs. 3,00,000 on 1.1.2017 for 3 months. On 4.2.2017, John got the bill discounted at 12% rate. The amount of discount will be?

10. XZ draws a bill on YZ for Rs. 2,00,000 for 3 months on 1.1.2017. The bill is discounted with banker at a charge of Rs. 1,000. At maturity the bill returns dishonoured. In the books of XZ, for dishonour, the bank account will be credited by?

11. On 1.1.2011, X draws a bill on Y for Rs. 50,000. At maturity, the bill returned dishonoured as Y become insolvent and 40 paise per rupee is recovered from his estate. The amount recovered is? The amount to be charged to deficiency account is?

12. On 1.1.2017, XA draws a bill on YB for Rs. 1,00,000. At maturity YB request XA to renew the bill for 2 month at 12% p.a. interest. Amount of interest will be:

13. On 1.1.2011, X draws a bill on Y for Rs. 15,000 for 3 months. At maturity Y request X to accept Rs. 5,000 in cash and for balance to draw a fresh bill for 2 months together with 12% p.a. interest, amount of interest will be?

14. On 1.6.2011, X draws a bill on Y for Rs. 25,000. At maturity Y request X to accept Rs. 5,000 in cash and noting charges incurred Rs. 100 and for the balance X draw a bill on Y for 2 months at 12% p.a. Interest amount will be?

15. X draws a bill on Y for Rs. 3,000. X endorsed to Z. Y will pay the amount of the bill to?

Practical Problems

1. Ramesh sold goods on credit to Subhash for Rs. 1000 on 11/01/2001. On the same date, Subhash accepted a bill drawn by Ramesh payable after 2 months. On due date, the bill is duly honoured by Subhash. Journalise.

2. On 15/10/2001, X sold goods on credit to Y for Rs. 15,000. On the same date, X draws a bill on Y for Rs. 15,000 payable after 2 months. The bill is duly accepted and returned to X. On 18/11/2001, X gets the bill discounted from the bank @ 24% p.a. On due date, the bill is duly honoured by Y. Pass journal entries in the books of X and Y.

3. A draws on B, a bill of exchange for Rs. 10,000 payable after three months to which B gives his acceptance on 01/07/2001. On 01/08/2001, C sold goods worth Rs. 15,000 to A. A endorses the bill received from B in favour of C and pays Rs.5000 cash. On due date, the bill is presented by C to B and is duly honoured. Pass the journal entries in the books of A, B and C.

4. On 15/10/2001, P draws a bill of exchange on Q for Rs. 10,000 on account of credit sale of goods. On the same date, Q accepts the bill payable after 2 months and returns it to P. On the expiry of 2 months period, P sends the bill to the bank for collection on due date. The bill is duly collected by the bank of due date. Pass journal entries in the books of P and Q assuming bank charges @ 1% of the bill amount as collection charges.

5. Mohan sold goods on 1st September, 2009 for 2,00,000/- to Sohan. Sohan immediately accepted a 3 months bill. On the due date Sohan requested for the renewal of the bill for a further period of two months. Mohan agrees to pay interest @ 9% per annum to be included in the new bill. Determine the amount of the new bill

6. Mr. A draws on Mr. B a bill of exchange for Rs. 5,000 on 1st January, 2008. Mr. A endorses the bill in favour of Mr. C. Before maturity, Mr. B approaches Mr. A with the request that the bill be renewed for a further period of 3 months at fifteen per cent interest per annum. Mr. A pays the sum to Mr. C on due date and agrees to the proposal of Mr. B. Pass the journal entries in the books of Mr. A assuming that the second bill is duly met.

7. On 1st January, 2010, Arun purchased from Barun goods invoiced at Rs.10,000. On the same date, Barun drew upon Arun a bill for the amount at 2 months and Arun accepted the same. On 4th January, 2010, Barun got the bill discounted with his bank @ 12% per annum. On due date, Arun told Barun that he was not in a position to pay the full amount and requested Barun to accept Rs.5,000 in cash and drew a fresh bill at 2 months for the remaining amount plus interest at 15% per annum. Barun agreed. The second bill was duly met on the due date.
   Give journal entries to record the above transactions in the books of Barun.

8. On 1st september, 2010, Pankaj draws on Rakshit a bill of exchange for Rs.10,000 at 3 months which is immediately accepted by the drawee as he has purchased goods for the amount. On 4th September, 2010, Pankaj gets the bill discounted with his bankers at 8% per annum. On the date of maturity, Rakshit, not being able to meet the bill, offers Rs.4.000 to Pankaj and requests him to draw another bill at three months for the balance amount plus Rs.120 for interest. Pankaj agrees to the arrangement. But before the due date of the second bill. Rakshit becomes insolvent. Rakshit's estate pays fifty paise in a rupee.
   Pass journal entries for all the Transactions in the books of Pankaj.

9. On 1.4.09, Mr. A draws a bill for Rs. 6,000 for 7 months on Mr. B who returned the bill to Mr. A after acceptance. On 10.4.09, Mr. A endorsed the bill in the favour of Mr. C who endorsed the bill on 15.4.09 in favour of Mr. D on 1.5.09. Mr. D discounted the bill at 10%. On maturity, the bill was dishonoured and banker paid Rs. 50 towards noting charges.
   Pass necessary Journal entries in the books of Mr. D.

Renewal of Bill

10. On May 20, 2003, Mr. A accepts a 3 months bill drawn by his Creditor Mr.B for Rs. 10,000, 0n June 23, 2003, Mr. B discounts the same at 6% per annum. Mr. A being unable to meet the bill at maturity requests Mr. B to accept 50% of the bill amount in cash and to draw another bill for 3 months for the balance sum plus interest at 10% P.a. and Mr. B agrees. But before the maturity of second bill, Mr. A becomes insolvent and is unable to pay any amount whatsoever. You are required to record these transactions in the Books of Mr. B.

Assignment

11. On 1st April, 2009, Rohit sold goods to Mahesh for Rs.10,000 and drew upon him a bill for the amount at 3 months. Mahesh accepted the bill. On 4th April, 2009, Rohit got the bill discounted with his bankers @10% per annum. Just before the due date, Mahesh approached Rohit with a request for renewal of the bill for 3 months. Rohit agreed on the condition that the new bill was

for Rs.10,310 which included Rs.310 by way of interest. Mahesh found the condition as reasonable and accepted the new bill on 4th July, 2009. On 29th September, 2009, Mahesh was declared insolvent. On 2nd November, 2009, a first and final dividend of 40 paise in a rupee was received from the insolvent's receiver.

Pass journal entries in the books of Rohit for all the above mentioned transactions.

Assignment

12. On 1st May, 2008, Kunal sold goods to Subhash invoiced at Rs.60,000 and drew upon the latter two bills of exchange, one for Rs.20,000 at two months and another for Rs.40,000 at four months. Subhash accepted both the bills. On 4th May, 2008, Kunal got the first bill discounted with bank @ 12% per annum and endorsed the second bill in favor of his creditor Mohit. Subhash met the first bill for Rs. 20,000 on due date. Before the due date of the second bill, Subhash became insolvent and his estate paid only 60 paise in a rupee on 8th November, 2008.
    Pass journal entries to record all the transactions in the books of Kunal and Subhash.

13. X drew a bill on Y for Rs. 1,000 payable two months after date. Immediately after its acceptance, X sent the bill to his banker for collection. On the due date bank collects the bill and sends the advice if collection after deducting Rs. 2 as collection charges.
    Pass Journal entries in the books of X and Y.

Accommodation Bills

14. X draws on Y a bill for Rs.2,00,000 on 1.4.09 for 3 months. Y accepts the bill and sends it to X who gets it discounted for Rs.1,95,000. X immediately remits Rs.97,500 to Y. On due date, X being unable to remit the amount due accepts a bill for Rs.1,20,000 for 2 months which is discounted by Y for Rs.1,17,600. Y sends Rs.7,800 to X out of the same. On the due date of the second bill, X became insolvent and only 40 Paise in a rupee was recovered. Show accounting entries & Ledgers

15. Sohan draws an accommodation bill for Rs.12,000 on Mohan; the proceeds are to be shared by Sohan and Mohan in the ratio of 2 : 1 respectively. Mohan accepts the bill. Sohan gets the bill discounted at a discount of Rs.720 and remits 1/3rd of the proceeds to Mohan. Before the due date, Mohan draws an accommodation bill for Rs.16,800 to arrange the funds to pay the first bill. The second bill is discounted for Rs.16,320. The first bill is paid with the proceeds and a sum of Rs.2,880 is remitted to Sohan.
    Sohan becomes insolvent before the due date of the second bill and Mohan receives 50 paise in a rupee as the first and final dividend from Sohan's estate.
    Pass necessary journal entries in the books of Mohan and prepare Sohan's account in the ledger of Mohan.

Average Due Date

1. The followings are the amounts due on different dates in between the same parties:

Amount Rs.	Due Date
500	3rd July
800	2nd August
1,000	11th September

Suggest a date on which all the bills may be paid out without any loss of interest to either party

2. The following amounts are due to X by Y. Y wants to pay off (a) on 18th March or (b) on 14th July. Interest rate of 8% p.a. is taken into consideration.

Due Dates	Rs.
10th January	500
26th January (Republic Day)	1,000
23rd March	3,000
18th August (Sunday)	4,000

Determine the amount to be paid in (a) and in (b)

3. A trader having accepted the following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date :

Sl. No.	Date of bill	Amount	Usance of the bill
1	1st March 2016	400	2 months
2	10th March 2016	300	3 months
3	5th April 2016	200	2 months
4	20th April 2016	375	1 month
5	10th May 2016	500	2 months

You are required to find the said average due date.
If he wants to gain Rs. 50 at an interest rate of 5% p.a., calculate the date on which the amount is payable.

4. Manoj had the following bills receivables and bills payable against Sohan. Calculate the average due date, when the payment can be received or made without any loss of interest. (15 August, 2016 was a Public holiday. However, 6 September, 2016 was also declared as sudden holiday.)

Date	**Bills Receivable** Rs.	**Tenure**	**Date**	**Bills Payable** Rs.	**Tenure**
01/06/2016	3,000	3 month	29/05/2016	2,000	2 month
05/06/2016	2,500	3 month	03/06/2016	3,000	3 month
09/06/2016	6,000	1 month	9/06/2016	6,000	1 month

12/06/2016	1,000	2 month			
20/06/2016	1,500	3 month			

5. Mr. Green and Mr. Red had the following mutual dealings and desire to settle their account on the average due date:

Purchases by Green from Red:

6th January, 2016	6,000
2nd February, 2016	2,800
31st March, 2016	2,000

Sales by Green to Red:

6th January, 2016	6,600
9th March, 2016	2,400
20th March, 2016	500

You are asked to ascertain the average due date. (28 days in feb.)

6. Rs. 10,000 lent by Dass Bros. to Kumar & Sons on 1st January, 2011 is repayable in 5 equal annual instalments commencing on 1st January, 2012. Find the average due date and calculate interest at 5% per annum, which Dass Bros. will recover from Kumar & Sons.

7. A and B, two partners of a firm, have drawn the following amounts from the fi rm in the year ending 31st March, 2015:

Date	A	Date	B
	Rs.		Rs.
1st July	500	12th June	1,000
30th September	800	11th August	500
1st November	1,000	9th February	400
28th February	400	7th March	900

Interest at 6% p.a. is charged on all drawings. Calculate interest chargeable by using (i) ordinary system (ii) Average due date system. (assume 1 year = 365 days)

Account Current

1. Prepare Account Current for Nath Brothers in respect of the following transactions with Shyam:

2022		Rs.	
September 16	Goods sold to Shyam	200	due 1st Oct.
October 1	Cash received from Shyam	90	
October 21	Good purchased from Shyam	500	due 1st Dec.
November 1	Paid to Shyam	330	
December 1	Paid to Shyam	330	
December 5	Goods purchased from Shyam	500	due 1st Jan.
December 10	Goods purchased from Shyam	200	due 1st Jan.
2023			
January 1	Paid to Shyam	600	
January 9	Goods sold to Shyam	20	due 1st Feb.

The account is to be prepared upto 1st February. Calculate interest @ 6% per annum. (1 year = 365 days)
Prepare under the following methods:
a. Interest method
b. Products forward method
c. Products – Epilogue method

2. From the following particulars make up an Account Current to be rendered by S. Dasgupta to A. Halder at 31st Dec. reckoning interest at 5% p.a. (assume 1 year = 365 days)

2022		Rs.
June 30	Balance owing by A. Halder	520
July 17	Goods sold to A. Halder	40
Aug. 1	Cash received from A. Halder	500
Aug. 19	Goods sold to A. Halder	720
Aug. 30	Goods sold to A. Halder	50
Sept. 1	Cash received from A. Halder	400

Sept. 1	A. Halder accepted Dasgupta's Bill at 3 month date for	300
Oct. 22	Goods bought from A. Halder	20
Nov. 12	Goods sold to A. Halder	14
Dec. 14	Cash received from A. Halder	50

Prepare account current under:
a. Products forward method
b. Products – Epilogue method (backward method)

3. On 2nd January, 2016 Vinod opened a current account with the Allahabad Bank Limited; and deposited a sum of Rs. 30,000.

He further deposited the following amounts:	Rs.
15th January	12,000
12th March	8,000
10th May	16,000
His withdrawals were as follows :	
15th February	26,000
10th April	30,000
15th June	14,000

Show Vinod's a/c in the ledger of the Allahabad Bank. Interest is to be calculated at 5% on the debit balance and 2% on credit balance. The account to be prepared as on 30th June, 2016. Calculation may be made correct to the nearest rupee (Use Balance of Products method)

SALE OF GOODS ON APPROVAL OR RETURN BASIS

1. CE sends goods to his customers on Sale or Return basis. The following transactions took place during 2016:

Sept. 15	Sent goods to customers on sale or return basis at cost plus 33 1/3 %	Rs. 1,00,000
Oct. 20	Goods returned by customers	Rs. 40,000
Nov. 25	Received letters of approval from customers	Rs. 40,000
Dec . 31	Goods with customers awaiting approval	Rs. 20,000

CE records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of CE assuming that accounting year closes on 31st December, 2016.

2. A sends out goods on approval to few customers and includes the same in the Sales Account. On 31.3.2016, the Trade receivables balance stood at Rs. 1,00,000 which included Rs. 7,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price and were sent to-

Mr. X - Rs. 4,000 and Mr. Y - Rs. 3,000.

Mr. X sent intimation of acceptance on 30th April and Mr. Y returned the goods on 10th April, 2016.

Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March, 2016. Show also the entries to be made during April, 2016. Value of closing Inventories as on 31st March, 2016 was Rs. 60,000.

3. X supplied goods on sale or return basis to customers, the particulars of which are as under:

Date of dispatch	Party's name	Amount Rs.	Remarks
10.12.2017	M/s ABC Co.	10,000	No information till 31.12.2017
12.12.2017	M/s DEF Co	15,000	Returned on 16.12.2017
15.12.2017	M/s GHI Co	12,000	Goods worth Rs. 2,000 returned on 20.12.2017
20.12.2017	M/s DEF Co	16,000	Goods Retained on 24.12.2017
25.12.2017	M/s ABC Co	11,000	Good Retained on 28.12.2017
30.12.2017	M/s GHI Co	13,000	No information till 31.12.2017

Goods are to be returned within 15 days from the dispatch, failing which it will be treated as sales. The books of 'X' are closed on the 31st December, 2017.
Prepare the accounts in the books of X asuuming

a. Day books are maintained

b. Memorandum books are maintained

4. A firm sends good on "Sale or Return basis. Customers have the choice of returning the goods within a month. During May 2018, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (Rs.)	17,000	22,000	25,000	5,500	2,000	28,000

Within the stipulated time, P and Q returned the goods and B, D and E signified that they have accepted the goods. Show in the books of the firm, the Sale or Return Account and Customer Q for Sale or Return Account as on 15th June 2019.

Consignment Accounting

In case of direct selling, the company usually has depots all over. The stocks are transferred to these depots andfrom there finally sold to ultimate customers. This involves huge expenses and problems of maintaining the same on a permanent basis. Hence, the firm could appoint agents to whom stocks will be given. These agents distribute the products to ultimate customers and receive commission from the manufacturer. One such way of indirect selling isselling through consignment agents. The relationship between consignor and consignee is that of Principal-Agent relationship.

Consignor – He is the person who sends goods to agents e.g. a manufacturer or wholesaler.

Consignee – He is the agent to whom goods are sent for selling.

Proforma Invoice – When the consignor sends the goods to the consignee, he prepares only a proforma invoiceand not an invoice. A proforma invoice looks like an invoice but is really not one. The objective of the proforma invoice is only to convey information to the consignee regarding quantity, varieties and prices of goods sent and expenses incurred and not to make him liable like a trade debtor.

Over-riding Commission – It is an extra commission allowed over and above the normal commission is generally offered for the following reasons :

- When the agent is required to put in hard work in introducing a new product in the market.
- Where he is entrusted with the work of supervising the performance of other agents in a particular area.
- For effecting sales at prices higher than the price fixed by the consignor.

Ordinary Commission – This is a fee payable by consignor to consignee for sale of goods when the consignee does not guarantee the collection of money from ultimate customer. The % of such commission is generally lower.

Del Credre Commission – This is additional commission payable to the consignee for taking over additional responsibility of collecting money from customers. In case, the customers do not pay the consignee takes over the loss of bad debts in his books. Although it's paid for taking over risk of bad debts that arise out of credit sales only, this commission is calculated on total sales and not on credit sales.

Account Sales – This is a periodical statement prepared by consignee to be sent to the consignor giving details of all sales (cash and credit), expenses incurred and commission due for sales, destroyed-in-transit or in godown and deducting the amount of advance remitted by him.

Situations	Consignor's books	Consignee's books
On sending goods	Consignment A/c Dr. To Goods Sent on Consignment	No Entry
On expenses for sendinggoods	Consignment A/c Dr. To Cash/Bank/Creditors for Expenses A/c	No Entry
For advance receivedfrom consignee	Cash/ Bank/ Bill Receivables A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Cash/ Bank/ Bills Payable A/c
On expenses incurredby consignee	Consignment A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Cash/ Bank/ Creditors for expenses A/c
On consignee reportingsales	Consignee's Personal A/cDr. To Consignment A/c	Cash/ Bank/ Consignment Debtors A/c Dr. To Consignor's Personal A/c
For commission due	Consignment A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Commission A/c
For Bad Debts	Consignment A/c Dr. To Consignee's Personal A/c **(NO ENTRY If del-credre commission is paid)**	Consignor's Personal A/c Dr. To Consignment Debtors A/c
For closing the consignment account	**For profit :** Consignment A/c Dr. To General Profit and Loss A/c. **For Loss** General Profit and Loss A/c Dr. To Consignment A/c	No entry
For the final settlement	Cash/ Bank/ B/R A/c Dr. To Consignee A/c	Consignor A/c Dr. To Cash/ Bank/ B/P A/c
For closing the Goods Sent on Consignment Account	Goods sent on Consignment A/c Dr. To Trading/ Purchases A/c	No entry
On closing stock	Stock on Consignment A/c Dr. To Consignment A/c	No Entry

IN THE BOOKS OF CONSIGNOR

CONSIGNMENT ACCOUNT

To Goods sent on consignment	Rs.	**By Goods sent on consignment – loading i.e profit element**	Rs.
To Bank – expenses incurred by consignor		By Consignee – sale	
To Consignee A/c expenses incurred by consignee + commission(ordinary + del credere)		By Goods lost in transit	
To Consignnee A/c– bad debt (if Del credere commission is not paid)		By Abnormal Loss	
To Stock Reserve – loading i.e profit element		By Unsold stock	
To Abnormal Loss – loading i.e profit element			
To P/L A/c : profit on consignment	??????	By P/L A/c : loss on consignment	???

Valuation of Stock

Unsold stock on consignment should properly valued; otherwise, final accounts cannot be prepared. Usually, **unsold stock on consignment is value at Basic Value of the Goods plus proportionate expenses of the consignor plus proportionate non recurring expenses of consignee**.

Alternatively, total cost of goods plus total expenses incurred by the consignor plus total non-recurring expenses of the consignee are to be added and stock should valued on the basis of proportionate unsold goods.

But it must be remembered while valuing stock on consignment, the usual principle for valuation of stock, that stockshould be valued at cost price or market price whichever is less.

The entry will be:

Stock on Consignment A/c Dr.

To, Consignment A/c

Needless to say, that unsold stock on consignment will appear in the asset side of Balance Sheet

Losses on Consignment

There are two types of losses which may arise in case of a consignment transaction, viz.

(a) Normal Loss, and

(b) Abnormal Loss

(a) Normal Loss – Normal Losses arise as a result of natural causes, e.g. evaporation, leakage, breakage etc., and they are inherent in nature. Since normal loss is a charge against gross profit no additional adjustment is required for this purpose. Moreover, as the same is a part of cost of goods, when valuation of unsold stock is made in case of consignment account the quantity of such loss (not the amount) should be deducted from the total quantity of the goods received by the consignee in good condition. Thus,

Value of closing stock will be = Total Value of goods sent $\times \dfrac{\text{Unsold quantity}}{\text{Good quantity received by consignee}}$

(a) Abnormal Losses - Abnormal Losses arises as a result of negligence/accident etc., e.g., theft, fire etc. Before ascertaining the result of the consignment, value of abnormal loss should be adjusted. The method of calculation is similar to the method of calculating unsold stock. Sometimes insurance company admits the claim in part or in full. The same should also be adjusted against such abnormal loss.

While valuing the abnormal loss the proportionate expenses are taken only upto the stage of the loss.

- **<u>Lost in the Godown of Consignee</u> is valued at Price plus proportionate expenses of the consignor plus proportionate non recurring expenses of consignee**
- **<u>if goods are lost in the transit</u>** on way to the consignee's place, the value of abnormal loss will include the basic Value of the goods plus proportionate expenses of the consignor only and not the proportionate expenses of consignee because consignee has spent nothing on account of these goods.

1. X Ltd. of Gujrat purchased 5,000 sarees @ Rs. 100 per saree. Out of these 3,000 sarees were sent on consignment to Y Ltd. of Kolkata at the selling price of Rs. 150 per saree. The consignors paid Rs. 5,000 for packing and freight.

Y Ltd. sold 2,500 sarees @ Rs. 160 per saree and incurred Rs. 500 for selling expenses and remitted Rs. 2,50,000 to Gujrat on account. They are entitled to a commission of 5% on total sales plus a further of 25% commission on any surplus price realized over Rs. 150 per saree.

1,500 sarees were sold at Gujrat @ Rs. 110 per saree.

Owing to fall in market price, the value of stock of saree in hand is to be reduced by 5%. Your are required to prepare (i) Consignment Account, and (ii) Y Ltd. Account.

2. From the following particulars ascertain the value of unsold

stock on Consignment.Goods sent (1,000 kgs.)	Rs. 20,000
Consignor's expenses	Rs. 4,000
Consignees non-recurring expenses	Rs. 3,000
Sold (800 kgs.)	Rs. 40,000
Loss due to natural wastage (100 kgs.)	

3. 5,000 shirts were consigned by Raizada & Co. of Delhi to Zing of Tokyo at cost of Rs. 375 each. Raizada & Co. paidfreight Rs. 50,000 and Insurance Rs. 7,500.

During the transit 500 shirts were totally damaged by fire. Zing took delivery of the remaining shirts and paid Rs. 72,000 on custom duty.

Zing had sent a bank draft to Raizada & Co. for Rs. 2,50,000 as advance payment. 4,000 shirts were sold by him at Rs. 500 each. Expenses incurred by Zing on godown rent and advertisement etc. amounted to Rs. 10,000. He is entitled to a commission of 5%

One of the customer to whom the goods were sold on credit could not pay the cost of 25 shirts.

Prepare the Consignment Account and the Account of Zing in the books of Raizada & Co. Zing settled his accountimmediately. Nothing was recovered from the insurer for the damaged goods.

4. Lubrizols Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing Rs. 800 per barrel to Central Oil Co. of Kolkataon 1.1.2013. Lubrizols Ltd. paid Rs. 50,000 as freight and insurance. 25 barrels were destroyed on 7.1.2013 in transit. The insurance claim was settled at Rs. 15,000 and was paid directly to the consignor.

Central Oil took delivery of the consignment on 19.1.2013 and accepted a bill drawn upon them by Lubrizols Ltd.,for Rs. 5,00,000 for 3 months. On 31.3.2013 Central Oil reported as: 750 barrels were sold as Rs. 1,200 per barrel. The other expenses were:

	(Rs.)
Clearing charges	11,250
Godown Rent	10,000
Wages	30,000
Printing, Stationery, Advertisement	20,000

25 barrels of oil were lost due to leakage which is considered to be normal loss.

Central Oil Co. is entitled to a commission of 5% on all the sales affected by them. Central Oil Company paid theamount due in respect of the consignment on 31st March itself.

Show the Consignment Account, the Account of Central Oil Co., and the Lost –in-Transit Account as they will appear in the books of Lubrizols Ltd.

Invoice Price Method

5. Mr. X, the consignor, consigned goods to Mr. Y 100 Radio sets valued Rs. 50,000. This was made by adding 25% on cost. Mr. X paid Rs. 5,000 for freight and insurance. 20 sets are lost – in- transit for which Mr. X recorded Rs. 5,000 fromthe Insurance company.

Mr. Y received remaining goods in good condition. He incurred Rs. 4,000 for freight and miscellaneous expenses and Rs. 3,000 for godown rent. He sold 60 sets for Rs. 50,000. Show the necessary ledger account in the books of Mr. X assuming that Mr. Y was entitled to an ordinary Commission of 10% on sales and 5% Del Credere Commission onsales. He also reported that Rs. 1,000 were provide bad

6. On 1.7.2012, Mantu of Chennai consigned goods of the value of Rs. 50,000 to Pandey of Patna. This was made by adding 25% on cost. Mantu paid Rs. 2,500 for freight and Rs. 1,500 for insurance. During transit 1/ 10 th of the goods was totally destroyed by fire and a sum of Rs. 2,400 was realised from the insurance company. On arrival of the goods, Pandey paid Rs. 1,800 as carriage to godown.

During the year ended 30th June 2013, Pandey paid Rs. 3,600 for godown rent and Rs. 1,900 for selling expenses. 1/ 9 th of the remaining goods was again destroyed by fire in godown and nothing was recorded from the insurance company.

On 1.6.2013, Pandey sold half (1 /2) the original goods for Rs. 30,000 and charged a commission of 5% on sales as on 30.6.2013, Pandey sent a bank draft to Mantu for the amount so far due from him. You are required to prepare the following ledger accounts in the books of Mantu of Chennai for the year ended 30.6.2013. (a) Consignment to Patna Account; (b) Goods Destroyed by Fire Account; and (c) Personal Account of Pandey.

7. Shri Babubhai oil mills of Baroda sent 10000 kg of oil to M/s Gupta & Sons in Delhi. The cost of oil is Rs. 40 per kg. Babubhai paid Rs. 5,000 as freight and Rs. 2,500 as insurance. In transit 250 kg of oil was accidently destroyed for which insurance company paid Rs. 450 in full settlement to Babubhai.

M/s Gupta & Sons took delivery of the balance. Later they reported that 7500 kg was sold @ Rs. 60 per kg. Expenses incurred by them were rent Rs. 2,000, advertisement Rs. 5,000 and salaries Rs. 5000. M/s Gupta & Sons are entitled to commission of 3% and Del Credre commission of 1.5%. One customer who purchased 1000 kg paid only 80% of the amount due. M/s Gupta & Sons also reported loss of 100 kg due to leakage. The final amount due was settled. Prepare necessary ledger accounts in the books of Babubhai.

8. Sangita Machine Corporation sent 200 sewing machines to Rita agencies. It spent Rs. 7500 on packing. The cost of each machine was Rs. 2,000, but it was invoiced at 20% above cost. 20 machines were lost in transit & insurance company accepted claim of Rs. 20,000 only. Rita agencies paid freight of Rs. 9,000, carriage Rs. 3,600, Octroi Rs. 1,800 and rent Rs. 1800. They sold 150 machines at Rs. 3,500 per machine. They were entitled to commission of 5% on invoice price and additional 20% of any excess realized on invoice price and 2% Del Credre commission. They accepted a bill drawn by Sangita Machine Corporation for Rs. 3,00,000 and remitted the balance by demand draft along with account sale. Draw up necessary ledger accounts in the books of Sangita Machine Corporation and Rita Agencies.

INVENTORIES

1. M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2016:

Goods received from suppliers (subject to trade discount and taxes)	Rs.	15,75,500
Trade discount 3% and sales tax 11%		
Packaging and transportation charges	Rs.	87,500
Sales during the year	Rs.	22,45,500
Sales price of closing inventories	Rs.	2,35,000

Find out the historical cost of inventories using adjusted selling price method.

2. On 15th March, goods of the sale value of Rs. 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
Goods are sold by the trader at a profit of 20% on sales.

3. From the following particulars ascertain the value of Inventories as on 31st March, 2017:

	Rs.
Inventory as on 1.4.2016	1,42,500
Purchases	7,62,500
Manufacturing Expenses	1,50,000
Selling Expenses	60,500
Administrative Expenses	30,000
Financial Charges	21,500

Sales 12,45,000 At the time of valuing inventory as on 31st March, 2016, a sum of Rs. 17,500 was written off on a particular item, which was originally purchased for Rs. 50,000 and was sold during the year for Rs. 45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

4. A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no inventory taking could be possible till 15th April, 2017 on which date the total cost of goods in his godown came to Rs. 5,00,000. The following facts were established between 31st March and 15th April, 2017.
(i) Sales Rs. 4,10,000 (including cash sales Rs. 1,00,000)
(ii) Purchases Rs. 50,340 (including cash purchases Rs. 19,900)
(iii) Sales Return Rs. 10,000.
Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of inventory as on 31st March, 2017.

5. Inventory taking for the year ended 31st March, 2016 was completed by 10th April 2016, the valuation of which showed an inventory figure of Rs. 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for Rs. 68,750, profit margin being 33.33 percent on cost. Purchases for the next year included in the inventory amounted to Rs. 90,000 at cost less trade discount 10 percent. During this period, goods were added to inventory at the mark up price of Rs. 3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow moving items costing Rs. 11,250, which should be taken at Rs. 5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing Rs. 15,500 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be Rs. 12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 30th March, 2016.

Final Accounts of Traders

After preparing Trial Balance and being sure that books of Accounts are written in proper form and are arithmetically accurate, the owner of the business would like to know about the ultimate results of operating the business, that is,

1. How much profits were earned or losses were incurred during a particular period (generally one year)?.
2. What is the status of the business, that is, the position of various assets and liabilities at the end of a particular period (generally one year)?.

Debts : The amount which is receivable from a person or a concern for supplying goods or services is called Debt.Debts may be classified into :

(i) Bad debts;

(ii) Doubtful debts and

(iii) Good debts

(i) **Bad Debts :** Bad debts are uncollectable or irrecoverable debt or debts which are impossible to collect is called Bad Debts. If it is definitely known that amount recoverable from a customer can not be realized at all, it should be treated as a business loss and should be adjusted against profit. In short, the amount of bad debt should be transferred to Profit and Loss Account for the current year to confirm the principles of matching.

(ii) **Doubtful Debts :** The debts which will be receivable or cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realise) is known as doubtful debts. Practically it cannotbe treated as a loss on that particular date, as such, it cannot be written off. But, it should be charged against Profit and Loss Account on the basis of past experience of the firm.

(iii) **Good Debts** : The debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.

Problem No 1

The provision for Doubtful Debt A/c shows a balance of Rs. 5,000 on Jan 01, 2014. The bad debt during the year 2014 amounted to Rs. 3,000. The sundry debtors on Dec 31 2014 were Rs. 50,000. On Dec 31 2014 there was an additional bad debt of Rs. 3000. Create a new provision @ 10 % on debtors. Bad debt recovered Rs. 500. You are required to show P&L A.c and balance sheet

Problem No 2

The provision for Doubtful Debt A/c shows a balance of Rs. 5,000 on Jan 01, 2014. The bad debt during the year 2014 amounted to Rs. 3,000. The sundry debtors on Dec 31 2014 were Rs. 50,000. On Dec 31 2014 there was an additional bad debt of Rs. 3000. Create a new provision @ 10 % on debtors. Bad debt recovered Rs. 500. You are required to show P&L A.c and balance sheet

Problem No 3

On 01.01.2013 the balance of Provision for doubtful debts was Rs. 5,000. The Bad Debts during the year were Rs. 900. The Sundry Debtors as on 31.12.2013 stood at Rs. 40,400 out of these debtors of Rs. 400 are bad and cannot be realized. The Provision for Doubtful Debts is to be raised to 5% on Sundry Debtors. Show the necessary ledger accounts and the balance sheet.

Trading Account: It is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period. The purpose of it to find out the gross profit or gross loss which is an important indicator of business efficiency.

Dr Trading Account for the year ended Cr

Particulars	**Amount**	**Particulars**	**Amount**
To Opening stock:		By Sales	
Finished goods		less sales returns	
To Purchases		By Closing stock	
Less: purchase returns		Finished goods	
To Direct Expenses			
Gross Profit		By Gross Loss	
(transferred to P & L A/c)		(transferred to P & L A/c)	
Total		**Total**	

Problem No 4: Following are the ledger balances presented by M/s. P. Sen as on 31st March 2013.

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Stock (1.4.2012)	10,000	Sales	3,00,000
Purchase	1,60,000	Return Inward	16,000
Carriage	10,000	Return	10,000
InwardsWages	30,000	Outward	6,000
Freight	8,000	Royalty on Production	2,000
		Gas and Fuel	

Additional Information:

(1) Stock on 31.3.2013: (i) Market Price Rs. 24,000; (ii) Cost Price Rs. 20,000;

(2) Stock valued Rs. 10,000 were destroyed by fire and insurance company admitted the claim to the extent of Rs. 6,000.

(3) Goods purchased for Rs. 6,000 on 29th March, 2013, but still lying in-transit, not at all recorded in the books.

(4) Goods taken for the proprietor for his own use for Rs. 3,000.

(5) Outstanding wages amounted to Rs. 4,000.

(6) Freight was paid in advance for Rs. 1,000.

Trading Account for the year ended 31st March 2013

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To Openign Stock		10,000	By, Sales	3,00,000	
To Purchase	1,60,000		Less: Return Inward	16,000	2,84,000
Less: Return Outward	10,000				
	1,50,000		By, Closing Stock	20,000	
Less: Goods taken by Proprietor	3,000		Add: Stock Destroyed	10,000	
	1,47,000			30,000	
Add: Goods-in-transit	6,000	1,53,000	Add: Goods-in-Transit	6,000	36,000
To Wages	30,000				
Add: Outstanding	4,000	34,000			
To, Carriage Inwards		10,000			
To, Freight	8,000				
Less: Prepaid	1,000	7,000			
To, Royalty on production		6,000			
To, Gas & fuel		2,000			
To, Profit & Loss A/c. - Gross profit transferred		98,000			
		3,20,000			3,20,000

Profit and Loss Account for the year ended

Particulars	Amount	Particulars	Amount
To Gross Loss		By Gross Profit	
(transferred from Trading A/c)		(transferred from Trading A/c)	
Administrative expenses		Other Income	
Office salaries		Interest received	
Communication		Commission received	
Travel & Conveyance		Profit on sale of assets	
Office rent		Rent received	
Depreciation of office assets		Net loss	
Audit fees			
Insurance			
Repairs & maintenance			
Selling & Distribution expenses			
Advertising			
Salesmen commission			
Delivery van expenses/Depreciation ondelivery vans/Bad debts			
Financial expenses			
Bank charges			
Interest on loans			
Loss on sale of assets			
Net profit			
Total		**Total**	

From the following particulars presented by Sri Tirlhankar for the year ended 31st March 2013, Prepare Profit andLoss Account.

Gross Profit Rs. 1,00,000, Rent Rs. 22,000; Salaries, Rs. 10,000; Commission (Cr.) Rs. 12,000; Insurance Rs. 8,000; Interest (Cr.) Rs. 6,000; Bad Debts Rs. 2,000; Provision for Bad Debts (1.4.2012) Rs. 4,000; Sundry Debtors Rs. 40,000; Discount Received Rs. 2,000; Plant & Machinery Rs. 80,000.Adjustments:

(a) Outstanding salaries amounted to Rs. 4,000; Rent paid for 11 months;

□d) Interest due but not received amounted to Rs. 2,000

(d) Prepaid Insurance amounted to Rs. 2,000; Depreciate Plant and Machinery by 10% p.a.

(e) Further Bad Debts amounted to Rs. 2,000 and make a provision for Bad Debts @5% on Sundry Debtors.

(f) Commissions received in advance amounted to Rs. 2,000.

Profit and Loss Account for the year ended 31.3.2013

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To Rent	22,000		By Trading A/c.		1,00,000
Add: Outstanding	2,000	24,000	-Gross Profit		
" Salaries	10,000		" Commission	12,000	
Add: Outstanding	4,000	14,000	Less: Received in advance	2,000	10,000
" Insurance	8,000		" Interest	6,000	
Less: Prepaid	2,000	6,000	Add: Accrued Interest	2,000	8,000
" Bad Debts	2,000				
Add: further Bad Debts	2,000	4,000	" Discount received		2,000
" Depreciation on Plant &Machinery @10% on Rs. 80,000		8,000	" Provisions for Bad Debts	4,000	
" Capital A/c. (Net Profit Transferred)		66,100	Less: New Provision @ 5% on(Rs. 40,000 – Rs. 2,000)	1,900	2,100
		1,22,100			**1,22,100**

Balance Sheet of a Non-Corporate Entity

Liabilities	Amount	Assets	Amount
Capital (separate figures are shown for each owner)		**Fixed Assets:**	
		Land less depreciation	
		Building less depreciation	
Long term Liabilities:		Plant and Machinery less depreciation	
Loans from banks or financial Institutions		Vehicles less depreciation	
Current Liabilities:		Computer systems less depreciation	
Sundry creditors		Office equipments less depreciation	
Bills payable		**Current Assets:**	
Advances from customers		Stocks	
Outstanding expenses		Sundry debtors less provisions	
		Bills receivables	
		Cash in hand	
		Cash at bank	
		Prepaid expenses	
		Advances to suppliers	

Question No. 1:

The following is the trial balance of Arman as on 31st March,2022:

Particulars	Dr (Rs.)	Cr (Rs.)
Capital account	-	800000
Drawing account	60000	-
Stock on 1st April, 2021	450000	-
Purchases	2600000	-
Sales	-	3100000
Furniture	100000	-
Sundry Debtors	400000	-
Freight and Octroi	46000	-
Trade expenses	5000	-
Salaries	55000	-
Rent	24000	-
Advertising expenses	50000	-
Insurance premium	4000	-
Commission	-	13000
Discount	2000	-
Bad debts	16000	-
Provision for bad debts	-	9000
Creditors	-	200000
Cash in hand	52000	-
Bank	58000	-
Goodwill (at cost)	200000	-

Adjustments:

i) Stock on 31st March,2022 was valued at Rs.5,30,000
ii) Salaries have been paid so far for 11 months only
iii) Unexpired insurance included in the figure of Rs.4,000 appearing in the trial balance is Rs. 1,000
iv) Commission earned but not yet received amounting to Rs.1,220 is to be recorded in the books of account.
v) Provision for bad debts is to be brought upto 3% for sundry debtors
vi) Manager is to be allowed a commission of 10% of net profits **after** charging such commission
vii) Furniture is depreciated @10% p.a.
viii) Only one-fourth of advertising expenses are to be written off.

Prepare the Trading and Profit & Loss account for the year ended 31st March,2022 and Balance sheet as on that date.

Question No. 2:

From the following figures extracted from the books of Mohan, you are required to prepare a Trading Account and Profit & Loss account for the year ended 31st March,2022 and a Balance sheet as on that date after making the necessary adjustments.

Particulars	(Rs. In '000)
Mohan's Capital	22880
Mohan's drawings	1320
Plant & Machinery	9900
Freehold property	6600
Purchases	11000
Returns outwards	110
Salaries	1320
Office expenses	715
Office furniture	550
Discount (Dr.)	132
Sundry debtors	2926
Loan to Krishna @ 10% p.a., balance on 1st April,2021	4400
Cash at bank	2926
Bills payable	550
Stock on 1st April,2021	3850
Wages	3520
Sundry creditors	4400
Gas and fuel	297
Bad debts	66
Freight	990
Loose tools on 1st April,2021	220
Factory Lighting	286
Provision for doubtful debts	88
Interest loan to Krishna	110
Cash in hand	264
Sales	23144

Adjustments:

i) Stock on 31st March, 2023, was valued at Rs.7,260 thousand.
ii) Depreciate plant and machinery by 33 1/3%, further by 10% and freehold property by 5%
iii) Loose tools were valued at Rs.176 thousand and 31st March 2023
iv) From the sundry debtors, Rs.6 thousand are bad and should be written off. Maintain a provision of 5% on sundry debtors for doubtful debts.

Question No. 3:

The following is the schedule of balances on 31st March, 2022 extracted from the books of Dinesh.

Particulars	Debit	Credit
Cash in hand	1400	-
Cash at bank	2600	-
Sundry debtors	86000	-
Stock as on 1st April, 2021	62000	-
Furniture and fixtures	21400	-
Office equipment	16000	-
Buildings	60000	-
Motor car	20000	-
Sundry Creditors	-	43000
Loan	-	30000
Provision for bad debts	-	3000
Purchases	140000	-
Purchases returns	-	2600
Sales	-	230000
Sale returns	4200	-
Salaries	11000	-
Rent for godown	5500	-
Interest on loan	2700	-
Rates & Taxes	2100	-
Discount allowed to debtors	2400	-
Discount received from creditors	-	1600
Freight on purchases	1200	-
Carriage outwards	2000	-
Drawings	12000	-
Printing & Stationery	1800	-
Electric charges	2200	-
Insurance premium	5500	-
General office expenses	3000	-
Bad debts	2000	-
Bank charges	1600	-
Motor car expenses	3600	-
Capital account	-	162000

Prepare the Trading and Profit & Loss Account for the year 31st March, 2023 and the Balance sheet as on that date after making the following adjustments:

i) Provide depreciation on – Building @ 5% Furniture and fixture @ 10% Office equipment @ 15% Motor car @ 20%

ii) Value of stock at the close after the year was Rs.44,000

iii) Provision for bad debts is to be maintained at 5% of sundry debtors

iv) Insurance premium includes Rs.4000 paid towards proprietors' life insurance policy and the balance of the insurance charges covers the period from 1st July, 2021 to 30th June, 2023

FINAL ACCOUNTS OF MANUFACTURING ENTITIES

1. **Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2016.**

	Rs.
W.I.P. - Opening	3,90,000
- Closing	5,07,000
Raw Materials - Purchases	12,10,000
- Opening	3,02,000
- Closing	3,10,000
- Returned	18,000
- Indirect material	16,000
Wages - direct	2,10,000
- indirect	48,000
Direct expenses - Royalty on production	1,30,000
- Repairs and maintenance	2,30,000
- Depreciation on factory shed	40,000
- Depreciation on plant & machinery	60,000
By-product at selling price	20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2016.

2. Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2016:

Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000
Hire charges of machine @ Rs. 0.60 per unit manufactured	
Hire charges of factory	2,20,000
Direct wages-Contracted @ Rs. 0.80 per unit manufactured and @ Rs. 0.40 per unit of Closing W.I.P.	
Repairs and Maintenance of machine	1,80,000
Units produced – 5,00,000 units	

Required

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2016

Final Accounts of Non Profit Organisations

Until now, we have seen accounting treatment for business transaction of business entities whose main objective is to earn profit. There are certain organisations that are not established for making profit but to provide some service.These services are generally given to members who make subscriptions to avail them. These are also called as non-trading entities. The examples of such organisations are:

Gymkhana / sports clubs; Educational institutions; Public hospitals; Libraries; Cultural clubs like Rotary or Lions club;Religious institutions; Charitable trusts

These organisations get their funds in the form of contributions by way of entrance fees, life membership fees, annual subscriptions, donations, grants, legacies etc. The accounting of such organisations is based on similar principles followed by the other organisations. Given the nature of these institutions, there are certain items of revenue andexpenses that need special understanding so that accounting treatment could be correctly decided.

(a) **Entrance Fees** – These are received at the time of admission of a new member and thus are one-time fees**. They are non-recurring in nature. It could be either capitalized as they are non-recurring** or taken as revenue as per the rules of the institution. There's a view that addition of member is an ongoing activity and thus every year the institute will get entrance fees. So it may be taken as a normal revenue receipt.

(b) **Donations** – **Small donation amounts which are not earmarked for any specific purpose may be treated as revenue receipts**.They could be used for meeting capital or revenue expenses. If donations are received for a special purpose, the amount is credited to a fund from which the amounts are disbursed. The fund may be invested in specified securities. Income from such investments is credited to the fund A/c only.

(c) **Legacy** – Many times trusts are formed in the memory of certain persons by their will. In such case after thedemise of the person, the funds pass on to the institution. **Such legacies are of course one-time and therefore should be taken to the capital fund.**

(d) **Endowments** – Sometimes, donations are also in the form of endowments to be used as per instructions of the donor. **These are to be treated as capital receipts.**

(e) **Life membership fees** – These could be **taken as capital receipts** and every year a charge is debited based on some logic. In other words, when received, it could be treated as deferred receipt in the balance sheet and every year a specific amount is credited to I & E A/c.

(f) **Subscriptions** – These are **annual receipts and therefore taken as revenue receipts.** These must be recognisedas revenue on the accrual concept.

Difference between Receipts and Payments Account and Income and Expenditure Account

	Receipts & Payments Account	Income & Expenditure Account
1.	It is a summarised Cash Book	It closely resembles the Profit & Loss Account of a Tradingconcern.
2.	Receipts are debited and Payments are credited.	Incomes are credited and Expenditures are debited.
3.	Transactions are recorded on Cash basis.	Transactions are recorded on Accrual Basis
4.	Amounts related to previous period or future period may remain included. Outstanding amount for current year is excluded.	Transactions are recorded on accrual basis. All amountsnot related to the current period are excluded. Outstanding amounts of current period are added.
5.	It records both Capital and Revenue transactions.	It records Revenue transactions only.
6.	It serves the purpose of a Real Account.	It serves the purpose of a Nominal Account.
7.	It starts with opening Cash and Bank Balances and ends with closing Cash and BankBalances.	It does not record such balances,rather its final balanceshows a surplus or a deficit for the period.
8.	It does not record notional loss or noncash expenses like bad debts, depreciations etc.	It considers all such expenses for matching against revenues
9.	Its closing balance is carried forward to the sameaccount of the next accounting Period.	Its closing balance is transferred to Capital Fund or General Fund or Accumulated Fund in the same period'sBalance Sheet.
10.	It helps to prepare an Income & Expenditure A/c.	It helps to prepare a Balance Sheet.

Fund Asset Accounting and its peculiarities:

Following are the concepts of some funds which are generally maintained by organizations:

Capital Fund : It is also called "General Fund" or "Accumulated Fund." It is actually the Capital of a non-profit concern. It may be found out as the excess of assets over liabilities. Usually "Surplus" or "Deficit" during a periodis added with or deducted from it. A portion of Capitalised incomes like donations may be added with it.

Special Fund: It may be created out of special donation or subscription or out of a portion of the "Surplus". For example a club may have a "Building Fund". It may be used for meeting some specific expenses or foracquiring an asset. If any income is derived out of investments made against this fund or if any profit or loss occurs due to sale of such investments, such income or profit or loss is transferred to this fund

Illustration 1.

On 31st December 2012, a club had subscription in arrears of Rs. 16,000 and in advance Rs. 4,000. During the year ended 31-12-2013, the club received subscription of Rs. 2,08,000 of which Rs. 10,400 was related to 2014. On 31st December 2012, there were 4 members who had not paid subscription for 2013 @ Rs. 1,600 per person. Write up subscription A/c for the year 2013.

Solution:

A single subscription account should be prepared to reflect both advance and arrears figures. The balancing figure will reflect the subscription amount that will be recognised as Income and transferred to I & E A/c as shown below:

Dr. **Subscription Account** **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To, Balance b/d (arrears/due)	16,000	By, Balance b/d (advance)	4,000
To, I & E A/c (income for 2013)	1,92,000	By, R & P A/c (received)	2,08,000
To, Balance c/d (advance)	10,400	By, Balance c/d (arrears/due)	6,400
	2,18,400		2,18,400

Illustration 2.

The sports club of Orissa had received in 2012-2013 Rs. 2,000 towards subscription. Subscription for 2011-12 unpaid on 1.4.2012 were Rs. 200.

Subscriptions paid in advance on 31.3.2012 were Rs. 50 and the same on 31.3.2013 was Rs. 40. Subscriptions for 2012- 2013 unpaid on 31.3.2013 were Rs. 90.

Show how the subscriptions item will appear in the Income and Expenditure Account.

Solution:

Particulars	Amount (Rs.)
Subscriptions received during the year 2012-2013	2,000
Add : Subscription outstanding on 31.3.2013	90
Less : Subscription outstanding on 1.4.2012	200
Add : Subscription paid in advance on 31.3.2012	50
Less : Subscription received in advance on 31.3.2013	40
Subscription Income for 2012-2013	1,900

Illustration 3.

The amount of Subscription appears in the Income and Expenditure Account of South Indian Club is Rs. 3,000.

<u>Adjustments were made in respect of the following:</u>

Subscription for 2012 unpaid at 1^{st} Jan. 2013, Rs. 400; Rs. 200 of which was received in 2013.

Subscription paid in advance at 1.1.2013 Rs. 100.

Subscription paid in advance at 31.12.2013 Rs. 80.Subscription for 2013 unpaid at 31.12.2013 Rs. 140.

Prepare Subscription Account.

Solution:

Dr. **Subscription Account** **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To, Balance b/d	400	By, Balance b/d	100
To, Income & Expenditure A/c	3,000	By, Cash Received (bal fig)	3,040
To, Balance (paid in advance to 2013)	80	By, Balance c/d [200 + 140]	340
	3,480		3,480
To, Balance b/d:		By, Balance b/d (2013)	80
For 2012	200		
For 2013	140		

Note: Opeaning Outstanding Subscription = Rs. 400, Rs. 200 received in 2013.

Problems for Practice

1. A non-profit organisation has furnished the following data in connection with finalisation of accounts for the year ended 31st March 2014:

	Rs.
Membership subscriptions received as per books	57,000
Subscription in arrear for 2013-14	1,400
Contribution to indoor games section included in item no. one above	2,000
Advance receipt of subscriptions (for 2014-15)	480
Subscription outstanding for 2012-13 now received	3,000

The amount of subscription to be taken as income for 2013-14 is

A : Rs. 57,000, B : Rs. 51,520, C : Rs. 55,000, D : Rs. 52,920, Select the correct one.

[Q1. (f), Dec. ’08 / Paper-5]

Preparation of Income and Expenditure Account and Balance Sheet:

2. The following is the Receipts and Payment Account of Sodepore Recreation Club for the year ended 31.12.2013 :

	Rs.		Rs.
To Cash in hand	1,000	By Rent of Club House	2,600
" Cash at Bank	12,000	" Painting of Club House	1,400
" Members' Subscription		" Wages of Ground Maintenance	3,000
2012 200		" General Expenses	2,600
2013 3,600		" Electricity Charges	3,600
2014 400	4,200	" Investment	20,000
" Life Membership Subscription	4,000	" Secretary's Honorarium	1,200
" Sale of Ticket of annual exhibition	20,000	" Annual Meeting Expenses	800
" Sale of refreshment	24,000	" Sports Equipment	3,600
" Interest on investment	2,600	" Purchase of refreshment	11,000
" Sale of furniture	200	" Printing & Stationery	1,000
(Original Cost on 1.1.13		" Insurance	600
Rs. 1,000)		" Cash in hand	4,000
		" Cash at Bank	12,600
	68,000		**68,000**

The following information are available to you :
(a) On 31.12.2012 outstanding subscription for 2012 was Rs. 300.
(b) On 31.12.2013 advance subscription for 2014 received was Rs. 100.
(c) On 31.12.2013 outstanding subscription for 2013 was Rs. 600.

3. Following is the receipts and payments account of a club for the year ended 31st March 2014

Receipts	Rs.	Payments	Rs.
Cash in hand	50	Salaries	2,400
Cash at bank	565	Rent	720
Subscription (including Rs.100 for 12-13 and Rs.150 for 14-16)	4,550	Postage	30
		Printing and Stationery	255
Interest on investments	2,000	Electricity Charges	300
Bank Interest	25	Meeting Expenses	150
Sale of Furniture	300	Purchase of library books	1,000
		Investment in bonds	1,000
		Cash in hand	155
		Cash at bank	1,480
	7,490		7490

The following additional information is supplied to you –

i. On 1st April, 2013 the club had the following assets and liabilities: (a) Investments costing Rs.40,000/-; (b) Furniture Rs.3,000/-; (c) Library Books Rs.5,000/-; (d) liability for rent Rs.60/- and salary Rs.200/-

ii. On 31st March, 3014 Rent Rs.60/- and Salary Rs.200/- were in arrear.

iii. The book value of furniture sold was Rs.250/-

Prepare the Income and Expenditure account of the Club for the year ended 31st March, 2014 and the Balance sheet as at that date.

4. The following particulars relate to international club for the year ended 31/12/2013. You are required to prepare therefrom an Income and Expenditure Account for the year and a Balance sheet as on 31/12/2013. **Summary of Cash Book**

	Rs.		Rs.
Balance form the last year	2,350	Salaries	1,200
Entrance fees	300	Electricity	120
		Newspapers and Journals	525
Subscription		Fixed Deposits	2,500
2012 50		Utensils	200
2013 3,500		Payment to Creditors	1,000
2014 75	3,625	Balance carried forward to next year	1,150

Profit from Refreshment	100		
Locker Rents	200		
Sundry Income	120		
	6,695		6,695

The assets and liabilities on 1st January 2013 were Utensils Rs.800; Furniture Rs.2,500; Consumable stores Rs.350 and Creditors Rs.1200.
On 31/12/2013 value of consumables stores was Rs.700; creditors amounted to Rs.550; the subscriptions outstanding were Rs.75 and the interest accrued on fixed deposit was Rs.25.

Calculation of Medicine Purchase and calculation Depreciation from the balances of Asset accounts.

5. Form the following particulars related to Venkatasamy Charitable Hospital, prepare an Income and Expenditure Account for the year ended 31st December, 2013 and a Balance sheet as on that date.

Receipts	Rs.	Payments	Rs.
Balance in hand on 1/1/2013	7,130	Payments for Medicines	30,590
Subscriptions	48,000	Honorarium to Medical Staff	9,000
Donations	14,500	Salaries to house Staff	27,500
Interest on investment @ 7%	7,000	Petty expenses	460
Proceeds from Annual Day	10,450	Equipment Purchase	15,000
		Expenses for Annual Day	751
		Closing Balance	3,779
	87,080		87,080

Additional Information:

	On 31/12/12 (Rs.)	On 31/12/13 (Rs.)
Subscription Due	240	280
Subscription received in Advance	65	100
Stock of Medicines	8,810	9,740
Value of equipment	21,200	31,600
Buildings	40,000	38,000
Outstanding liability to Medicine Suppliers	10,000	8,000

6. D Literary Society Showed the following position on 31st December, 2013. Balance Sheet as at 31st December 2012

Liabilities	Rs.	Assets	Rs.
Capital fund	79,300	Electrical Fittings	15,000
Outstanding Expenses	700	Furniture	5,000
		Books	40,000
		Investment in Securities	15,000
		Cash at Bank	2,500
		Cash in hand	2,500
	80,000		80,000

Receipts and Payments for the year ending on 31st December, 2013

Receipts	Rs.	Payments	Rs.
To Balance b/d		By Electricity charges	720
Cash at bank	2,500	By Postage and stationery	500
Cash in hand	2,500	By Telephone charges	500
Entrance fees	3,000	By Books purchased (1/1/13)	6,000
Membership subscriptions	20,000	By Outstanding expenses	700
Sale proceeds of old newspapers	150	By Rent account	8,800
Hire of lecture Hall	2,000	By Investment in Securities (1/7/13)	4,000
Interest on securities	800	By Salaries A/c	6,600
		By Balance c/d	
		Cash at Bank	2,000
		Cash in hand	1,130
	30,950		30,950

You are required to prepare Income and Expenditure Account for the year ending on 31/12/13 and a Balance sheet on that date after incorporating the following adjustments:

i) Membership subscriptions included Rs.1,000 received in advance.

ii) Provide for outstanding Rent Rs.400 and Salaries Rs.300.

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

iv) 75% of the Entrance fees to be capitalized.

v) Interest on Securities to be calculated at 5% p.a.

Partly Trading and Partly Non-Trading Concern:

7. On 1/4/2013 the financial position of Babu Sangshad, a cultural club was as follows:

Liabilities	Rs.	Assets	Rs.
Capital Fund	4,200	Equipments	1,640
Creditor for expenses	160	Furniture	1,160
		Bar Stock	880
		Outstanding Subscription	

		for 12-13	240
		Cash	440
	4,360		4,360

Its Receipts and Payments for the tear ended 31st March, 2014 were

Receipts	Rs.	Payments	Rs.
Opening balance	440	Creditors for 12-13	160
Subscriptions:		General Expenses	9,240
2012-13	160	Printing and Postage	600
2013-14	8,160	Equipments Purchases (31/3/14)	640
2015-16	120	Lighting and Rent	1,080
Bar sales	10,240	Purchase of Bar goods	5,840
Receipts from Annual Day	800	Annual Day Expenses	1,280
		Closing balance (31/3/14)	1,080
	19,920		19,920

Additional Information:
(a) Rs.264 is yet to be received as subscription for the 2013-14
(b) Bar Stock as on 31/3/14 Rs.840, furniture to be written down by Rs.100
(c) Depreciation on Equipments to be provided at 25% p.a.
Prepare the bar trading Account and Income and Expenditure Account for the year ended 31/3/14 and a Balance sheet as on that date.

8. The following is the Receipts and Payments account for Tamil Mandalam for the year ended 31st March 2014.

Receipts	Rs.	Payments	Rs.
To balance b/d	12,500	By Salaries	2,500
Subscriptions	52,500	Printing and Stationery	1,250
To Annual Day receipts	26,800	By Annual Day expenses	1,500
Symposium Receipts	22,500	Symposium Expenses	10,000
Dividends on Shares	2,500	Telephone Charge	2,500
		Sundry Expenses	2,000
		Shares purchased	75,000
		Postage and Telegrams	2,200
		Building Maintenance	6,340
		Cash at bank.	13,500
	1,16,800		1,16,800

Following further information is furnished:

a. The value of building owned by the society stood at Rs. 50,000 on 1st April 2013. Depreciation @ 5% p.a is to be provided
b. There were 200 members paying subscription @ Rs. 250 per annum each
c. As on 1st April 2013 no subscription had been received in advance but subscriptions were outstanding to the extent of Rs. 1000. As at 31st March 2014 subscriptions outstanding were Rs. 1,500

d. Postage stamps worth Rs. 250 were with the secretary at the beginning of the year and the sstamps at the end of the year were of the value of Rs. 150
e. The investments in shares at the beginning of the year were to the extent of Rs. 5,000
f. An amount of Rs. 250 in respect of the Annual day receipts was yet to be received
g. Hire of telephone paid in advance Rs. 300
h. Outstanding amount of symposium receipts on 31-3-2014 Rs. 2,500. Prepare the income and expenditure account for the year ended 31st march 2014 and the Balance Sheet as on that date.

9. The following receipts and payments account of Calcutta club for the year ended 31st march 2014.

	Receipts		Rs.		Payments	Rs.
To	Balance B/f			By	Secretary's Remuneration	6,000
	Cash		2,000		Salary to Staff	5,000
	Bank		10,000		Canteen Expenses	12,000
	Subscriptions				Construction of buildings	15,000
	For 2012-13	200			Balance C/f	
	For 2013-14	5,000			Cash	800
	For 2014-15	100	5,300		Bank	2,000
	Interest @ 5% on Gove Securities (Bought in the past at 1% discount)		2000			
	Sale of old furniture		1,000			
	Sale of News papers		500			
	Canteen expenses		10,000			
	Donations to building fund		10,000			
			40,800			40,800

From the additional information given below, prepare the income and expenditure account for the year ended 31st March 2014 and a balance sheet as on that date

		Balance on 31-3-2013	Balance on 31-3-2014
a)	Subscriptions Receivable	1,000	?
b)	Subscriptions Received in Advance	200	100
c)	Outstanding Staff salary	2,000	1,000
d)	Canteen Expenses paid in Advance (Subsidy to canteen)	1,000	500
e)	Furniture	10,000	?
f)	Construction Expenses outstanding	-	2,000
g)	Subscription receivable for 2013-14 was Rs.5,500		
h)	The book value of furniture sold was Rs.3,000		
i)	Depreciation to be charged on furniture @ 10%		

Preparation of Receipts and Payments:

10 Prepare Receipts and Payments Account for the year ended 31st December, 2013 from the following: The income and expenditure account for the year ending 31st December, 2013

	Rs.		Rs.
To Salaries	12,000	By Subscription	20,000
To Printing and Stationery	3,000	By Donation	10,000
To Depreciation on Fixed Assets	5,000	By Sundry Income	1,000
To Surplus	11,000		
	31,000		31,000

Other information: Cash in hand on 1/1/2013 Rs.6,000; Donation Capitalized @ 50%; Subscription due for 2012 Rs.2000; Sundry Incomes Accrued Rs.200; Subscription Due for 2013 Rs.1,000; Salaries due Rs.1,000; Subscription received in advance in 2013 Rs.500; Salaries due for 2013 Rs.1,200; Printing and Stationery prepaid Rs.200/-

11 The income and expenditure account of an association for the year ended 31st March 2014 is as under :

	Rs.		Rs.
To Salaries	1,20,000	By Subscription	1,70,000
Printing and Stationery	6,000	Entrance fee	4,000
Telephone	1,500	Contribution for dinner	36,000
Postage	500		
General expenses	12,000		
Interest and bank charges	5,500		
Audit fees	2,500		
Annual dinner expenses	25,000		
Depreciation	7,000		
Surplus	30,000		
	2,10,000		**2,10,000**

The aforesaid income and expenditure account has been prepared after the following adjustments :

- Subscription outstanding as on 31st March 2013 16,000
- Subscription outstanding on 31st March 2014 18,000
- Subscription received in advance as on 31st March 2013 13,000
- Subscription received in advance as on 31st March 2014 8,400
- Salaries outstanding as on 31st March 2013 6,000
- Salaries outstanding as on 31st March 2014 8,000
- Audit fees for 12-13 paid during 13-14 2,000
- Audit fee for 13-14 not paid 2,500
- The building owned by the association since 2010 costs 1,90,000
- Equipment as on 31st March 2013 valued at 52,000
- At the end of the year after depreciation of Rs. 7,000, equipment amounted to 63,000
- In 2012-2013, the association raised a bank loan of which is still not paid 30,000
- Cash in hand as on 31st March 2014 28,500

You are required to prepare Receipts and Payments Account of the association for the year ended 31st March 2014 and the Balance Sheet as at that date.

Assignment 1

Prepare Income & Expenditure A/c for the year ended 31-12-2013 and the balance sheet as on 31-12-2013 in the books of an Education society.

Particulars	**Debit** (Rs.)	**Credit** (Rs.)
Library Books	2,30,000	
Books Added during the year	52,200	
Furniture	1,59,500	
Addition to Furniture	35,500	
Buildings	37,89,000	
Investment	21,25,000	
Creditors		1,77,900
Debtors	59,700	
Investment Reserve Fund		1,85,000
Entrance Fees		2,02,600
Examination Fees		32,500
Certificate Fees		7,800
Subscriptions Received		2,75,800
Hire Charges		95,500
Interest		85,000
Other Receipts		4,400
Salary	1,55,900	
Printing & Stationery	8,500	
Postage & Telephone	2,500	
Insurance	10,400	
Examination Expenses	24,000	
Periodicals	15,600	
Prizes Fund		2,15,000
Prizes Investments	2,10,400	
Prizes Investment Income		10,200
Prizes Given	9,500	
Prizes Bank Balance	2,450	
Donations (capital)		1,99,000
General Expenses	5,250	
Capital Fund		54,71,720
Bank Balance	65,500	
Cash in Hand	1,520	
Total	69,62,420	69,62,420

Additional information :

Subscription receivable Rs. 22,500, subscription received for 2014 Rs. 7,850, Interest accrued on investments Rs. 6,250, salaryoutstanding for 2013 Rs. 12,500, Prepaid insurance Rs. 4,500.

Depreciate Books @ 15%, Building @ 1% and Furniture @ 10%.

Dr. Income & Expenditure Account for the year ended 31.12.2013 Cr.

Expenditure	Amount (Rs.)	Amount (Rs.)	Income	Amount (Rs.)	Amount (Rs.)
To Salary	1,55,900		By Examination fees		32,500
Add: Outstanding	12,500	1,68,400	By Certificate fees		7,800
To Printing & Stationery		8,500	By Subscriptions	2,75,800	
To Postage & Telephone		2,500	Add: Receivable	22,500	
To Insurance	10,400		Less: Pre-received	(7,850)	2,90,450
Less: Prepaid	(4,500)	5,900	By Hire charges		95,500
To Examination Expenses		24,000	By Interest		85,000
To Periodicals		15,600	By Other Receipts		4,400
To General Expenses		5,250	By Accrued interest		6,250
To Depreciation on Books		38,415			
To Depreciation on Building		37,890			
To Depreciation onFurniture		17,725			
To Surplus		1,97,720			
		5,21,900			5,21,900

Balance Sheet as at 31.12.2013

Liabilities	Amount (Rs.)	Amount (Rs.)	Assets	Amount (Rs.)	Amount (Rs.)
			Buildings	37,89,000	
			Less: Depreciation @ 1%	(37,890)	37,51,110
Capital Fund	54,71,720		Library Books	2,30,000	
Add: Entrance fees	2,02,600		Add: Purchased in 2012	52,200	
Add: Donations	1,99,000		Less: depreciation @ 15%	(38,415)	2,43,785
Add: Surplus	1,97,720	60,71,040	Furniture & fixture	1,59,500	
			Add: Purchased in 2012	35,500	
			Less: Depreciation @ 10%	(17,725)	1,77,275

Investment Reserve Fund		1,85,000			
Prize Fund	2,15,000		Investment		21,25,000
Add: Fund Income	10,200		Prize Investments		2,10,400
Less: Fund Expenses	(9,500)	2,15,700	Debtors		59,700
Creditors		1,77,900	Prize Bank balance		2,450
Subscription received inadvance		7,850	Bank balance		65,500
Salary Outstanding		12,500	Cash in hand		1,520
			Subscription receivable		22,500
			Interest Accrued		6,250
			Prepaid Insurance		4,500
		66,69,990			66,69,990

Assignment 2 The following summary of the Cash Book has been prepared by the treasurer of a club:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d	4,740	By Wages – outdoor staff	13,380
" Subscriptions	29,720	" Restaurant Purchase	50,400
" Entrance Fees	3,200	" Rent – 18 months' to July 30, 2013	7,500
" Restaurant Receipts	56,800	" Rates	2,700
" Games & Competition Receipts	13,640	" Secretary's Salary	3,120
" Due to Secretary for Petty Expenses	80	" Lighting	7,200
		" Competition Prizes	4,000
		" Printing & Postage etc.	6,000
		" Placed in Fixed Deposit	8,000
		" Balance c/d	5,880
	1,08,180		**1,08,180**

On April 1, 2012 the club's assets were:- Furniture Rs. 48,000, Restaurant stock Rs. 2,600; Stock of prizes Rs. 800; Rs. 5,200 was owing for supplies to the restaurant.

On March, 31, 2013, the Restaurant stocks were Rs. 3,000 and prizes in hand were Rs. 500, while the club owed Rs. 5,600 for restaurant supplies.

It was also found that subscriptions unpaid at March 31, 2013, amounted to Rs. 1,000 and that the figure of Rs. 29,720 shown in the Cash Book included Rs. 700 in respect of previous year and Rs. 400 paid in advance for the following year.

Prepare an account showing the Profit or Loss made on the Restaurant and a General Income and

Expenditure Account for the year ended 31.3.2013, together with a Balance Sheet as at that date, after writing 10% off the Furniture.

Restaurant Trading Ac

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount (Rs.)	Amount (Rs.)
To Opening Stock A/c		2,600	By Restaurant Receipts A/c		56,800
" Purchases A/c	50,400		" Closing Stock A/c		3,000
" Add: Outstanding for 31.3.13	5,600				
	56,000				
Less: Outstanding for 01.04.12	5,200				
		50,800			
" Income & Expenditure A/c(G.P. transferred)		6,400			
		59,800			**59,800**

Balance Sheet as on 1st April 2012

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Accumulated Fund: (bal. fig.)	50,390	Furniture and Equipment	48,000
Owing for supplies to Restaurant	5,200	Restaurant Stock	2,600
Outstanding Rent (Jan. to March 2012)	1,250	Stock of Prize	800
		Outstanding Subscriptions	700
		Cash and Bank	4,740
	56,840		**56,840**

Income and Expenditure A/c for the year ended 31st March 2013

Expenditure	Amount (Rs.)	Amount (Rs.)	Income	Amount (Rs.)	Amount (Rs.)
To Wages		13,380	By Subscription : Subscriptionalready received	29,720	
Rs. Rs. Rent	7,500		Less: Outstanding for 1.4.12	700	
Rs. Rs. Less: Outstanding on 1.4.2012	1,250			29,020	
	6,250		Add: Outstanding for 2013	1,000	
				30,020	
Rs. Rs. Less: Prepaid for 3 months(7,500 x 3/18)	1,250	5,000			
Rs. Rs. Rates		2,700	Less: Received in advance	400	29,620
Rs. Rs. Secretary's Salary		3,120	Rs. Rs. Games Competition Receipts		13,640
Rs. Rs. Lighting, Cleaning,		7,200	Rs. Rs. Restaurant		

Services			Trading –Gross Profit		6,40 0
Rs. Rs. Competition Prize	4,000				
Rs. Rs. Add: Opening Stock	800				
	4,800				
Rs. Rs. Less: Closing Stock	500	4,300			
Rs. Rs. Printing, Postage and Sundries		6,000			
Rs. Rs. Dep. on Furniture and Equipment @ 10%		4,800			
Rs. Rs. Surplus – Excess of income overexpenditure		3,160			
		49,660			**49,660**

Balance Sheet as on 31st March 2013

Liabilities	**Amount (Rs.)**	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**	**Amount (Rs.)**
Accumulated Fund:			Furniture and Equipment	48,000	
Balance on 1.4.2012	50,390		Less: Depreciation	4,800	43,200
Add: Surplus	3,160	53,550	Restaurant Stock		3,000
Entrance fees		3,200	Stock of Prize		500
Subscription received in advance		400	Outstanding Subscriptions		1,000
Owing for supplies to Restaurant		5,600	Prepaid Rent		1,250
Outstanding Petty Expenses		80	Fixed Deposit with Bank		8,000
			Cash and Bank		5,880
		62,830			**62,830**

Admission of a Partner

Basics

1. A and B are currently partners in a firm sharing Profit/Loss in the ratio of 4 : 3. A new partner C is admitted and after his admission new profit sharing ratio between A, B and C becomes 5: 3 : 2. What will be the sacrifice ratio of A and B after admission of C?
2. X, Y and Z are partners in the ratio of 3 : 2:1. W is admitted with 1/16 th share in future profits. Z would retains his original shares. Find out the new profit sharing ratios of the partners.
3. X and Y are partners sharing profit/loss in the ratio of 5:4. They admit Z into partnership for 1/ 5 the share in the profits which is given 2 /15 by X and 1 /15 by Y. Z brings Rs. 1,50,000 as his capital and Rs. 60,000 as premium. Goodwill account appears in the books at Rs. 1,65,000; Give necessary journal entries in the books of the firm at the time of Z's admission and find out the new profit sharing ratio.
4. If in situation 3 Above, Goodwill is raised and Written off, Pass journal entry
5. P and Q are partners sharing profits and losses in the ratio of 5:4. On 1st April, 2021 they admitted their Manager R into partnership for 1 /5 th the share of the profits. As Manager, R was receiving a salary of Rs. 60,000 per year and a commission of 5 percent on the net profit after charging such salary and commission. It is, however, agreed that any excess over his former remuneration to which R becomes entitled as a partner is to be borne by Q. The profits of the firm for the year ended 31st March, 2022 amounted to Rs. 4,27,500. You are required to show the division of profits among the partners.

Comprehensive problems (without adjustment of capital)

1. M/s L, R and N is a firm sharing profits and losses in the ratio of 2:2:1. Their B/S as on 31st March 2014 is shown as below:

Liabilities	Rs.	Assets	Rs.
Sundry creditors	12,850	Land and Buildings	25,000
Outstanding liabilities	1,500	Furniture	6,500
General reserve	6,500	Stock of goods	11,750
Capital accounts:		Sundry debtors	5,500
L	12,000	Cash in hand	140
R	12,000	Cash at bank	960
N	5,000		
	49.850		49,850

The partners have agreed to take Mr. S as a partner with effect from 1st April 2014 on the following terms.

a) Mr. S shall bring the following asset towards his capital:
Stock Rs. 1000, Machinery Rs. 2500 and Cash Rs. 1500
b) The value of stock should be increased by Rs. 2,500
c) Provision for doubtful debts should be provided at 10% on the debtors
d) Furniture should be depreciated by 10%
e) The value of the goodwill be fixed at Rs. 15,000
f) General reserve be transferred to the partners capital accounts.
g) The value of Land and Building should be enhanced by 20%.
h) The new profit sharing ratio of L, R, N and S shall be 5:5:3:2
i) The goodwill account shall be written off to the partner's accounts in accordance with the new profit sharing proportion.
j) The outstanding liabilities include Rs. 1,000 due to Mr., A which has been paid by L.Necessary entries were not made in the books.
Prepare Revaluation Account, The Capital Accounts of the Partners, and The B/S of the firm as newly constituted.

2. Ranu & Mill are partners in a firm sharing profits and losses in the ratio of 2/3 and 1/3. The Balance Sheet of the firm on 31st December, 2013 was as follows :

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Creditors		7,000	Goodwill		4,980
Investment provision		2,000	Investments		25,000
General Reserve		10,500	Stock		15,000
Workmen's Compensation Fund		6,000	Debtors	20,000	
Capital Accounts :			Less : prov.	2,500	17,500
Ranu	30,000		Bill Receivable		12,500
Mili	24,500	54,500	Bank		5,020
	80,000				**80,000**

On the above date, Manisha is admitted for 2/5th share in the profit or losses of the firm. Following revaluations were made at the time of admissions:
(a) Manisha is required to bring in Rs. 50,000 as capital.
(b) Her goodwill was calculated at rs. 12,000.
(c) Ranu & Mili had purchased a machinery on hire purchase system for Rs. 15,000 of which only Rs. 500 are to be paid. Both machinery and unpaid liability did not appear in the balance sheet.
(d) There was a Joint Life policy on the lives of Ranu & Mili for Rs. 75,000. Surrender value of the policy on the date of admission amounted to Rs. 12,000.
(e) Accrued incomes not appearing in the books were Rs. 500.
(f) Market value of investments is Rs. 23,900.

(g) Sikha, an old customer whose account was written off as bad, has promised to pay Rs. 1,750 in full settlement of her claim.
(h) Claim on account of compensation is estimated at Rs. 750.
(i) Provision for doubtful debts is required at Rs. 3,000.
Prepare Revaluation Account, Partners Capital Accounts and opening Balance Sheet after admission of Manisha.

Memorandum of Revaluation Account Method:

3. Baisakhi and Srabarni are partners sharing profits and losses in proportion to their apitals. Their Balance Sheet as on 31st March, 2014 is given below ::

Liabilities	Rs.	Assets	Rs.
Capitals:		Premises	10,000
B	20,000	Machinery	3,500
S	15,000	Furniture	1,750
		Office Equipments	550
General Reserve	2,100	Stock	14,100
Creditors	15,000	Bills Receivable	3,060
		Debtors	17,500
		Bank	1590
		Cash	50
	52,100		52100

On 1st April, 2014 they admit Poushali on the following conditions:
(i) Poushali should bring in Rs. 10,000 as capital and to pay Rs. 3,500 for goodwill as she will get 1/4th share in profits.
(ii) A provision of 2% to be raised against debtors, stock to be reduced by 5%, Premises to be revalued at Rs. 12,650, Machinery at Rs. 2,800, Furniture at Rs. 1,540 and Office equipments at Rs. 495.
(iii) Partners agreed that the values of assets and liabilities should remain unaltered.
Show the necessary accounts and prepare the opening Balance Sheet of the new firm.

Hidden goodwill:

4. V and S are partners sharing profits in the ratio of 3:2. Their B/S stood as under on 31.3.2014:

Liabilities	Rs.	Assets		Rs.
Creditors	38,500	Cash		2,000
Outstanding liabilities	4,000	Stock		15,000
Reserve	10,000	Prepaid insurance		1,500
P & L A/c	5,000	Debtors	9,400	
Capitals:		Less: Provision	400	9,000
V	20,600	Machinery		19,000
S	9,400	Buildings		35,000
		Furniture		5,000
		Advertisement expenditure		1,000
	87,500			87,500

P is admitted as a new partner introducing a capital of Rs. 16,000. The new profits sharing ratio is decided as 5:3:2. P is unable to bring in any cash for Goodwill. So, it is decide to raise Goodwill account, amount being calculated on the basis of P's share in the profits and the capital contributed by him. Following revaluation are made:

a) Stock is depreciated by 5%.
b) Provision for doubtful debts to be made at Rs. 500.
c) Furniture to depreciated by 10%
d) Buildings are valued at Rs. 40,000.

Show necessary Ledger accounts and the B/S of the new firm.

Comprehensive problems (with adjustment of capital):

5. G and S are partners in a firm sharing profit and losses in the ratio of 2:1. V is admitted into the firm with 1/4th share in profits. He will bring in Rs. 30,000 as Capital and the Capitals of G and S are to be adjusted in the profit sharing ratio. The B/S of G and S as on 31.3.2014 (before V's admission) was as under

Liabilities	Rs.	Assets	Rs.
Creditors	8,000	Cash in hand	2,000
Bills payable	4,000	Cash at bank	10,000
General reserve	6,000	Sundry debtors	8,000
Capitals:		Stock	10,000
G	50,000	Furniture	5,000
S	32,000	Machinery	25,000
		Buildings	40,000
	1,00,000		1,00,000

Other terms of agreement are as under:

a) V will bring in Rs. 12,000 as his share of goodwill
b) Building were valued at Rs. 45,000 and Machinery at Rs. 23,000.
c) A provision for doubtful debts is to be created @ 6% on debtors
d) The capital accounts of G and S are adjusted by opening current accounts.

Prepare Revaluation A/c, Partners Capital accounts and the B/S of the reconstituted firm.

15. Maruti and ford are partners in a firm sharing profits and losses in the ratio of 3 :2. On 31st March, 2014 their Balance Sheet stood as under:

Liabilities		Amt (Rs.)	Assets	Amt (Rs.)
Capital Accounts :			Freehold Premises	24,000
Maruti	40,000		Plant	4,000
Ford	20,000	60,000	Stock	33,000
General reserve		15,000	Debtors	12,000
Creditors		10,000	Bank	7,000
			Profit & Loss A/c	5,000
		85,000		85,000

On the same day, they admitted Sujuki as a partner and new profit sharing ratio became 7 : 3 : 3. Goodwill of the firm was valued at Rs. 20,800. Sujuki was to bring required premium and proportionate Capital. Capitals of Maruti and Ford as between themselves were also to be adjusted in their profit sharing ratios. Pass Journal entries in the books of the new firm and prepare the Balance Sheet of the reconstituted firm.

Retirement of a Partner:

Treatment of Joint Life POLICY

Naresh, Rohit and Krishna are partners sharing profits and losses in the ratio of 2:2:1. On 1st January, 2019, they took out a joint life policy of Rs. 2,00,000. Annual premium of Rs. 10,000 was payable on 1st January each year. Last premium was paid on 15th January, 2022. Rohit died on 1st March, 2022, and policy money was received on 31st March, 2022. The surrender value of policy as on 31st March each year were as follows: 2019 : Nil 2020 : Rs. 2,000 2021 : Rs. 5,000 Show Joint Life Policy accounts as on 3lst March each year assuming that:

(i) The premium is charged to profit and loss account every year.

(ii) The premium is debited to joint life policy account and the balance of the joint life policy account is adjusted every year to its surrender value.

6. The B/S to G, M and N who were sharing profits in proportion in their capitals stood as follows as on 31.12.2013.

Liabilities	Rs.	Assets		Rs.
Expenses owing	900	Cash at bank		5,500
Trade creditors	5,000	Sundry debtors	5,000	
Employee's provident fund	1,000	Less: provision	100	4,900
Reserve fund	5,400	Stock		8,000
Workmen compensation		Investments		9,700
Reserve	1,200	Land and Buildings		25,000
Capitals:				
G	17,600			
M	13,200			
N	8,800			
	53,100			53,100

M retires on 31.12.2013 and the following readjustments of the assets and liabilities have been agreed upon before the ascertainment of the amount payable to M:

a) That the stock be written down to Rs. 7,520.
b) That the provision for doubtful debts be brought upto 5% on debtors.
c) That the Land and Building be written up by Rs. 5,000.
d) That a provision of Rs. 3,420 be made in respect of outstanding legal charges.
e) That out of the amount of insurance which was debited entirely to P & L A/c, Rs. 2,000 be carried forward as an unexpired insurance.
f) That expenses owing to be brought down to Rs. 775.
g) That trade creditors agree to allow a discount of 2.5%
h) That K an old customer whose account was written off as bad had promised to pay Rs. 350 in settlement of his full debt of Rs. 500.

i) That claim on account of workmen's compensation is estimated at Rs. 150.
j) That the investments are taken over by M at Rs. 8,700.
k) That the goodwill is to be valued at 2 years purchase of the average profits of 3 completed years preceding the date of retirement. The profits for 2009 Rs. 3,000; for 2010 Rs. 3,200; for 2011 Rs. 6,000; for 2012 Rs. 7,000; for 2013 Rs. 8,000. No goodwill account is to be raised.
l) That G and N are going to share in future in the proportion of 5/8 and 3/8 respectively.
m) That the firm had a joint life policy for Rs. 6,000 on which premiums were paid in all amounting to Rs. 2,500. The surrender value of the policy was Rs. 1,080. The joint life policy was no to appear in the B/S of new firm.

Show the necessary journal entries, Partners Capital accounts and the B/S after M's retirement in each of the following alternative cases:

Case 1. If the entire capital of the new firm is fixed at Rs. 28,000 and capitals of G and M are to be proportionate to their new profit sharing ratio.

Case 2. If the Capitals of G and N are to be proportionate to their new profit sharing ratio.

Case 3. If M is to be paid through cash brought in by G and N in such a way as to make their capitals proportionate to their new profit sharing ratio

7. On 31.3.2002 the B/S of M/s U, V and W sharing profits and losses in proportionate to their capitals stood as follows:

Liabilities	Rs.	Assets	Rs.
Capitals:		Land and Buildings	2,00,000
U	2,00,000	Machinery	3,00,000
V	3,00,000	Closing stock	1,00,000
W	2,00,000	Sundry debtors	1,00,000
Sundry creditors	1,00,000	Cash and bank balances	1,00,000
	8,00,000		8,00,000

On 31.3.2014 U desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the Assets and Liabilities on the date on the following basis:

a) Land and Buildings be appreciated by 30%.
b) Machinery the depreciated by 20%.
c) Closing stock to be valued at Rs. 75,000.
d) Provision for doubtful debts be made at 5%.
e) Old credit balances of Sundry creditors Rs. 20,000 be written back.
f) Joint life policy of the partners surrendered and cash obtained Rs. 80,000.
g) Goodwill of the entire firm be valued at Rs. 1,40,000 and U's share of the Goodwill be adjusted in the accounts of V and W who share the future profits equally. No Goodwill account being raised.
h) The total capital of the firm is to be the same as before retirement. Individual capitals be in their profit sharing ratio.

i) Amount due to U is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare Revaluation A/c, Capital account of partners, Cash account and B/S as at 31.3.2014 of M/s V and W.

Retirement Cum Admission:

8. The B/S H and L as at 31.3.2014 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital;		Goodwill	12,000
H	23,000	Stock	26,000
L	20,000	Debtors	3,000
Creditors	6,000	Bank	8,000
	49,000		49,000

On the same date, H by agreement, retires and his son Z joins firm for one-third share of profit. Goodwill is agreed at Rs. 30,000 and written up accordingly. Sufficient money is to be introduced so as to enable H to be paid off and leave Rs. 4,000 in Bank. L and Z are to provide such as to make their capitals proportionate to their shares of profit. H agrees to contribute from his capital half of the amount Z has to provide.

Assuming that the agreement was carried out, show the necessary journal entries and prepare the B/S.

9. P, Q and R are in partnership sharing profits and losses in the ratio of 2:3:5. P retires on 31.3.2014 and S admitted to partnership on the same date, the new profit sharing ratio between Q, R and S being 2:3:1. Following is the B/S of P, Q and R on 31.3.2014.

Liabilities	Rs.	Assets	Rs.
Capitals:		Land and Buildings	10,000
P	10,000	Machinery	30,000
Q	15,000	Stock	20,000
R	20,000	Debtors	30,000
General reserve	40,000	Cash in hand	2,000
Loan from S	50,000	Cash at bank	93,000
Sundry creditors	50,000		
	1,85,000		1,85,000

S is admitted on the following terms:

a) Machinery is to be depreciated by 10%.
b) Land and Building is revalued at 300%
c) Stock is to be written off to be extent of Rs. 5,000.
d) Provision @ 5% for Doubtful Debts is to be made.
e) General reserve is to be apportioned among the partners.
f) The firm's goodwill is to be valued at two year's purchase profits for the last 3 financial years. The figures are: for 2011-12 Profit Rs. 20,000; for 2012-13 Loss Rs. 15,000; for 2013-14 Profit Rs. 40,000.
g) The amount due to P is to be retained in the business as loan.
h) S's capital contribution should be 1/5th of the combined capital of Q and R after making the above adjustments. S's share of capital will be transferred from his Loan A/c.
i) The Goodwill A/c is to be written off from the books after S's admission.

Pass the necessary journal entries to give effect to the above.

Death of a Partner:

10. A, B and C were partners sharing profits and losses in the ratio 5:3:2. On 31st December, 2013 their B/S was as follows:

Liabilities	Rs.	Assets	Rs.
Sundry creditors	12,000	Goodwill	5,000
Joint Life Policy Reserve	1,000	Joint Life Policy (representing 10% of Sum Assured)	1,000
General Reserve	6,000	Leasehold Premises	20,000
Capital accounts:		Patents	6,000
A	30,000	Machinery	31,200
B	25,000	Investments	3,000
C	16,000	Stock	10,000
		Sundry debtors	8,000
		Loan to C	1,000
		Cash at Bank	4,800
	90,000		90,000

C died on 1st May 2014 it was agreed between his executors and the remaining partners that :-

a) Goodwill be valued at 2-1/2 years of average of four completed years profits which were: 2010 ,Rs11,000; 2011 Rs 14,000, 2012 Rs; 16,000 and 2013 Rs; 15,000
b) Patents undervalued by Rs 2,000 Machinery overvalued by Rs 3,200 and Leasehold premises undervalued by 5,000.
c) C's shares of profit from the closure of last accounting year till date of death be calculated on the basis of the average of three competed years' profits before death.
d) Investments be sold for Rs.4,200 and a sum of Rs 6,200 be paid to C's Executors immediately. The remainder to be paid in four equal half yearly installments together with interest @ 10% p.a. at half-yearly rest

You are required:

a) To give the necessary journal entries to be passed on C's death
b) To prepare the Capital Accounts of all the partners;
c) To prepare the balance sheet of A and B immediately after C's death:

11. The B/S of J, K and F as at 31.12.2013 stood as follows:

Liabilities	Rs.	Assets		Rs.
Creditors	25,800	Cash and Bank		10,000
General Reserve	8,000	Debtors	20,000	
Investment fluctuation reserve	2,400	Less: Provision	1,600	18,400
		Stock		20,000
Capitals:		Land and Buildings		74,000
J	60,000	Investments		10,000
K	40,000	Goodwill		37,800
F	40,000	JLP (at surrender value)		
		J		2,500
		K		2,500
		F		1,000
	1,76,200			1,76,200

F died on 31.3.2014. for the purpose the following adjustments were agreed upon:

a) Land and Buildings be appreciated by 50%.
b) Investments be valued at 6% less than the cost.
c) All Debtors (except 20% which are considered as doubtful) were good.
d) Stock be reduced to 94%.
e) Goodwill be valued at one years' Purchase of the average profit of the past 5 years.

f) F's share of profit to the date of death be calculated on the basis of average profits of the 3 completed years immediately preceding the year of death. The books showed the profits of the last 5 years as follows: 2010 Rs. 23,000; 2011 Rs. 28,000; 2012 Rs. 18,000; 2013 Rs. 20,000. The Life polices have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of Rs. 1,000 is payable every year on 1st August.

Give the necessary journal entries and the B/S of the reconstituted firm.

12. The B/S of Seed, Plant and Flower as at 31st December 2013 was under:

Liabilities	Rs.	Assets	Rs.
Sundry creditors	20,000	Fixed assets	40,000
General reserve	5,000	Sundry debtors	10,000
Capitals:		Bills receivable	4,000
Seed	25,000	Stock	16,000
Plant	15,000	Joint life policy	6,000
Flower	15,000	Cash at bank	4,000
	80,000		80,000

The Joint life policy was for Rs. 30,000 and the premium was payable every year on 1st August. The profit sharing ratio was: Seed 5/10, Plant 3/10, and Flower 2/10. On 1st May 2014 Plant died. It was agreed that:

a) Goodwill should be valued at 3 years' purchase of the average profits for 4 years. The profits were: 2010 Rs. 10,000; 2011 Rs. 13,000; 2012 Rs. 12,000; 2013 Rs. 15,000.
b) The deceased partner to be given share of profits up to the date of death on the basis of the previous year.
c) Fixed assets were to be depreciated by 10%. A bill for Rs. 1,000 was found to be worthless. These are not to affect goodwill.
d) A sum of Rs. 24,950 was to be paid immediately. The balance was to remain as a loan with the firm @ 9% p.a as interest.

Seed and Flower agreed to share profits and losses in future in the ratio of 3:2. They also agreed that goodwill should not continue to appear in the books.

Give journal entries and prepare the B/S of Seed and Flower.

COMPANY ACCOUNTS

Issue of Shares

1. Uzhaipali Ltd. invited applications for 5,00,000 equity shares of Rs. 10 each payable as follows :- With application Rs.2; On allotment Rs.3 On first call Rs.2.50 On second & final call Rs.2.50

Applications totalled 4,70,000 shares. The Board of Directors accepted all the applications. Both the calls were made. All the moneys were duly received. You are required to :-

(i) pass journal entries for all the transactions including cash transactions,
(ii) prepare cash book, (iii) show ledger accounts, and
(iv) draw balance sheet after the receipt of final call money.

2. Basha Ltd. invited applications for 20,000 equity shares of Rs. 10 each at a premium of Rs. 2 each payable as follows :- With application Rs.2 On allotment Rs.3 On first call Rs.2.50 On second & final cal Rs.2.50

Applications totaled 3,0000 shares. The company rejected excess the applications. Both the calls were made. All the moneys were duly received. You are required to :-

(i) pass journal entries for all the transactions including cash transactions,
(ii) prepare cash book, (iii) show ledger accounts, and
(iv) draw balance sheet after the receipt of final call money.

<u>Practice in Class</u>

3. Enthiran Ltd. invited applications for 50,000 equity shares of Rs. 10 each at a Premium of 10% payable as follows With application Rs.2 On allotment Rs.4 On first call Rs.1.50 On second & final calRs.2.50 Applications totalled 60,000 shares. A Pro-rata allotment was made n applications of 55,000 shares. All the moneys were duly received. You are required to:

(i) pass journal entries for all the transactions including cash transactions,
(ii) prepare cash book, (iii) show ledger accounts, and
(iv) draw balance sheet after the receipt of final call money.

4. Baba Ltd., having a nominal capital of Rs.20,00,000 in shares of Rs.100 each, invited applications for 10,000 shares, payable as follows :- On Application Rs.25; On Allotment Rs.35; On First Call Rs.20 On Second & Final Call Rs.20

The company received applications for 9,000 shares. All the applications were accepted. All moneys due as stated above were received with the exception of the second and final call on 200 shares; these shares were forfeited and reissued as fully paid @ Rs.90 per share.

Record the entries relating to above-mentioned matters in the journal of the company and show the balance sheet of the company as finally emerging.

Practice in Class

5. Annamalai Ltd. invited applications for 20,000 equity shares of Rs. 10 each at a premium of Rs. 2 each payable as follows :- With application Rs.2; On allotment Rs.3 On first call Rs.2.50;On second & final cal Rs.2.50

Applications totaled 3,0000 shares. The company rejected excess the applications. Both the calls were made. All the moneys were duly received except the following

a. Mr. X the holder of 200 shares failed to pay allotment money and on his subsequent failure to pay the first call his shares were forfeited
b. Mr. Y the holder of 300 shares failed to pay both the calls and his shares were forfeited after the final call.

All the shares were reissued at the rate of Rs. 9per share as fully paid up. You are required to :-

(i) pass journal entries for all the transactions including cash transactions,
(ii) prepare cash book, (iii) show ledger accounts, and
(iv) draw balance sheet after the receipt of final call money

6 Shivaji Ltd. invited applications for 20,000 equity shares of Rs. 10 each at a Premium of 10% payable as follows :- With application Rs.2; On allotment Rs.4; On first call Rs.3; On second & final cal Rs.2. Applications totaled 15,000 shares. All the moneys were duly received except the following

c. Mr. A the holder of 100 shares failed to pay allotment money and on his subsequent failure to pay the first call his shares were forfeited
d. Mr. B the holder of 200 shares failed to pay both the calls and his shares were forfeited after the final call.

250 shares were reissued at the rate of Rs. 7 per share as fully paid up. You are required to :-

(i) pass journal entries for all the transactions including cash transactions,
(ii) prepare cash book, (iii) show ledger accounts, and
(v) draw balance sheet after the receipt of final call money

Practice at home

7. Raghavendra offered to the public 20,000 equity shares of Rs.100 each at premium of Rs. 10 per share. The payment was to be made as follows :- On Application Rs.20 On Allotment Rs.40 (including premium) On First Call Rs.25 On Second Call Rs.25.

Applications totalled 35,000 shares; applications for 10,000 shares were rejected; those totalling 15,000 shares were allotted 10,000 shares and the remaining applications were accepted in full. The directors made both the calls. One shareholder, holding 500 shares, failed to pay the two calls and, as a consequence, his shares were forfeited. 200 of these shares were reissued as fully paid @ Rs.80 per share. Expenses of the issue came to Rs.10,000. Prepare the Cash Book, the Journal and the Balance Sheet on the basis of the information given above.

8. Manickam limited company issued a prospectus inviting applications for 2,000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:-

On Application	Rs.2
On Allotment	Rs.5 including premium
On First Call	Rs.3
On Second Call	Rs.2

Applications were received for 3,000 share and allotment made prorata to the applicants of 2,400 shares. Money overpaid on applications was employed on account of sums due on allotment.

Romesh whom 40 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the First Call, shares were forfeited.

Mohan, the holder of 60 shares, failed to pay the two calls, and his shares were forfeited after the second call.

Of the shares forfeited, 80 shares were sold to Krishna credited as fully paid for Rs.9 per share, the whole of Romesh's shares being included. Show journal and Cash Book entries and the Balance Sheet

Redemption of Debentures

Debentures issued with Instalment

1. P Ltd. issued 50,000, 8% Debentures of Rs. 100 each at a premium of Rs. 20 payable as follows:

Rs. 30 on application; Rs. 40 on allotment (including premium); and Rs. 50 on first and final call.

Applications were received for all the debentures along with the application money and allotment was made

Call money was also received on due date. Pass necessary journal entries to record the issue of debentures.

What will be the entries if the entire amount is received on application?

Terms on issue of debentures

2. B Ltd. issued 1,000, 12% debentures of Rs.100 each. Give Journal entries if the debentures are (a) issued at par and redeemable at par, (b) issued at a discount of 10% and redeemable at par, (c) issued at a premium of 10% and redeemable at par, (d) issued at par and redeemable at a premium of 10% and (e) issued at a discount of 10% and redeemable at a premium of 10%, (f) Issued at 5% premium and Redeemable @ 10% Premium. **In each case, show how the figures will appear in the balance sheet.**

3. C Ltd. secured a loan of Rs. 8,00,000 from the Axis Bank by issuing 1,000, 12% Debentures of Rs. 1000 each as collateral security.

Required: How will you treat the issue of such debentures